

PUBLIC ACCOUNTS COMMITTEE (1978-79)

(SIXTH LOK SABHA)

HUNDRED AND SECOND REPORT

**EXPORT OF BICYCLES AND BICYCLE
COMPONENTS DURING 1970's**

MINISTRY OF COMMERCE

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their Seventeenth Report (Sixth Lok Sabha) on 'Export of Bicycles and Bicycle Components, during 1970's].



Presented in Lok Sabha on 13 December, 1978

Laid in Rajya Sabha on 13 December, 1978

**LOK SABHA SECRETARIAT
NEW DELHI**

December, 1978/Agrahayana, 1900 (S)

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CORRIGENDA TO 102ND REPORT OF THE PUBLIC ACCOUNTS
COMMITTEE (SIXTH LOK SABHA) PRESENTED TO LOK
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1978-79

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1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri Bipin Behari—*Senior Financial Committee Officer.*

INTRODUCTION

1, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Second Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Seventeenth Report (Sixth Lok Sabha) relating to Ministry of Commerce.

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

1. Shri P. V. Narasimha Rao—*Chairman*.
2. Shri Asoke Krishna Dutt—*Convener*.

MEMBERS

3. Shri Vasant Sathe
4. Shri M. Satyanarayan Rao
5. Shri Gauri Shankar Rai
6. Shri Kanwar Lal Gupta

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 10 November, 1978. The Report was finally adopted by the Public Accounts Committee (1978-79) on 1 December, 1978.

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

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

NEW DELHI;

P. V. NARASIMHA RAO,
Chairman,

December 1, 1978

Agrahayana 10, 1900(S)

Public Accounts Committee

CHAPTER I

R E P O R T

1.1. This Report of the Committee deals with action taken by Government on the Committee's recommendations/observations contained in their 17th Report (Sixth Lok Sabha) on "Export of Bicycles and Bicycle Components during 1970s", commented upon in paragraph 28 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil), relating to the Ministry of Commerce.

1.2. The Committee's 17th Report was presented to the Lok Sabha on 14 November, 1977 and contained 41 recommendations. According to the time schedule for furnishing Action Taken Notes on the Committee's recommendations/observations prescribed in the Committee's 5th Report (Fourth Lok Sabha), the Notes indicating the action taken by the Government in pursuance of the recommendations/observations contained in the 17th Report were required to be furnished to the Committee latest by 13 May, 1978. On a request made by the Ministry on 2 May 1978, this time-limit was extended till 15 June, 1978. Action Taken Notes (unvetted by Audit) in respect of 34 recommendations were made available by 16 June, 1978 and on a further request made by the Ministry, the time-limit had been extended till 30 June, 1978 and advance copies (unvetted by Audit) of the remaining 7 Action Taken Notes were made available to the Committee in accordance with this revised schedule.

1.3. The Action Taken Notes received from Government have been broadly categorised as follows:

- (i) *Recommendations/observations that have been accepted by Government:*
S. Nos. 1-3, 6, 8-12, 14, 24, 26-29, 32 and 37—40.
- (ii) *Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government;*
S. Nos. 4, 5, 7, 36 and 41.
- (iii) *Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration:*
S. Nos. 13, 15-23 and 25.
- (iv) *Recommendations/observations in respect of which Government have furnished interim replies:*
S. Nos. 30-31 and 33-35.

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

Preclusion from exercising legitimate functions of careful scrutiny of cash assistance scheme by the Finance Ministry

1.5. Commenting on the need for obtaining the specific concurrence and approval of the Finance Ministry to the scheme of cash assistance for export of bicycles and bicycle components that appeared to have been unjustified on all accounts, the Committee had, in paragraph 1.170 of their 17th Report, observed:

What causes greater concern to the Committee is the fact that in spite of the fact that the Finance Ministry had not agreed to the rate of cash assistance proposed by the Commerce Ministry and had, in fact, repeatedly drawn attention to the lack of adequate justification in the absence of authenticated data, for the rates proposed the Cash Assistance Review Committee should have overlooked these objections and decided upon a rate (15 per cent) which was more than what the Commerce Minister themselves had proposed earlier (12-1/2 per cent). The Committee cannot countenance this procedure whereby the Finance Ministry had been precluded from exercising its legitimate functions of careful scrutiny of expenditure of considerable magnitude sought to be incurred on an incentive scheme. Though the Committee have been informed in this connection that the Ministry of Finance (Department of Expenditure and Economic Affairs) were also represented on the Cash Assistance Review Committee this does not, as has earlier been pointed out by the Committee in paragraph 1.112 of their 17th Report (Fifth Lok Sabha), obviate the need for obtaining the specific concurrence and approval of that Ministry to a scheme that appears to have been unjustified on all accounts.

1.6. In their reply*, furnished to these observations, in the relevant Action Taken Note, dated 16 June, 1978, the Ministry of Commerce have stated:

"The Cash Assistance Review Committee has been set up as an Inter Ministerial Committee including representatives of the Ministry of Finance, both of the Department of Expenditure and the Department of Economic Affairs, so that the decisions may be arrived at after the Ministries/Departments represented have also had the opportunity to express their points of view. The decision of the Committee is acted upon as the decision of the Government".

*Not vetted in Audit.

1.7. The Committee find that in spite of the reservations expressed by the Ministry of Finance in not agreeing to the rate of cash assistance proposed by the Commerce Ministry, the Cash Assistance Review Committee had decided upon a higher rate of cash assistance, overlooking the Finance Ministry's objections. It has been contended that the representatives of the Ministry of Finance both of the Department of Economic Affairs represented on the Committee, have also had opportunity to express their points of view. The Committee are unable to agree to this contention. In the opinion of the Committee, the role of the representatives of the Ministry of Finance at the sittings of the Cash Assistance Review Committee should be to explain the viewpoint of the Ministry of Finance, which had already been communicated in writing. Where the Cash Assistance Review Committee has reasons to differ from the view of the Ministry of Finance, the representatives of the Ministry of Finance should have no authority to concur in, as this detracts from a thorough examination of the pros and cons of the proposal by the Ministry of Finance. In such a case, the view of the Cash Assistance Review Committee should be referred to the Ministry of Finance for reconsideration of their earlier advice. In the case of difference of opinion between the Ministry of Finance and the Cash Assistance Review Committee persisting, the matter should be put up to the Minister (Finance) for final decision. This, in the Committee's considered view, is the only method of ensuring full consideration of the pros and cons and decision at the highest level.

Over-looking the benefit from excess import entitlement in determining the quantum of cash assistance

1.8. In paragraph 1.172 of the Report, the Committee had observed as follows:

"The Committee find that even in the case of Sports Light Roadster (SLR) model bicycles, the rate of cash assistance had been increased from 10 to 12-1/2 per cent with effect from 1 April, 1975 without taking into account all the relevant factors. It has been stated by the Commerce Ministry in this connection that the decision to enhance the cash assistance had been taken by the Cash Assistance Review Committee on the basis of representations received from the trade that the cash compensatory support of 10 per cent was inadequate and of the report of the Cost Accounts Branch in respect of T.I. Cycles India Ltd. which disclosed a loss of 12.1 per cent on exports of SLR bicycles. It is, however, seen that the Cost Accounts Branch had simultaneously pointed out that the company had an excess import entitlement licence of 15 per cent, the benefit from which could not be assessed and had, therefore, suggested that

the Commerce Ministry may take a view on the benefits, if any, on the import entitlement in deciding the quantum of cash assistance. This aspect unfortunately, does not appear to have been gone into. In view of the fact that the import replenishment on bicycles was admittedly found on examination to be much higher than the actual import content and the excess import entitlement could also be transferred at considerable premium, the Committee fail to understand why this important and vital question had been over-looked in determining the quantum of cash assistance necessary for SLR bicycles."

1.9. In their Action Taken Note, dated 16 June, 1978 relevant to these observations, the Ministry of Commerce have replied :

"It has already been explained in the evidence before the Committee that about 17 per cent of REP licences were nominated and that no study was made to assess the premium being earned on such nominations. During the period when the Committee were discussing this Audit para, the premium had gone down very much. The premium depended on market conditions and, therefore, it is difficult to take this unstable element into account for purposes of determination of cash assistance."

1.10. The Committee find that the reply now furnished by the Ministry of Commerce does not meet the specific point raised in paragraph 1.172 of their 17th Report (Sixth Lok Sabha). The Cost Accounts Branch had, while pointing out that the concerned company had an excess import entitlement licence of 15 per cent, made a specific suggestion that the Commerce Ministry might take a view of the benefits, if any, on the import entitlements in deciding the quantum of cash assistance from 1 April, 1975. The Committee had earlier observed that that aspect did not appear to have been gone into. In view of the fact that the import replenishment on bicycles was admittedly found on examination to be much higher than the actual import content and the excess import entitlement could also be transferred at considerable premium, the Committee had sought clarification as to why this important and vital question had been overlooked in determining the quantum of cash assistance necessary for Sports Light Roadster model bicycles. The Committee regret to state that the Ministry's attempt to justify over-looking the excess import entitlement benefit, on the plea that "the premium depended on market conditions and, therefore, it was difficult to take this unstable element into account for purposes of determination of Cash Assistance", is to say the least, untenable. If, as stated by the Ministry, the premia on import replenishment nominations depended on market conditions, which is an unstable element, this factor equally applied to f.o.b. realisations. Nevertheless, both these have necessarily to be taken into account for purposes of determination of cash assistance. The Committee, therefore,

reiterate their earlier recommendation and desire that in future, the premium on import entitlement should invariably be assessed and kept in view while determining or revising the quantum of cash assistance.

Possible abuse and malpractices in the export of complete bicycles declaring them as bicycle components

1.11. In March 1974, the Director General, Technical Development had informed the Ministry of Commerce that as conventional roadster bicycles were almost always shipped in a knocked down condition, there was a risk, consequent on the abolition of cash assistance on the export of complete bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of bicycle components and walk away with 30 per cent cash assistance prescribed for components. Dealing with the failure to take positive steps to prevent the possible abuse of cash assistance available for bicycle components, the Committee, in paragraphs 1.173 to 1.176 of the Report had recommended :

"1.173. The manner in which the question of granting cash assistance for bicycle components had been handled causes even greater concern to the Committee. While taking a decision to abolish, with effect from 22 February 1974, cash assistance for complete bicycles (Roadster), no change had, however, been made in the January 1974 decision of the Marketing Development Fund in regard to bicycle components (viz. to reduce the cash assistance from 30 to 20 per cent) on the ground that no separate costing in respect of components were made nor had the Director General, Technical Development intimated any higher unit value realisation from their exports. The Committee find in this context that when the proposal for reduction of cash assistance from 30 to 20 per cent was sent to the Finance Ministry in February 1974 that Ministry had suggested, on the consideration that if export realisation was much more than the cost of production for complete bicycles the same position would hold good for components also, that cash assistance on bicycle components might be withdrawn. This had not been accepted by the Commerce Ministry on the ground that as more than 75 per cent of the export was accounted for by components and the manufacturers of components were mostly in the Small Scale Sector, their economics of production and export could not be compared with that of the cycle manufacturers who were mostly in the organised sector, and that exports of components would have a setback if the cash assistance was withdrawn completely."

"1.174. Both these arguments had, however, been refuted in March, 1974 by the Ministry of Finance. As regards the

contention that exports of components would have a setback if cash assistance was withdrawn, the Finance Ministry had pointed out that if the withdrawal of the assistance on complete bicycles could not result in a setback to exports, the position should not be different for components. With reference to the distinction sought to be drawn between the organised sector and the small scale sector, the Ministry had drawn attention to the fact that the rates of cash assistance were decided only on the basis of cost of production and f.o.b. realisation and no distinction was made between the small scale sector and the large scale sector."

"1.175. Though the Finance Ministry had not then pressed this issue further as proper cost data were not available for an objective analysis, subsequently, on reconsideration of the question in June 1974, the Ministry had pointed out that even without waiting for a detailed cost study, there was 'clear justification' for reducing cash assistance for components to prevent malpractices. That Ministry had accordingly suggested that pending reference to the Cost Accounts Branch for cost study, either the cash assistance on bicycle components be reduced from 20 to 10 per cent or cash assistance on complete bicycles as well as components be allowed uniformly at 10 per cent. The following valid reasons had been cited, *inter alia*, by them in support of their suggestion:

- (i) While the producers of bicycle components are mainly in the small scale sector, it is not necessary that exporters are the same who are the producers of components. Exporters are different from the producers. They will be purchasing the components from the producers and then exporting. This may add to the ultimate cost of export on account of cost of export over-heads and other expenses. Continuance of cash assistance will only help such middle man exporters in quoting lower prices.
- (ii) As the item is of labour intensive nature, Indian prices should be competitive in view of the high cost of labour in other developed countries.
- (iii) Cash assistance on complete bicycles and SLR bicycles has been withdrawn/reduced after taking into account the increase in unit realisation in International Market. The unit realisation for components would also have gone up in line with similar buoyance for all other products. The argument for complete bicycles will be equally valid for components.

- (iv) Continuance of cash assistance of 20 per cent on components may result in misuse of the facility in as much as complete bicycle may be sent in semi-assembled condition for the purpose of claiming cash assistance. The country will lose foreign exchange on account of higher unit realisation for finished product and also will have to pay cash assistance even though it has been withdrawn.

In fact, even as early as in March 1974, the Director General, Technical Development had informed the Commerce Ministry that as conventional Roadster bicycles were almost always shipped in a knocked down condition there was a risk, consequent on the abolition of cash assistance for complete (Roadster) bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of components with a view to claiming the cash assistance prescribed for components."

"1.176. The Committee are, however, surprised to find that in utter disregard of the reservations expressed by various official agencies, no positive steps were taken by the Commerce Ministry to prevent the possible abuse of the cash assistance available for bicycle components. It would appear, *prima facie*, from the statistics of exports of bicycles and bicycle components during the period when cash assistance on bicycles stood abolished as well as from the two specific cases of exports of bicycles and components to countries 'P' and 'Q' cited in the Audit paragraph that these fears were not entirely unfounded. Though the Commerce Ministry have attempted to prove that the apprehension that complete bicycles might be exported as components was not borne out by the actual export performance, the reasons for the somewhat drastic decline in the exports of complete bicycles and increase in exports of components to countries 'P' and 'Q' have not been satisfactorily explained. Besides, the Engineering Export Promotion Council themselves had pointed out, in their representation pleading for the reintroduction of cash assistance for complete bicycles, that in the absence of cash assistance for complete bicycles, 'the tendency would be to increase export of components and even declare the complete bicycles which are always exported in CKD (completely knocked down condition) as exports of components with a motivation to get cash subsidy of 20 per cent'. The officials in the Ministry of Commerce had also conceded, in their notes on the suggestions of the Finance Ministry referred to earlier, the possibility of abuse of the cash assistance on components."

1.12. In their Action Taken Note dated 16 June 1978, the Ministry of Commerce have replied as follows:

"In reply to the draft Audit paragraph and in the evidence before the Committee, the Government had amply clarified that exports of bicycles could not have been shown as those of bicycle components for various reasons. Statistically also, it was explained that less exports of bicycles and more exports of bicycle components were the result of trade phenomenon and not the unfair means of incorrect declaration on export documents. The Government would reiterate the earlier stand on this point (published in the Report at pages 86 to 89)."

1.13. The Committee have gone into the reply furnished by the Ministry of Commerce. In the absence of any fresh statistics of clarification adduced by them, the Committee are constrained to maintain that in disregard of the reservations expressed by the Director General, Technical Development, the various officials in the Ministry of Commerce and the Ministry of Finance as also the Engineering Export Promotion Council themselves, no positive steps were taken by the Commerce Ministry to prevent the possible abuse of the cash assistance available for bicycle components. The reasons for the sizeable decline in the exports of complete bicycles and increase in export of components to countries 'P' and 'Q' has not been satisfactorily explained. It is difficult to comprehend that this situation could solely be attributed to fluctuating trade phenomenon. The Committee, therefore, reiterate their earlier observation that no positive steps were taken by the Ministry to prevent the possible misuse which, the Committee suspect, took place in this case, resulting in loss of foreign exchange on account of lower unit realisation for components as against complete bicycle and inadmissible payment of cash assistance on an item on which it was withdrawn.

1.14. In paragraphs 1.177 to 1.180 of the Report, the Committee had further observed as follows:

"1.177. As stated earlier, one of the arguments advanced by the Commerce Ministry for not withdrawing or at least reducing cash assistance for components is that while informing the Ministry of the increase in unit value realisations from complete bicycles, the Director General, Technical Development had not indicated similar higher realisations from exports of components. No reference on this question was either made at that stage to the Directorate by the Commerce Ministry. However, even in the absence of any communication in this regard, it should have been evident that if realisations from exports of bicycles had increased, it was only logical, as a natural corollary, that realisations from exports of components should have also increased at least relatively if not on

the same scale as complete bicycles. It is also significant in this context that even in November 1972, while recommending cash assistance at the then existing rates for both complete bicycles and components, the Indian Institute of Foreign Trade had nevertheless pointed out, *inter alia*, that 'the hope of bridging the gap between the f.o.b. cost and l.o.b. realisation through improved unit value realisation may be partially justifiable' in the case of bicycle components on the basis of data in regard to unit value realisations during the period from 1965-66 to 1970-71."

"1.178. The Committee note that while the unit value realisation from exports of bicycles rose by 9 per cent in 1973-74 as compared to 1972-73, the corresponding rise for most of the components was 11 per cent or more and that between April and July 1974, the unit value realisations from most components rose by 25 per cent or more whereas that of bicycles fell marginally by 3 per cent. That the unit value realisation from exports of components had, in fact, increased during the period in question is also evident from the data relating to exports of components to countries 'P' and 'Q'. Thus while the export of bicycle components to country 'P' had increased only about 22 per cent during April 1974 to September 1974 as compared to the exports during the corresponding period in 1973 (from 12.33 lakh kgs. to 14.97 lakh kgs.), the value of the exports had risen by nearly 119 per cent (Rs. 138.38 lakhs as against Rs. 63.09 lakhs). Similarly, while exports of components (other than saddles) to country 'Q' had increased by 67 per cent (from 2.74 lakh kgs. to 4.95 lakh kgs.) during the relevant period as compared to the exports during the corresponding period in 1973, the value of the exports had gone up by nearly 171 per cent (from Rs. 17.48 lakhs to Rs. 47.44 lakhs). Significantly enough, the Engineering Export Promotion Council had also recommended cash assistance of 15 per cent for both components and complete bicycles."

"1.179. The Committee find that while drawing the Commerce Ministry's attention, in February 1974, to the possible misuse of the cash assistance on bicycle components the Director General, Technical Development had also suggested that, to prevent abuses, cash assistance might be restricted to only eight components which constituted bulk of the exports from the country. The Directorate had also pointed out that as these components did not add up to a complete bicycle, it would have been easy for the Customs authorities to identify consignments of these parts from those of complete bicycles

exported in a knocked down condition. Though the Commerce Ministry had felt, in view of the fact that there were more than seventy five components of bicycles, that 'some more thought could be given to this problem' and the components could perhaps be put into two groups, one for which cash assistance would be admissible and another for which such assistance would not be available, while announcing the registered exporters' policy and cash assistance effective from April 1974, the Committee are concerned to note that this question was not pursued to its logical conclusion for one reason or the other. As this decision, if implemented, would have imparted greater rationality to the cash assistance scheme and would have curbed at least partially the misuse of the scheme besides resulting in considerable savings to the exchequer, the Committee are inclined to take a serious view of this failure."

"1.80. In these circumstances, the Committee are firmly of the view that the possibility, however remote, of the cash assistance for components being abused by unscrupulous exporters in the absence of similar assistance for complete bicycles should have been promptly taken notice of and necessary corrective action taken to plug the loophole. The Committee, however, regret that even the elementary precaution of ascertaining the f.o.b. realisations from exports of components had not been taken by the Commerce Ministry and cash assistance had been persisted with without reference to any cost data on the tenuous ground that exports of components would suffer a setback."

1.15. The Action Taken note dated 16 June, 1978 furnished by the Ministry of Commerce with reference to these recommendations/observations, is reproduced below:

"Bicycle components are more than 75 in number and except four, all of them are grouped together for the purpose of export statistics. Possibility of high value components going more in one period than in the other and *vice versa* cannot be ruled out. In these circumstances, definite conclusion of f.o.b. realisation having increased/decreased in certain periods as compared to corresponding earlier periods, cannot be drawn.

As regards the possible misuse of C.A. facility by unscrupulous exporters, by declaring export consignments of the complete bicycles in CKD condition as bicycle components in order to claim higher C.A., comments paras 1.173—1.176 are valid."

1.16. The Director General, Technical Development while drawing the Commerce Ministry's attention, in February, 1974, to the possible misuse of the cash assistance on bicycle components, had suggested that to prevent abuses, cash assistance might be restricted to only eight components which constituted bulk of the exports from the country. The Directorate had also pointed out that as these components did not add up to a complete bicycle, it would have been easy for the customs authorities to identify consignments of these parts from those of complete bicycle exported in a knocked down condition. The Committee, find that the reply of the Ministry of Commerce does not meet the specific point made out in their earlier recommendation that if the question of grouping of components was pursued to its logical conclusion, it would have imparted greater rationality to the cash assistance scheme and would have curbed at least partially the misuse of the scheme besides resulting in considerable savings to the exchequer. The Committee regard this as a serious lapse on the part of the officials concerned who were responsible for the decision contrary to the specific suggestion of the D.G.T.D. They trust that such lapses would not recur in future.

Feasibility of prescribing suitable monetary limits for grant of cash assistance (Paragraph 1.182, Sl. No. 25)

1.17. The Committee, during the course of examination of this Audit paragraph and also on an earlier occasion while dealing with cash assistance for Export of man-made fabrics in their 32nd Report (Sixth Lok Sabha) had found that in spite of the reservations expressed by the Ministry of Finance and the conflicting views expressed on the subject, that Minister's approval had not been obtained at any stage to the decisions taken on *ad hoc* basis about the continuation and quantum of cash assistance. Suggesting that the feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level without obtaining the Minister's specific approval should be appropriately examined, the Committee, in paragraph 1.182 of their Report had observed:

"It appears that in spite of the fact that the Finance Ministry had expressed a number of reservations in regard to the proposals made by the Commerce Ministry from time to time and various officials in the Commerce Ministry also held different views on the subject, the Minister's approval had not been obtained at any stage to the decisions taken about the continuation and quantum of Cash Assistance at different points of time except while increasing the cash assistance rate on SLR Bicycles in October, 1975. Since conflicting views had been expressed on the subject and the decision also appear to have been taken on an *ad hoc* basis, the Committee are of the opinion that all the facts of the case ought to have been placed before the

Minister who could then have had an opportunity to give his considered views on the entire question. The feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval, should be appropriately examined."

1.18. The Action Taken Note furnished in pursuance of the above observation by the Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) on 16th April, 1976, is reproduced below:

'As already stated in Action Taken Note on para 1.170 of the Report, the Cash Assistance Review Committee, Chaired by the Additional Secretary (Commerce) is an Inter Ministerial Committee in which senior officers of Ministry of Finance (Department of Expenditure as well as Economic Affairs), DGTD and other concerned Ministries/Departments are represented. This Committee is guided by the broad policy framework on Cash Compensatory support and the criteria for fixation of rates, which have the approval of Cabinet. As such, the decisions of the Review Committee are acted upon as the decisions of the Government.

In respect of new products, requests for grant of Cash Compensatory support are considered and decided upon by the Marketing Development Assistance (MDA) Main Committee, Chaired by Commerce Secretary. Secretary (Finance-Expenditure) and Secretary (Finance-Economic Affairs) are other members of this Committee.

In view of the functioning of both the above Committees in accordance with the guidelines approved at the highest level, it is not considered necessary to get the approval of the Minister in each individual case, where the decision to grant revise Cash compensatory support is taken by the respective Committees. This, however, does not preclude putting up some cases to the Minister depending on the nature and importance of each case or where Minister desires to see the papers.

The suggestion that suitable monetary limit for the grant of Cash Compensatory support at Secretary's level may be prescribed, is not feasible."

1.19. The Report of the Committee on Import-Export Policies and procedures (January, 1978), while laying down the principles upon which the cash assistance should be based, in paragraph 4.17 of its Report, expressed the feeling that the magnitude and pattern of cash assistance should be identified on the basis of well-defined principles'.

1.20. The Committee have gone into the reply furnished by the Department of Commerce to their pointed suggestion in regard to examining the feasibility of prescribing suitable monetary limits for the grant of cash assistance where it is not possible to obtain the Minister's specific approval and the approval is granted at the Secretary's level. The Committee have been simply informed that this is not feasible. In the absence of any satisfactory explanation, the Committee find it difficult to reconcile themselves to the Department's reply. In this connection, the Committee fully subscribe to the views expressed by the Committee on Import-Export Policies and Procedures (Alexander Committee) that "the magnitude and pattern of cash assistance should be identified on the basis of well-defined principles". The Committee also reiterate their earlier suggestion of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval. It may be mentioned that the Committee had earlier also, in paragraph 1.22 of their 32nd Report (1977-78), made a similar recommendation.

Need for evolving an effective monitoring machinery for concurrent evaluation and review of market trends.

1.21. Emphasising the need for devising a machinery to monitor market trends including export realisations, the Committee, in paragraphs 1.187 and 1.188 of the Report, had recommended:

"As has been earlier pointed out by the Public Accounts Committee, in paragraph 1.49 of their 174th Report (Fifth Lok Sabha), the basic defect in the system of granting cash assistance and other incentives seems to be the absence of an effective machinery with Government to concurrently evaluate and review the market trends, the f. o. b. realisations and the impact of various kinds of assistance given for export promotion so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. As a result of this handicap, Government have had to place an almost exclusive reliance on the data furnished by the industries themselves or the Export Promotion Council, which, admittedly, has been often found to be at variance with the actual position obtaining. It would also appear that though market survey reports indicating export prospects, prevalent price trends, etc. are received from Indian Embassies abroad and other agencies, apart from transmitting these to the Export Promotion Councils for exploiting the opportunities revealed through such reports, very little use is made of these reports by the Commerce Ministry for the determination of policies. It has also been admitted by the Ministry that there is no machi-

nery to cull out price trends from these reports and use them for the purpose of fixation of cash assistance. Neither does the Ministry have at present any standing arrangements for the periodical collection on regular basis from the Export Promotion Councils data relating to f. o. b. costs and realisations in respect of items for which cash assistance has been granted. This is a situation which needs to be remedied immediately. Stressing therefore once again the importance of devising a suitable machinery for a concurrent review and monitoring of all the relevant factors influencing various incentives for export promotion so as to ensure that the trade does not derive undue benefits from the fact that all the relevant information may not be available with the administrative Ministry concerned, the Committee would reiterate their recommendation contained in paragraph 1.11 of their 236th Report (Fifth Lok Sabha).

Yet another reason advanced by the Ministry for not taking into account the f.o.b. realisation reported, from time to time by the Director General, Commercial Intelligence and Statistics is that these figures are not available at the time of formulation of the policies and that the published statistics are usually received after six months. The Committee note that in pursuance of their recommendations in this regard, contained in paragraph 1.50 of their 174th Report (Fifth Lok Sabha), certain important changes in the method of compilation and publication of trade statistics coupled with the structural strengthening of the organisation have been made, as a result of which the time lag between the period for which the information relates and its compilation and preparation for publication has been reduced from about six months to about three months at present. The monthly Statistics of the Foreign Trade of India are also now stated to be received in manuscript form without waiting for a printed copy of the volume. While for a improvements are undoubtedly to be welcomed the Committee are, however, concerned to learn that there is no machinery in the Commerce Ministry to watch and monitor export realisations whether on the basis of the data available in the manuscript copy or otherwise, which make it all the more imperative to devise a suitable machinery for a concurrent review and evaluation of f.o.b. realisations as recommended in the preceding paragraph. There should also be a regular arrangement for the periodical collection of cost data and their examination by the Cost Accounts Branch from time to time, at

least in respect of those commodities involving heavy outflow of cash assistance, instead of extending the assistance on an *ad hoc* basis on the ground that the collection and examination of the data takes a long time."

1.22. In their Action taken Note dated 16 June, 1978, the Ministry of Commerce have stated:

"Unlike primary commodities whose rates are quoted in exchanges abroad, there are very real difficulties in obtaining price quotations for manufactured products. However, the need for obtaining data on prices periodically has been felt by Government. The setting up of a National Trade Information Centre which would collect price data among others, is under consideration."

1.23 The Committee have been informed that the setting up of a National Trade Information Centre, which would inter alia collect price data, is under consideration. The Committee would like an early decision to be taken in the matter under intimation to them.

Measures to improve quality control of bicycles and components.

1.24. Emphasising the need of restructuring of the industry and improving the quality of bicycles and components, the Committee had in paragraphs 1.190 to 1.192 of the Report recommended:

"Another reason for the inability of the Indian bicycles manufacturers to compete effectively in the international market appears to be the quality of the Indian bicycles. The Commerce Secretary has also been good enough to concede that while the Roadster bicycles have functionally proved their worth in the developing countries, in certain markets and certain models, Indian bicycles do not measure up to the exacting standards set up by the importing countries, as a result of which the country has not been able to compete with the products of United Kingdom or Japan. In regard to designs and looks also it has been admitted that the Japanese bicycles are "far superior". Since large scale manufactures of bicycles in the organised sector generally buy out components manufactured in the small scale sector and in the absence of an adequate machinery of ensuring that the quality of such components fulfils the prescribed standards and specifications, the quality of the Indian bicycles would appear to have been adversely affected. All these underscore the importance of improving upon the existing arrangements for enforcing quality control and of a coordinated programme for Research and Development so as to be able to cater to the requirements of the sophisticated markets. This is particularly

necessary in view of the fact that other developing countries like Iran, Iraq, Sri Lanka, Indonesia, Nigeria, etc. are also establishing assembling plants for Roadstar bicycles and a survey of foreign markets has also disclosed that the demand for complete Roadster bicycles will not increase the world over.

The Committee have been informed in this connection that while the emphasising earlier years had been on import substitution, it has now been shifted to the up-dating of technology as well as to aspects of cost reduction where the current effort in relation to the total turnover of the industry is still far from adequate and that a Panel for the bicycles industry, in which all the manufacturers and some of the important consumers would be members, has been constituted in April 1976 to go into various aspect relating to the growth and restructuring of the industry, like better utilisation of existing capacity, modernisation, technology development, diversification, cost evaluation and reduction, export generation and other related matters. The Panel will also examine in the context of a larger mounting of research and development efforts in area like material conservation, reduction of processed wastes, use of alternate light weight, high strength materials etc. and whether a separate research centre for the bicycles and bicycle components industry is necessary and feasible. Standardisation specifications of components and raw materials is also one of the terms of reference of the Panel. Considerable time having elapsed since the Panel was constituted, the Committee would like to be apprised in some detail of the progress made so far by the Panel and the specific steps taken to achieve the objectives envisaged.

As regards improving the quality of bicycles and components, the Committee learn that the whole question of quality control on engineering exports including exports of bicycles and components is currently being gone into by a Committee under the Chairmanship of the Secretary (Technical Development). They would like to know whether this exercise has been completed and if so, the measures taken as a sequel thereto. The Committee need hardly emphasise the importance of ensuring that the quality of Indian bicycles and bicycle components come to the exacting standards set by the sophisticated market."

1.25. In their Action Taken Notes dated 30 June 1978, the Ministry of Commerce have replied as follows:

"The Bicycle panel constituted by the Government to go into various aspect relating to the growth and restructuring of bicycle industry, better utilization of existing capacity, modernisation,

diversification, cost evaluation, quality control etc. has had three sittings so far. It has gone into the problems relating to development of bicycle industry, design quality control, material conservation, cost reduction etc. and is considering the feasibility of establishing the Bicycle Development Institute.

The Committee set up under the Chairmanship of Secretary (Technical Development) to go into the question of quality control of engineering goods including bicycle and components has since submitted its report, which is under examination."

1.26. The Committee have been informed that the Bicycle Panel constituted by the Government has gone into the problems relating to development of bicycle industry, design, quality control, material conservation, cost reduction etc. and is considering the feasibility of establishing the Bicycle Development Institute. Furthermore, the Committee set up under the Chairmanship of Secretary (Technical Development) to go into the question of quality control of engineering goods including bicycles and components has since submitted its report, which is stated to be under examination by Government. The Committee desire that Government may direct the Bicycle Panel to conclude their study within a laid down time target. They would also like Government to take early decisions on the recommendations of the Committee appointed under the Chairmanship of the Secretary (Technical Development), and also of the Bicycle Panel, when available.

NEW DELHI;

December 1, 1978

Agrahayana 10, 1900 (S).

P. V. NARASIMHA RAO.

Chairman,

Public Accounts Committee.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

Time and again, the Public Accounts Committee have adversely commented upon the indiscriminate grant of cash assistance and other incentives for export promotion on the basis of *ad hoc* and incomplete assessments that had little or no relevance to the realities of the situation at a given point time. The Audit Paragraph under consideration, which deals with the grant of cash assistance and import replenishment for export of bicycles and bicycle components is one more instance of formulation of policies on the basis of an inadequate assessment and appreciation of the factor involved and of failure to take prompt corrective action even when certain anomalies in the operation of the schemes had come to light. While the Committee are not opposed in principle, to the grant of incentives for boosting the country's exports they cannot help feeling, after a study of the Audit paragraph and the evidence tendered before them, that greater care and vigilance should have been exercised in allowing large payments out of the exchequer and the export promotion schemes extended in a more prudent and discriminating manner after formulating the policies in this regard on more precisely thought-out foundations. Some of the more conspicuous deficiencies and defects in the schemes in respect of bicycles and bicycle components are discussed in the following paragraphs.

[Sl. No. 1 (Para No. 1.158) of Appendix X to 17th Report of the
P. A. C. (Sixth Lok Sabha)].

Action taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg) dated the 16th
June, 1978.]

Recommendation

According to the Report of the Indian Institute of Foreign Trade, the main consideration for the grant of an export subsidy is the "removal of price disadvantage involved in export and making the export operation no less attractive than the domestic sale." Cash Assistance is, thus, normally intended bridge the gap between the cost of production of an export pro-

duct and the *f. o. b.* realisation accruing from its export. Data in regard to *f. o. b.* and *w. o. b.* realisation are, therefore, of vital importance for a proper determination of the need for and quantum of cash Assistance. The Committee are, however, concerned to find that for as long as eight years (1966-74), cash assistance for the export of bicycles and bicycle components had been extended as in the case of other engineering goods, not on the basis of any critical and scientific cost studies but on the basis of what has been described by the Commerce secy. as "a more or less quick appraisal of the situation". Admittedly, when the decision to introduce the cash assistance scheme immediately after devaluation was taken in August, 1966, it "was not based on any detailed calculation". It has also been admitted that "the basis on which these decisions were taken were not always definite" and that it was only in 1972 that the Commerce Ministry decided "to have a second look" in respect of certain items and ascertain, on the basis of marginal costing, whether "these deserved the cash assistance that has always been enjoyed by them" and cost studies for the purpose were commissioned through the Indian Institute of Foreign Trade.

[Sl. No. 2 (Para No. 1.159) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)]

Action taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5 (64)/77-EP (Engg.) dated the 16th June, 1978.]

Recommendation

The Committee are concerned to note that even in the absence of relevant data and a cost benefit analysis, the rates of cash assistance for bicycles and bicycle components had been enhanced from the post-devaluation rate of 20 per cent to 25 per cent with effect from 1 June 1967 and to 30 per cent with effect from 1 March 1968 and remained undisturbed there-after till 21 February 1974, in the case of complete bicycles (Roadster) and till 13 March 1974 in respect of components, despite the fact that certain perceptible changes had taken place during this period in regard to the indigenous availability of raw-materials required for the manufacture of bicycles and bicycle components and in the behaviour of international prices. The Committee feel that the position should have been kept under constant review and timely corrective action taken on the basis of data relating to cost of production and *f. o. b.* realisations instead of extending the Scheme from year to year in what appears to be an injudicious manner. Since devaluation should not have ordinarily warranted further assistance and incentives for export promotion, the initial decision to extend cash

assistance also ought to have been taken only after detailed cost studies. That these elementary precautions were not taken in regard to schemes, involving considerable outgo from the public exchequer is regrettable.

[Sl. No. 3 (para 1.160) of Appendix X to 17th Report of the P. A. C.
(Sixth Lok Sabha).]

Action Taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77-E.P. (Engg.) dated the
16th June, 1978].

Recommendation

That whatever studies were undertaken by the Indian Institute of Foreign Trade were only haphazard would be evident from the anomalies pointed out subsequently by the Cost Accounts Branch of the Finance Ministry to whom the Institute's Report has been referred for advice in May, 1973. While the Institute had assessed, after comparison of the manufacturing cost of two units ('U' and 'V'), that the uncovered loss, after taking into account the then admissible cash assistance of 30 per cent would be respectively 2.8 per cent and 1.9 per cent, the Cost Accounts Branch had determined the loss in respect of these units, on the basis of marginal costing as 24.65 per cent and 17.69 per cent respectively as against the then existing assistance of 30 per cent. Apart from pointing out certain anomalies in the method adopted by the Institute in working out the *f. o. b.* cost of bicycles, the Cost Accounts Branch also drawn attention to a significant fact that the Institutes study had not taken into account the extra benefits accruing to the exporters from the import replenishment on export of bicycles and components which were normally sold at a high premium (one of the leading manufacturers of bicycles, Sen Releigh Ltd., had themselves indicates later in November 1974 that they had obtained a premium of 50 per cent by giving their import replenishment as a nomination to other parties) or were utilised by importing directly raw materials or capital goods, as a result of which the exporters would derive considerable capital goods, as a result over indigenous cost. This position had also been confirmed in July 1973 by the Director General, Technical Development, who had pointed out that the actual import content in Complete bicycles (Roadster) would work out to less than 10 per cent of the *f. o. b.* realisation as against the 20 per cent Import Replenishment then allowed.

[Sl. No. 6 (Para No. 1.163) of Appendix X to 17th Report of the
P.A.C. (Sixth Lok Sabha)].

Action taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77—E.P. (Engg.) dated the 16th June, 1978]]

Recommendation

1.165. After making yet another abortive attempt in August, 1973 to reduce the rates of cash assistance for complete bicycles (Roadster) and bicycle components, a decision had been taken in January, 1974, by the Marketing Development Fund to reduce the cash assistance for complete bicycles (Roadster) and bicycle components from 30 to 20 per cent and for special model Sports Light Roadster (SLR) bicycles from 25 to 22 per cent. However, while orders conveying these decisions were yet to be issued, the Director General, Technical Development had informed the Commerce Ministry, in February, 1974 that the unit value realisations from complete bicycles (Roadster) had increased from 8.50 pounds (Rs. 161) to 12.50 pounds (Rs. 236) which might "necessitate a close second look at the level of the present cash compensatory support for this item". On fresh calculations being made by the Commerce Ministry, it was found that there was no less in the export of complete bicycles (Roadster) and accordingly cash assistance on this item had been abolished with effect from 22 February, 1974.

1.166. However, barely six months later, cash assistance for complete bicycles (Roadster) had been reintroduced on an *ad hoc* basis, though at a reduced rate of 15 per cent, with effect from 1 September 1974 to be effective till 31 March 1975, pending collection of relevant cost data and their examination by the Cost Accounts Branch. It appears that this, decision had been taken on the basis of "a spate of representations" received from the industry in this connection and on the ground that *f.o.b.* realisations had not been "as high as they were originally" and that the realisations varied "from market to market". The Committee, however, find that the Finance Ministry had expressed a number of reservations in regard to this proposal and had pointed out, *inter alia* that having withdrawn cash assistance for complete bicycle (Roadster) completely, its reintroduction without a detailed cost study may not be justified and that the grant of cash assistance on *ad hoc* basis, without supporting details had been objected to by the Public Accounts Committee in the case of Audit Paragraphs on Cash Assistance on some items included in the Report of the Comptroller and Auditor General of India for the year 1972-73. In

fact, on 5 August 1974, the Additional Secretary in the Commerce Ministry himself had suggested a lower rate of 12½ per cent for both bicycles (Roadster) and bicycle components, while the under Secretary and Director in the Ministry had suggested, on the basis of the data available from the report of the Cost Accounts Branch prepared in connection with fixation of domestic prices for bicycles as well as data made available by the exporters in 1974 alongwith their representations, a rate of 10 per cent uniformly for complete bicycles (Roadster) and bicycle components.

1.167. It is also significant in this context that in arriving at the rate of 12½ per cent (later revised to 15 per cent by the Cash Assistance Review Committee) the Commerce Ministry had relied on unauthenticated data. Besides, while in the calculations for determining the loss on exports, the *f.o.b.* cost of Rs. 260 furnished in July 1974 without any detailed breakup by the Chairman, Bicycle and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council [who was also connected with a leading bicycle-manufacturing firm, Hero Cycles (P) Ltd.] had been adopted, the *f.o.b.* realisation of Rs. 200 had been assumed on the basis of data given by another manufacturer (Atlas Cycle Industries Ltd.), whose *f.o.b.* realisation from different exports to various countries during 1974 ranged from Rs. 179.85 to Rs. 293.31. The Finance Ministry had also gone on record, in no uncertain terms, that it had been the experience in the past that the data given by the Export Promotion Council/Industry were inflated and "in a majority of cases where cost study was undertaken, the cash assistance was either not justified or recommended at a much reduced rate." while emphasising, therefore, the need for being "very cautious in announcing the rate of cash assistance "which may prove to be liberal later on when a detailed cost study is undertaken." the Ministry had pointed out that it was difficult to agree to the grant of cash assistance at a rate higher than 10 per cent.

1.168. It has, however, been contended by the Commerce Ministry that while the Finance Ministry's suggestion for restricting the cash assistance for complete bicycles (Roadster) and bicycle components at 10 per cent was "totally an *ad hoc* proposal not based on any kind of data," the proposal for the grant of 12½ per cent (later 15 per cent) cash assistance for complete bicycles (Roadster) "was based on the available data and DGTD's advice." The Committee, however, find from the relevant note recorded by the Director in the Commerce Ministry after discussions with the Development Officer of the Directorate General, Technical Development on 25 July, 1974, that the official of the Directorate had pointed out that as the exports of bicycles then being made related to contracts entered into sometime back, the *f.o.b.* realisation did not reflect present prices and had suggested that information from the Commercial Representatives in different countries should be collected to find

out the price at which these countries were importing Roadster bicycles. The subsequent discussions on 17 August, 1974 between the Additional Secretary in the Ministry and the Director General, Technical Development also related not to complete bicycles (Roadster) but to the appropriate rate of cash assistance for bicycle components when the former had been informed that "from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent." In these circumstances and in view of the fact that the data made available by the industry was not entirely reliable, the Committee are unable to accept the Ministry's contention in this regard.

[Sl. Nos. 8 to 11 (Paras 1.165 to 1.168) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha).]

Action taken

Observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the 16th June, 1978.]

Recommendation

That whatever assessments were made by the Commerce Ministry in this regard had no relevance to realities would be evident from the subsequent (February-March 1975) findings of the Cost Accounts Branch after a cost study of three of the four bicycle manufacturers selected for the purpose as well as from the data relating to *f.o.b.* realisations compiled by the Director General, Commercial Intelligence and Statistics. Thus, while the Commerce Ministry had adopted the *f.o.b.* realisation as Rs. 200 on the basis of the data given by Atlas Cycle Industries Ltd., according to the statistics published by the Director General, Commercial Intelligence and Statistics, the *f.o.b.* realisations during April-July 1974 actually ranged between Rs. 188 and Rs. 247 (average Rs. 219). Had this figure been taken into account, the loss on export would have worked out only to 6.7 per cent, as against 18 per cent assumed by the Commerce Ministry, even after assuming the *f.o.b.* cost of Rs. 260 as correct and without taking into account the benefit accruing from import replenishment. Though the correctness of assuming the average realisation to be Rs. 219 has been disputed by the Commerce Ministry, the Committee are of the view that as these data are indicative of the market trends prevailing at the relevant time, they are of some significance. In any case, it would appear from the subsequent cost studies by the Cost Accounts Branch (details of which have been discussed earlier in this Report) that in respect of three leading manufacturers of bicycles (T. I. Cycles India Ltd., Atlas Cycle Industries Ltd. and Sen Releigh Ltd.), the loss on export, after taking into account the benefits derived from import replenishment licences, was insignificant

and there had, in fact, been substantial gains in some cases. The Committee regret that cash assistance should have been resorted to on an *ad hoc* basis, without a scientific evaluation of the costs and *f.o.b.* realisations.

[Sl. No. 12 (Para 1.169) of Appendix X to 17th Report of the P.A.C.
(Sixth Lok Sabha)]

Action taken

The observation of the Committee has been noted.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the
16th June, 1978.]

Recommendation

Though the cash assistance of 15 per cent, granted on an *ad hoc* basis in August, 1974, was valid only till 31 March, 1975, continuance of the assistance at the same rate upto 30 September, 1975 and against upto 31 March, 1976 was sanctioned respectively on 30 April, 1975 and 1 October, 1975. The Committee find that the decision to extend the cash assistance upto 30 September, 1975 was not taken on the basis of any fresh examination of detailed data in regard to *f.o.b.* costs and *f.o.b.* realisation but on somewhat tenuous ground that continuity of cash assistance was necessary in the interest of exports from the country. In view of the fact that the reports of the Cost Accounts Branch on the cost study of leading manufacturers of bicycles had been received by then and these had also disclosed that the cash assistance earlier given was hardly justified, the Committee feel that the Commerce Ministry ought to have proceeded more cautiously and taken these reports into consideration instead of extending the cash assistance once again in *ad hoc* and indiscriminate manner. Similarly, though it had initially been decided that the latest *f.o.b.* cost and *f.o.b.* realisation should be taken into account while considering the question of cash assistance beyond 30 September 1975, it appears that no detailed studies had been conducted in this regard but the cost data submitted by a firm manufacturing complete bicycles, which disposed a shortfall of 16 per cent and 18.85 per cent respectively in the case of two units, had been adopted. Since, according to the Finance Ministry, past experience had shown that the data made available by the industry were inflated, the Committee are not sure how far the excessive reliance placed on the data furnished by the industry could be considered justified.

[Sl. No. 14 (Para 1.171) of Appendix X to 17th Report of the P.A.C.
(Sixth Lok Sabha)]

Action taken

Observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the 16th June, 1978.]

Recommendation

As in the case of complete bicycles (Roadster), subsequent examination (November 1974—April 1975) by the Cost Accounts Branch of the cost data furnished by three manufacturers of components had disclosed that the case assistance allowed, from time to time, on exports of components which were studied (Rims, Caliper brakes and Dynamo Lighting sets) was not justified or was hardly justified. It has, however been contended by the Commerce Ministry that as the data studied by the Cost Accounts Branch related only to three components, these were not "very representative" and it was difficult to apply the conclusions reached in these three cases to all the components numbering about seventy five. Since, according to the Director General, Technical Development bulk of the exports was accounted for by only eight components, the Committee are unable to appreciate why data relating to at least these components could not have been examined and the policies in this regard formulated on more precise foundations instead of indiscriminately and even irrationally extending the scheme from time to time.

[Sl. No. 24, (Para 1.181) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)]

Action taken

Observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the 16th June, 1978.]

Recommendation

1.183. Apart from the somewhat indiscriminate extension of cash assistance for bicycles and bicycle components, import replenishment also appears to have been allowed on a larger scale than necessary and the Committee are concerned to observe that there had been avoidable delay in revising the rates of import replenishment. As pointed out earlier in paragraph 1.162, though the Committee appointed under the Chairmanship of the Chief Controller of Imports and Exports had proposed in February 1973, reduction of import replenishment for bicycles (Roadster) and bicycle components to 10 per cent and 20 per cent respectively from the then existing rates of 20 per cent and 30 per cent, which would have resulted in a saving of Rs. 80 lakhs in foreign exchange during 1973-74

alone, the proposed reductions had not been effected to. Admittedly prior to 1973 no study have been made in the Commerce Ministry to determine the premium on import replenishment licences. Subsequently, in May 1973, the Cost Accounts Branch, to whom the Report of the Indian Institute of Foreign Trade on 'Bicycles and bicycle Parts' had been referred, had also drawn attention to the fact that the import replenishments on exports of bicycles were normally sold at a heavy premium. (Subsequent scrutiny of the cost data of leading bicycle manufacturers had also indicated that while Sen Raleigh Ltd. had sold their import replenishment at a premium of 50 per cent during 1973-74, Atlas Cycle Industries Ltd. had sold their import replenishment in 1973 at premia ranging from 30 to 49 per cent). As early as in July 1973, the Director General, Technical Development had also pointed out that the actual import contents in complete bicycles (Roadster) worked out to less than 10 per cent of the f.o.b. realisation as against 20 per cent then allowed. The Commerce Secretary also conceded during evidence that about 17 per cent of the import replenishment licences were nominated to others.

1.184. Yet, it was only in April 1974 that the import replenishment for bicycles (Roadster) and bicycle components were reduced respectively to 10 per cent and 20 per cent. No change was, however, made in the rate of 30 per cent in respect of SLR bicycles. That these rates were also liberal and had no relevance to realities would be evident from the study by the Cost Accounts Branch (August 1974—March 1975) of the costs of T. T. Cycles India Ltd., Atlas Cycle Industries Ltd. and Sen Raleigh Ltd. which disclosed that the actual import content in the bicycles exported by the respective units was very small compared to the entitlement (the import content was only 0.5 to 2.27 per cent of f.o.b. realisation for various brands of complete bicycles (Roadster) against the entitlement of 20 per cent in 1973-74 and 10 per cent in 1.7 and about 15 per cent of f.o.b. realisation in the case of SLR bicycles against the entitlement of 30 per cent. The cost studies in respect of manufacturers of certain components (November 1974—April 1975) also suggest that the actual requirements of imported materials were much less than the Import Replenishment entitlements allowed.

1.185. The Committee are unable to see any justification for allowing import replenishment on such liberal scales for exports of bicycles and bicycle components. It has, however, been contended by the Commerce Ministry that as the percentage of import replenishment is sometimes calculated for a group of products and it is not possible to prescribe separate rates for each item under such a system, some items enjoy unintended benefits while others may be getting less than their requirement. While this argument may perhaps be valid to some extent in the case of components, it is difficult to appreciate the Ministry's reluctance to determine the

quantum of import replenishment actually required for bicycles (Roadster) and SLR bicycles on a need-based analysis. Since, according to the Finance Ministry, there may not be more than two units manufacturing SLR bicycles and exporting them, it should not be too difficult to determine the quantum of import replenishment necessary after a detailed scrutiny of all relevant data. The Committee would, therefore, urge Government to re-examine this question in all its aspects and ramifications and bring about the desired improvements in the Import Replenishment scheme. They would also reiterate, in this connection, their recommendation contained in paragraph 1.15 of their 164th Report (Fifth Lok Sabha) that no import replenishment licence should be granted against the export of those commodities which do not have any import content and such licences should not also be allowed to be transferred or utilised for imports of machinery, equipments, tools, fixtures and spares which are not required for the production or processing of the commodities being exported.

[Sl. Nos. 26—28 (paras 1.183 to 1.185) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha).]

Action Taken

It may be mentioned that in the current import policy, 1978-79, import replenishment has been made available only for the import of banned or canalised items required for the manufacture of the export product. For Bicycles, all types and bicycles components (A.82), the current import replenishment is 5 per cent.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) date the 16th June, 1978.]

Recommendation

The final picture that emerges from the forgoing paragraphs is, thus, far from satisfactory. The Committee cannot help feeling that greater concern has been shown by the Commerce Ministry, without adequate justification, for the interests of the industry rather than for ensuring that the country's scarce resources are not expended indiscriminately and in judiciously. During the period from 1970-71 to 1974-75, while the total amount of cash assistance admissible for exports of bicycles and bicycle components worked out to about Rs. 15 crores, and import replenishment of about 14 crores had been allowed for this purpose, against the total exports valued at Rs. 60.58 crores, it is also significant in this context that only about 8 per cent of the production of Roadster bicycles is exported while the country is yet to make a perceptible impact in the market for SLR bicycles. If the other concessions and facilities for export promotion such as drawbacks of customs and excise, railway freight rebate, supply of raw materials at concessional rates, etc. are also quantified and taken into

account, the total cost of these exports may well turn out to be disproportionate to the foreign exchange actually earned.

[Sl. No. 29 (para 1.186) of Appendix X to 17th Report of the P.A.C.
(Sixth Lok Sabha).]

Action Taken

The observations of the Committee have been noted. It is, however, submitted that the Government acted in the interest of export promotion which was the dire need of the times in the context of acute foreign exchange shortage.

[Ministry of Commerce O.M. No. 5(64)/76-EP (Engg.) dated the
16th June, 1978.]

Recommendation

According to the Report of the Indian Institute of Foreign Trade, one of the reasons for the high *f.o.b.* cost, necessitating large quantum of cash assistance, is the high proportion of the fixed overheads to the *f.o.b.* cost resulting from the under-utilisation of the total capacity available in the country for the production of bicycles. (In respect of two bicycle-manufacturing units studied by the Institute, the fixed overheads constituted 6.7 and 13.0 per cent of the *f.o.b.* cost). Observing, in this context, that production of bicycles can be almost doubled if the total installed capacity is fully utilised, which in turn could reduce the unit cost at least by distributing fixed overheads over much greater numbers, the Institute's Report points out that "if production increases by 50 to 100 per cent of the existing capacity, the incidence of fixed overheads on each unit of production will be reduced by about 33.3 to 50 per cent." It is disconcerting to note that the actual production of bicycles was only 48.7 per cent to 63.3 per cent of the installed capacity during the period from 1970 to 1975, only about 8 per cent of the actual production had been exported. It has also been conceded by the representative of the Directorate General, Technical Development that the high cost of production could be attributed to managerial inadequacies and lack of cost consciousness. Subsidising such exports at the cost of the public exchequer would, therefore, tantamount to paying a premium for the inefficiency of the bicycle manufacturers.

[Sl. No. 32 (Para 1.189) of Appendix X to 17th Report of the P.A.C.
(Sixth Lok Sabha)].

Action taken

Observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) Dated the
16th June, 1978.]

Recommendation

The Committee are also of the opinion that instead of resorting to the grant of *ad hoc* and piece-meal incentives for export promotion, it may be worthwhile to impose suitable export obligations on the industry and Government assistance extended only when it is absolutely inescapable. They have been informed by the Commerce Secretary that the idea of imposing export obligations and asking exporters to take on themselves an export commitment is already under Government's consideration and that the Ministry of Industry is also contemplating amendment of the Industries (Development and Regulation) Act to provide for an export obligation in suitable cases, particularly in the cases of foreign-owned and multinational companies. Since these measures appear to be only in an embryonic stage still, the Committee would urge Government to examine these expeditiously and if found desirable bring forth necessary legislation for the purpose. The feasibility of utilising the idle capacity in the bicycle industry for export oriented activities should also be examined on a top-priority basis, in the light of the findings of the Development Panel for the bicycle industry which is stated to be engaged in a study of this subject.

[Sl. No. 37 (Para 1.194) of Appendix X to 17th Report of the P.A.C. (6th Lok Sabha)].

Action Taken

As regards the question of imposing an export obligation on the bicycle industry, the Ministry of Industry have informed that a comprehensive Bill for amending the Industries (Development and Regulation) Act is being formulated for being placed before the Parliament. This will provide for imposition of an export obligation as one of the conditions in Industrial Licences in suitable cases. Failure to comply with the conditions of licences may warrant revocation of the licence.

With regard to utilisation of idle capacity, the Ministry of Industry have informed that bicycle manufacturers manufacture bicycles in accordance with orders which they secured, both for exports as well as internal market. Leading manufacturers in this industry are already exporting their products and they have practically no idle capacity at present.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) Dated the 30th June, 1978].

Recommendation

The Committee also note that though there is a large market for the Sports Light Roadster model bicycles, demand for which has been estimated at 4 to 5 million a year, exports from the country have been only around

10,000 bicycles a year. Bulk of these exports are by T.I. Cycles India Ltd., a company governed by Section 29 of the Foreign Exchange Regulation Act, 1973, with 52.6 per cent of the equity capital being held by non-resident shoreholders. It has been stated that attempts made so far to make a purely Indian-owned company to enter the export market for SLR bicycles have not been successful on account of the absence of the requisite facilities and technology within the country for the manufacture of three-speed hubs for these bicycles. The Committee understand that the cost of manufacture of the three-speed hubs in India would be prohibitive and even T.I. Cycles India Ltd. have been importing this vital component. Efforts made by several Indian companies for collaborative joint ventures for the production of three-speed hubs for export with two of the four foreign firms—Shimano of Japan and Sturmia-Archer of U.K.—who are stated to have monopolised their production, have also been unsuccessful. Since the development of an economic and viable unit for the production of three-speed hubs alone would require considerable capital investments, apart from the investments necessary in the steel and ancillary sectors for building up the production facilities for various other critical materials and components, it appears that the country may not be in a position in the immediate future to make any perceptible impact on the market for SLR bicycles.

1.196. The Committee have been informed in this context that discussions have been initiated with the purely Indian units manufacturing bicycles for the up-dating of their facilities to the level of T. I. Cycles India Ltd. and that the Panel for the bicycle industry, referred to earlier, would also go into this question. In view of the fact that the demand for Roadster bicycles is not likely to increase further, the Committee would urge Government to examine this question on an emergent basis and take all steps to provide the necessary infrastructural facilities for the production of a larger number of SLR bicycles and bicycles of more modern design required by the importing countries on long term and assured basis. It should also not be beyond the ingenuity of our technologists to find ways and means of achieving a breakthrough in the manufacture of three-speed hubs at reasonable cost. The Committee would like to be apprised, in some detail, of the findings and recommendations of the Development Panel in this regard and the specific steps taken in pursuance thereof.

[Sl. No. 38 & 39 (Paras 1.195 & 1.196) of Appendix X to 17th Report of P.A.C. (Sixth Lok Sabha)]

Action taken

Ministry of Industry have informed that they have already approved two schemes viz. that of Multi-Speed Pvt. Ltd. Hubli and Private Gear Pvt. Ltd., Karnataka for manufacture of Multi-Speed Hubs. M/s. Multi-Speed Pvt. Ltd., Hubli have recently reported commencement of the production

and they are manufacturing hubs with the technical know-how from National Research Development Corporation of India. The other unit having its own technical know-how, is yet to commence production. It is too early to say whether the product manufactured by the aforesaid units would be acceptable of export purposes. DGTD will watch the progress of these units, particularly with regard to the cost of production and quality of the products manufactured by them.

As regard the updating of facilities for the manufacture of SLR bicycles, the Panel on Bicycles has already considered this issue and has decided that pending establishment of Bicycle Development Institute, the Central Mechanical Engineering Institute should take up special work on attachments and special machines needed by the bicycle industry. Leading bicycle units have also been associated in this task.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) Dated the 30th June, 1978].

Recommendation

Incidentally, the Committee learn that T. I. Cycles India Ltd. has been advised by the Reserve Bank of India to reduce its non-resident equity to 40 per cent by the 1st week of May, 1977, in response to the company's application for continuing its activities in India under Section 29 of the Foreign Exchange Regulation Act, 1973. They would like to know whether the company has complied with this requirement, and, if not the steps, if any taken to enforce the provisions of the Act.

[Sl. No. 40 (Para 1.197) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)].

Action taken

T. I. Cycle of India is a division of Tube Investments of India Ltd., a subsidiary of Tube Investments Ltd., U.K. Having non-resident interest of 52.59 per cent. The application submitted by M/s. Tube Investments of India Ltd., Madras seeking approval under Section 29 of the FERA, 1973 for carrying on Industrial/manufacturing activities was considered by the FERA Committee at its meeting held on 21.10.75. The FERA Committee decided that the company might be permitted to continue its activities subject to the condition that it should reduce its non-resident interest to 40 per cent within a period of two years, as the items manufactured by the company are not included in Appendix-I of I.L.D. 1973 and do not require sophisticated technology.

In accordance with the aforesaid decision the company has been granted permission under Section 29 (2)(a) of FERA, 1973 subject, *inter-alia*, to the condition that it shall reduce its non-resident interest in its equity capital to a level not exceeding 40 per cent within a period of two years from the date of receipt of RBI's letter dated 28th April, 1976. The Bank has, however, granted extension of time up to 5th July, 1978 to complete all formalities for bringing down the non-resident interest to the required level. The FERA directive is statutory in character and failure to comply with it would attract the penal provisions of the Act.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) Dated the 16th June, 1978].

CHAPTER III

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

1.161. Even after the introduction in 1972 (after some anomalies in the operation of the cash assistance scheme for engineering goods had been brought to the Ministry's notice by the Central Board of Excise & Customs) of the concept of determining the gap between the cost of production and f.o.b. realisations on the basis of a more scientific analysis of cost data, the question of making suitable adjustments in the rates of cash assistance for bicycles and bicycle components had been hanging fire, for the reason or the other, for nearly two years. Thus, the Indian Institute of Foreign Trade, in their Report submitted in November 1972, had assessed that the percentage of uncovered loss on exports to the f.o.b. cost in the case of complete bicycles (Roadster) manufactured by five representative units ranged between 1.9 per cent to 30.2 per cent after taking into account the then available cash assistance of 30 per cent and had recommended the continuance of cash assistance and other export assistance for bicycles and components at the rates then prevailing. It had, however, been decided that consideration of the Institute's Report might be held over on the ground that a Committee, appointed in January, 1973 under the Chairmanship of the Chief Controller of Imports & Exports to review the Registered Exporter's Policy for 1973-74, had also been asked to review, *inter-alia*, the need for and quantum existing cash subsidies and import replenishment.

1.162. Surprisingly enough, though the Review Committee referred to above, had in an annexure to its report submitted in February, 1973, proposed reduction of the rates of cash assistance for bicycles and bicycle components to 22.5 per cent and 20 per cent respectively of the f.o.b. realisations as against 30 per cent admissible for both then, and had also proposed reduction of the existing rates of import replenishment (from 20 to 10 per cent for complete bicycles (Roadster) and from 30 to 20 per cent for components) the proposed reductions were not given effect to. Explaining the reasons for the non-acceptance of these proposals, which would have resulted in a saving of Rs. 83 lakhs by way of cash assistance and Rs. 80 lakhs in foreign exchange by way of import replenishment during 1973-74, the Commerce Ministry have stated, *inter alia*, that there was a discrepancy between the main recommendation in the annexure and that the Review Committee and the figures shown in the annexure and that the recommendations had not been accepted as they involved an increase in

the rates of cash assistance on many of the items, which was not considered possible without proper examination of cost data relating to the products. It is, however, not clear to the Committee why the alleged discrepancy was not got reconciled by reference to the Review Committee. Since the recommendations must have presumably been based on a study of data then available and of the then prevailing trends of f.o.b. realisations from exports of bicycles and bicycle components, it is also not clear to the Committee why items in respect of which reduction in rates of cash assistance had been recommended could not have been viewed in isolation and cost data in respect of items for which increase in the rates of cash assistance had been proposed, examined separately so as to safeguard against the payment of large amounts than was considered necessary.

[Sl. Nos. 4&5 (Paras 1.161 & 1.162) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)].

Action taken

As has already been clarified in the Government reply to the audit para and in the evidence before the Committee, the reductions were not effected for the following reasons:

1. It was recommended by the Review Committee that where the cash assistance had been fixed at a point higher than the cut off point, it should not be disturbed, and
2. the recommendations of the Review Committee as a whole were not accepted by the Government. Due to the above reasons the reductions were not considered in isolation.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the 16th June, 1978].

Recommendation

It is significant in this context that while cost studies had been commissioned through the Indian Institute of Foreign Trade after the Central Board of Exices and Customs had drawn the Commerce Ministry's attention to certain anomalies in the operation of the cash assistance scheme for engineering goods the Review Committee under the Chairmanship of the Chief Controller of Imports and Exports had been set up only in connection with the annual revision of the Import Policy and not in the context of the anomalies in the operation of the cash assistance scheme highlighted by the Central Board of Excise and Customs. In these circumstances, the Committee are unable to appreciate the rationale for deferring consideration of the Institute's Report. After having specifically commissioned these studies, it would have been more appropriate to have referred the Report promptly to the Cost Accounts Branch or entrusted the cost studies to them *ab initio*, instead of having waited for more than six months. Better results might have ensured from adopting such a course of action. Unfor-

tunately, the Commerce Ministry appear to have adopted a "Heads I win, Tails you lose" attitude in dealing with this question.

[Sl. No. 7 (Para 1.164) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)]

Action Taken

Since the Review Committee headed by the Chief Controller of Imports & Exports was examining the rates of import replenishment, as part of the annual exercise preceding the Import Policy announcement and had been entrusted with the task of looking into the rates of cash assistance as well, the Ministry of Commerce had not referred the study made by the Indian Institute of Foreign Trade, to the Cost Accounts Branch of the Ministry of Finance, till the report of the Review Committee had been received and examined.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) Dated the 16th June, 1978].

Recommendation

Yet another reason for the high f.o.b. cost of Indian bicycles is stated to be the high prices charged by the Secondary sector for cold rolled steel strips, the basic raw material required by the Industry. The Committee have been informed in this connection that while hot-rolled steel strips are available at the JPC (Joint Plant Committee) controlled prices, the prices of cold-rolled steel strips are totally uncontrolled. Since an assured supply at reasonable prices of the basic raw material required by the bicycle industry has a direct bearing on the f.o.b. cost the Committee desire that the question of high prices charged by the secondary sector should be gone into urgently by the Steel Ministry and necessary corrective action taken to discipline the private producers of cold-rolled steel strips.

[Sl. No. 36 (Para 1.193) of Appendix X 17th Report of the P.A.C. (Sixth Lok Sabha)].

Action taken

The Ministry of Steel have stated as follows:

"There is at present no statutory control on the price or distribution of any category of steel. In line with the general policy of Government to reduce progressively controls and regulations, it is not proposed to re-introduce controls at this stage, and consequently, it is not considered necessary to control the prices of the cold rolling units which are in the secondary sector.

It may, however, be added that there are about 20 units licensed for cold rolling and there is no single monopoly in this sector. Steps have been

taken to ensure adequate supply of raw materials and the Import Policy also provides for imports where necessary. It may also be added that some of the major bicycle manufacturing units are having their own cold rolling units.

In the circumstances explained above, there does not appear to be any need to regulate the prices charged by the cold rolling units."

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg). dated the 30th June, 1978].

Recommendation

From the analysis of facts given in the foregoing paragraphs, the Committee can safely infer that cash assistance provided for export of bicycles and bicycle components has not been on a rationally justifiable basis. The Committee are unable to understand how the Cash Assistance Review Committee could, on the basis of data thrown up (which was available also to officers of the Ministries of Finance as well as Commerce) differ with the suggestions made at different levels for a lower rate of cash assistance and ultimately fixed it at 15 per cent, in the case of complete bicycles and 20 per cent in the case of bicycle components with effect from 1.9.1974. They would like Government to direct the Cash Assistance Review Committee to have a more rational approach in deciding the commodities eligible for export promotion and the rate of cash assistance justified in individual cases so as to ensure that the country's scarce resources are committed in the national interest of export promotion and not frittered away.

[Sl. No. (Para 1.198) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)].

Action taken

As already stated in 'Action taken' note on para 1.182, the Cash Assistance Review Committee functions and takes decisions in accordance with the broad policy framework and criteria for grant of cash compensatory support which has the approval of Cabinet.

The six-point criteria for grant of Cash Assistance has, however, been reviewed by Dr. Alexander Committee, set up for review of Import/Export Policy and grant of export assistance. The Committee has recommended the following criteria for fixation of Cash compensatory:—

- (a) The level of Cash Assistance should fully compensate for the various types of indirect taxes, sales taxes etc. which the exporter has to pay on his inputs imported or domestically pur-

chased and which are not refunded. This will enable him to be on par with foreign competitors.

- (b) Cash Assistance should be such as to encourage him in adopting adequate marketing strategies and to neutralise the disadvantages of freight etc. so as to be competitive in the export market; and
- (c) In the case of new products in new markets, the magnitude of Cash Assistance should be adequate to take care of the initial promotional costs.

The recommendations of Dr. Alexander Committee are under consideration of the Government.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) Dated the 16th June, 1978]

CHAPTER IV

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

Recommendation

What causes greater concern to the Committee is the fact that in spite of the fact that the Finance Ministry had not agreed to the rate of cash assistance proposed by the Commerce Ministry and had, in fact repeatedly drawn attention to the lack of adequate justification in the absence of authenticated data, for the rate proposed, the Cash Assistance Review Committee should have overlooked these objections and decided upon a rate (15 per cent) which was more than what the Commerce Ministry themselves had proposed earlier (12½ per cent). The Committee cannot countenance this procedure whereby the Finance Ministry had been precluded from exercising its legitimate functions of careful scrutiny of expenditure of considerable magnitude sought to be incurred on an incentive scheme. Though the Committee have been informed in this connection that the Ministry of Finance (Department of Expenditure and Economic Affairs) were also represented on the Cash Assistance Review Committee, this does not, as has earlier been pointed out by the Committee in paragraph 1.112 of their 178th Report (Fifth Lok Sabha) obviate the need for obtaining the specific concurrence and approval of that Ministry to a scheme that appears to have been unjustified on all accounts.

[Sl. No. 13 (Para 1.170) of Appendix X 17th Report of the P.A.C. (Sixth Lok Sabha)].

Action Taken

The cash Assistance Review Committee has been set up as an Inter Ministerial Committee including representatives of the Ministry of Finance, both of the Department of Expenditure and the Department of Economic Affairs, so that the decisions may be arrived at after the Ministries/Departments represented have also had opportunity to express their points of view. The decision of the Committee is acted upon as the decision of the Government.

[Ministry of Commerce O.M. No. 5(64)/77-EP(Engg.) Dated the 6th June, 1978]

Recommendation

The Committee find that even in the case of Sports Light Roadster (SLR) model bicycles, the rate of cash assistance had been increased from 10 to 12½ per cent with effect from 1 April, 1975 without taking into account all the relevant factors. It has been stated by the Commerce Ministry in this connection that the decision to enhance the cash assistance had been taken by the Cash Assistance Review Committee on the basis of representations received from the trade that the cash compensatory support of 10 per cent was inadequate and of the report of the Cost Accounts Branch in respect of T. I. Cycles India Ltd., which disclosed a loss of 12.1 per cent on exports of SLR bicycles. It is, however, seen that the Cost Accounts Branch had simultaneously pointed out that the company had an excess import entitlement licence of 15 per cent, the benefit from which could not be assessed and had, therefore, suggested that the Commerce Ministry may take a view on the benefits, if any, on the import entitlements in deciding the quantum of cash assistance. This aspect, unfortunately, does not appear to have been gone into. In view of the fact that the import replenishment on bicycles was admittedly found on examination to be much higher than the actual import content and the excess import entitlement could also be transferred at considerable premium, the Committee fail to understand why this important and vital question had been over-looked in determining the quantum of cash assistance necessary for SLR bicycles.

[Sl. No. 15 (para 1.172) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)]

Action taken

It has already been explained in the evidence before the Committee that about 17 per cent of REP licences were nominated and that no study was made to assess the premium being earned on such nominations. During the period when the Committee were discussing this Audit para, the premium had gone down very much. The premium depended on market conditions and, therefore, it is difficult to take this unstable element into account for purposes of determination of Cash assistance.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg). dated the 16th June, 1978].

Recommendation

1.173. The manner in which the question granting cash assistance for bicycle components had been handled causes even greater concern to the Committee. While taking a decision to abolish, with effect from 22 February 1974, cash assistance for complete bicycles (Roadster), no change had, however, been made in the January 1974 decision of the Marketing Development Fund in regard to bicycle components (*viz.* to reduce the cash assistance from 30 to 20 per cent) on the ground that no

separate costing in respect of components were made nor had the Director General, Technical Development intimated any higher unit value realisation from their exports. The Committee find in this context that when the proposal for reduction of cash assistance from 30 to 20 per cent was sent to the Finance Ministry in February 1974, that Ministry had suggested, on the consideration that if export realisation was much more than the cost of production for complete bicycles the same position would hold good for components also, that cash assistance on bicycle components might be withdrawn. This had not been accepted by the Commerce Ministry on the ground that as more than 75 per cent of the export was accounted for by components and the manufacturers of components were mostly the small scale sector, their economics of production and export could not be compared with that of the cycle manufacturers who were mostly in the organised sector, and that exports of components would have a set back if the cash assistance was withdrawn completely.

1.174 Both these arguments had, however, been refuted in March 1974 by the Ministry of Finance. As regards the contention that exports of components would have a set back if cash assistance was withdrawn, the Finance Ministry had pointed out that if the withdrawal of the assistance on complete bicycles could not result in a set back to exports, the position should not be different for components. With reference to the distinction sought to be drawn between the organised sector and the small scale sector, the Ministry had drawn attention to the fact that the rates of cash assistance were decided only on the basis of cost of production and f.o.b. realisation and no distinction was made between the small scale sector and the large scale sector.

1.175. Though the Finance Ministry had not then pressed this issue further as proper cost data were not available for an objective analysis, subsequently, on reconsideration of the question in June 1974, the Ministry had pointed out that even without waiting for a detailed cost study, there was "clear justification" for reducing cash assistance for components to prevent mal-practices. That Ministry had accordingly suggested that, pending reference to the Cost Accounts Branch for cost study, either the cash assistance on bicycle components be reduced from 20 to 10 per cent or cash assistance on complete bicycles as well as components be allowed uniformly at 10 per cent. The following valid reasons had been cited, *inter alia*, by them in support of their suggestion:

- (i) While the procedures of bicycle components are mainly in the small scale sector, it is not necessary that exporters are the same who are the producer of components. Exporters are different from the producers. They will be purchasing the components from the producers and then exporting. This may add to the ultimate cost of export on account of cost of export overheads and other expenses. Continuance of cash as-

sistance will . . only help such middle man exporters in quoting lower prices.

- (ii) As the item is of labour intensive nature, Indian prices should be competitive in view of the high cost of labour in other developed countries.
- (iii) Cash Assistance on complete bicycles and SLR bicycles has been withdrawn/reduced after taking into account the increase in unit realisation in International Market. The unit realisation for components would also have gone up in line with similar buoyance for all other products. The argument for complete bicycles will be equally valid for components.
- (vi) Continuance of cash assistance of 20 per cent on components may result in misuse of the facility in as much as complete bicycle may be sent in semi-assembled condition for the purpose of claiming cash assistance. The country will lose foreign exchange on account of higher unit realisation for a finished product and also will have to pay cash assistance even though it has been withdrawn.

In fact, even as early as in March 1974, the Director General, Technical Development had informed the Commerce Ministry that as conventional Roadster bicycles were almost always shipped in a knocked down condition, there was a risk, consequent on the abolition of cash assistance for complete (Roadster) bicycles that unscrupulous exporting units might show exports of complete bicycles as exports of components with a view to claiming the cash assistance prescribed for components.

1.176. The Committee are, however surprised to find that in utter disregard of the reservations expressed by various official agencies, no positive steps were taken by the Commerce Ministry to prevent the possible abuse of the cash assistance available for bicycle components. It would appear, *prima facie*, from the statistics of exports of bicycles and bicycle components during the period when cash assistance on bicycles stood abolished as well as from the two specific cases of exports of bicycles and components to countries 'P' and 'Q' cited in the Audit paragraph that these fears were not entirely unfounded. Though the Commerce Ministry have attempted to prove that the apprehension that complete bicycles might be exported as components was not borne out by the actual exports performance, the reasons for the somewhat drastic decline in the exports of complete bicycles and increase in exports of components to countries 'P' and 'Q' have not been satisfactorily explained. Besides, the Engineering Export Promotion Council themselves had pointed out, in their representation pleading for the re-introduction of cash assistance for complete bicycles, that in the absence of cash assistance for complete bicycles, "the ten-

dency would be to increase export of components and even declare the complete bicycles which are always exported in CKD (Completely knocked down condition) as exports of components with a motivation to get cash subsidy of 20 per cent." The officials in the Ministry of Commerce had also conceded, in their notes on the suggestions of the Finance Ministry referred to earlier, the possibility of abuse of the cash assistance on components.

[Sl. No. 16 to 19 (paras 1.173 to 1.176) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)].

Action taken

In reply to the draft audit paragraph and in the evidence before the Committee, the Government had amply clarified that exports of bicycles could not have been shown as those of bicycle components for various reasons. Statistically also, it was explained that less exports of bicycles and more exports of bicycle components were the result of trade phenomenon and not the unfair means of incorrect declaration on export documents. The Government would reiterate the earlier stand on this point (published in the Report at pages 86 to 89).

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the 16th June, 1978]

Recommendation

1.177. As stated earlier, one of the arguments advanced by the Commerce Ministry for not withdrawing or at least reducing cash assistance for components is that while informing the Ministry of the increase in unit value realisations from complete bicycles, the Director General, Technical Development had not indicated similar higher realisations from exports of components. No reference on this question was either made at that stage to the Directorate by the Commerce Ministry. However, even in the absence of any communication in this regard, it should have been evident that if realisations from exports of bicycles had increased, it was only logical, as a natural corollary, that realisations from exports of components should have also increased at least relatively if not on the same scale as complete bicycles. It is also significant in this context that even in November 1972, while recommending cash assistance at the then existing rates for both complete bicycles and components, the Indian Institute of Foreign Trade had nevertheless pointed out, *inter alia*, that "the hope of bridging the gap between the f.o.b. cost and f.o.b. realisation through improved unit value realisation may be partially justifiable" in the case of bicycle components on the basis of data in regard to unit value realisations during the period from 1965-66 to 1970-71.

1.178. The Committee note that while the unit value realisation from exports of bicycles rose by 9 per cent in 1973-74 as compared to 1972-73,

the corresponding rise for most of the components was 11 per cent or more, and that between April and July 1974, the unit value realisations from most components rose by 25 per cent or more whereas that of bicycles fell marginally by 3 per cent. That the unit value realisation from exports of components had, in fact, increased during the period in question is also evident from the data relating to exports of components to countries 'P' and 'Q'. Thus, while the export of bicycle components to country 'P' had increased only about 22 per cent during April 1974 to September 1974 as compared to the exports during the corresponding period in 1973 (from 12.23 lakh kgs. to 14.97 lakh kgs.) the value of the exports had risen by nearly 119 per cent (Rs. 138.38 lakhs as against Rs. 63.09 lakhs). Similarly, while exports of components (other than saddles) to country 'Q' had increased by 67 per cent (from 2.74 lakhs kgs. to 4.59 lakhs kgs.) during the relevant period as compared to the exports during the corresponding period in 1973, the value of the exports had gone up by nearly 171 per cent (from Rs. 16.48 lakhs to 46.44 lakhs). Significantly enough, the Engineering Export Promotion Council had also recommended cash assistance of 15 per cent for both components and complete bicycles.

1.79. The Committee find that while drawing the Commerce Ministry's attention, in February 1974, the possible misuse of the cash assistance on bicycle components, the Director General, Technical Development had also suggested that, to prevent abuses, cash assistance might be restricted to only eight components which constituted bulk of the exports from the country. The Directorate had also pointed out that as these components did not add up to a complete bicycle it would have been easy for the Customs authorities to identify consignments of these parts from those of complete bicycle exported in a knocked down condition. Though the Commerce Ministry had felt, in view of the fact that there were more than seventy five components of bicycles, that "some more thought could be given to this problem" and that the components could perhaps be put into two groups, one for which cash assistance would be admissible and another for which such assistance would not be available, while announcing the registered exporters' policy and cash assistance effective from April 1974, the Committee are concerned to note that this question was not pursued to its logical conclusion for one reason or the other. As this decision, if implemented, would have imparted greater rationality to the cash assistance scheme and would have curbed at least partially the misuse of the scheme besides resulting in considerable savings to the exchequer, the Committee are inclined to take a serious view of this failure.

1.180. In these circumstances, the Committee are firmly of the view that the possibility, however remote, of the cash assistance for components being abused by unscrupulous exporters in the absence of similar assistance for complete bicycles should have been promptly taken notice of and

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necessary corrective action taken to plug the loophole. The Committee, however, regret that even the elementary precaution of ascertaining the f.o.b. realisations from exports of components had not been taken by the Commerce Ministry and cash assistance had been persisted with without reference to any cost data on the tenuous ground that exports of components would suffer a setback.

[Sl. Nos. 20—23, (paras 1.77 to 1.180) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)]

Action taken

Bicycle components are more than 75 in number and except four, all of them are grouped together for the purpose of export statistics. Possibility of high value components going more in one period than in the other and *vice versa* cannot be ruled out. In these circumstances, definite conclusion of f.o.b. realisation having increased/decreased in certain periods as compared to corresponding earlier periods, cannot be drawn.

As regards the possible misuse of C.A. facility by unscrupulous exporters by declaring export consignments of complete bicycles in CKD condition as bicycle components in order to claim higher Cash Assistance, comments against paras 1.173—1.176 are valid.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated the 16th June, 1978.]

Recommendation

It appears that in spite of the fact that the Finance Ministry had expressed a number of reservations in regard to the proposals made by the Commerce Ministry from time to time and various officials in the Commerce Ministry also held different views on the subject, the Minister's approval had not been obtained at any stage to the decisions taken about the continuation and quantum of Cash Assistance at different points of time except/while increasing the cash assistance rate on SLR Bicycles in October, 1975. Since conflicting views had been expressed on the subject and the decision also appear to have been taken on an *ad hoc* basis, the Committee are of the opinion that all the facts of the case ought to have been placed before the Minister who could then have had an opportunity to give his considered views on the entire question. The feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval, should be appropriately examined.

[Sl. No. 25 (para 1.182 of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha)]

Action taken

As already stated in Action taken note on para 1.170 of the Report, the Cash Assistance Review Committee, chaired by the Additional Secretary (Commerce), is an Inter Ministerial Committee in which senior officers of Ministry of Finance (Department of Expenditure as well as Economic Affairs), DGTD and other concerned Ministries/Departments are represented. This Committee is guided by the broad policy frame work on Cash Compensatory support and the criteria for fixation of rates, which have the approval of Cabinet. As such, the decisions of the Review Committee are acted upon as the decisions of the Government.

In respect of new products, requests for grant of Cash Compensatory support are considered and decided upon by the Marketing Development Assistance (MDA) Main Committee, Chaired by Commerce Secretary, Secretary (Finance-Expenditure) and Secretary (Finance-Economic Affairs) are other members of this Committee.

In view of the functioning of both the above Committees in accordance with the guidelines approved at the highest level, it is not considered necessary to get the approval of the Minister in each individual case, where the decision to grant/revise cash compensatory support is taken by the respective Committees. This, however, does not preclude putting up some cases to the Minister depending on the nature and importance of each case or where Minister desires to see the papers.

The suggestion that suitable monetary limit for the grant of Cash Compensatory support at Secretary's level may be prescribed, is not feasible.

[Ministry of Commerce O.M. No. 5(64)/77-EP(Engg.) dated the
16th June, 1978]

CHAPTER V

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

Recommendation

1.187. As has been earlier pointed out by the Public Accounts Committee, in paragraph 1.49 of their 174th Report (Fifth Lok Sabha), the basic defect in the system of granting cash assistance and other incentives seems to be the absence of an effective machinery with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. As a result of this handicap, Government have had to place an almost exclusive reliance on the data furnished by the industries themselves or the Export Promotion Council, which, admittedly, has been often found to be at variance with the actual position obtaining. It would also appear that though market survey reports indicating export prospects, prevalent price trends, etc. are received from Indian Embassies abroad and other agencies apart from transmitting these to the Export Promotion Councils for exploiting the opportunities revealed through such reports, very little use is made of these reports by the Commerce Ministry for the determination of policies. It has also been admitted by the Ministry that there is no machinery to cull out price trends from these reports and use them for the purpose of fixation of cash assistance. Neither does the Ministry have at present any standing arrangements for the periodical collection, on regular basis, from the Export Promotion Councils data relating to f.o.b. costs and realisations in respect of items for which cash assistance has been granted. This is a situation which needs to be remedied immediately. Stressing, therefore, once again the importance of devising a suitable machinery for a concurrent review and monitoring of all the relevant factors influencing various incentives for export promotion so as to ensure that the trade does not derive undue benefits from the fact that all the relevant information may not be available with the administrative Ministry concerned, the Committee would reiterate their recommendation contained in paragraph 1.11 of their 236th Report (Fifth Lok Sabha).

1.188. Yet another reason advanced by the Ministry for not taking into account the f.o.b. realisations reported, from time to time, by the Director General, Commercial Intelligence and statistics is that these figures are not

available at the time of formulation of the policies and that the published statistics are usually received after six months. The Committee note that in pursuance of their recommendations in this regard, contained in paragraph 1.50 of their 174th Report (Fifth Lok Sabha), certain important changes in the method of compilation and publication of trade statistics coupled with the structural strengthening of the organisation have been made, as a result of which the time lag between the period for which the information relates and its compilation and preparation for publication has been reduced from about six months to about three months at present. The monthly Statistics of the Foreign Trade of India are also now stated to be received in manuscript form without waiting for a printed copy of the volume. While these improvements are undoubtedly to be welcomed the Committee are, however, concerned to learn that there is no machinery in the Commerce Ministry to watch and monitor export realisations whether on the basis of the data available in the manuscript copy or otherwise, which make it all the more imperative to devise a suitable machinery for a Concurrent review and evaluation of f.o.b. realisations as recommended in the preceding paragraph. There should also be a regular arrangement for the periodical collection of cost data and their examination by the Cost Accounts Branch from time to time, at least in respect of those commodities involving heavy outflow of cash assistance, instead of extending the assistance on an ad hoc basis on the ground that the collection and examination of the data takes a long time.

[Sl. Nos. 30 and 31 (paras 1.187 and 1.188) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha).]

Action taken

Unlike primary commodities whose rates are quoted in exchanges abroad, there are very real difficulties in obtaining price quotations for manufactured products. However, the need for obtaining data on prices periodically has been felt by Government. The setting up of a National Trade Information Centre which would collect price data among others, is under consideration.

[Ministry of Commerce O.M. No. 5(64)/77-EP (Engg.) dated 16th June 1978.]

Recommendation

1.190. Another reason for the inability of the Indian Bicycle manufacturers to compete effectively in the international market appears to be the quality of the Indian bicycles. The Commerce Secretary has also been good enough to concede that while the Roadster bicycles have functionally proved their worth in the developing countries, in certain markets and certain models, Indian bicycles do not measure up to the exacting standards

set up by the importing countries, as a result of which the country has not been able to compete with the products of United Kingdom or Japan. In regard to designs and looks also it has been admitted that the Japanese bicycles are "far superior". Since large scale manufactures of bicycles in the organised sector generally buy out components manufactured in the small scale sector and in the absence of an adequate machinery for ensuring that the quality of such components fulfils the prescribed standards and specifications, the quality of the Indian bicycles would appear to have been adversely affected. All these underscore the importance of improving upon the existing arrangements for enforcing quality control and of a co-ordinated programme for Research and Development so as to be able to cater to the requirements of the sophisticated markets. This is particularly necessary in view of the fact that other developing countries like Iran, Iraq, Sri Lanka, Indonesia, Nigeria, etc. are also establishing assembling plants for Roadster bicycles and a survey of foreign markets has also disclosed that the demand for complete Roadster bicycles will not increase the world over.

1.191. The Committee have been informed in this connection that while the emphasis in earlier years had been on import substitution, it has now been shifted to the up-dating of technology as well as to aspects of cost reduction where the current effort in relation to the total turnover of the industry is still far from adequate and that a Panel for the bicycle industry, in which all the manufacturers and some of the important consumers would be members, has been constituted in April, 1976 to go into various aspects relating to the growth and restructuring of the industry, like better utilisation of existing capacity, modernisation, technology development, diversification, cost evaluation and reduction, export generation and other related matters. The Panel will also examine, in the context of a larger mounting of research and development effort in areas like material conservation, reduction of process wastes, use of alternate light weight, high strength materials, etc., and whether a separate research centre for the bicycles and bicycle components industry is necessary and feasible. Standardisation of specifications of components and raw materials is also one of the terms of reference of the Panel. Considerable time having elapsed since the Panel was constituted, the Committee would like to be apprised in some detail of the progress made so far by the Panel and the specific steps taken to achieve the objectives envisaged.

1.192. As regards improving the quality of bicycles and components, the Committee learn that the whole question of quality control on engineering exports including exports of bicycles and components is currently being gone into by a committee under the Chairmanship of the Secretary (Technical Development). They would like to know whether the exercise has been completed and, if so, the measures taken as a sequel thereto. The

Committee need hardly emphasise the importance of ensuring that the quality of Indian bicycles and bicycle components come up to the exacting standards set by the sophisticated market.

[Sl. Nos. 33 to 35 (Paras 1.190 to 1.192) of Appendix X to 17th Report of the P.A.C. (Sixth Lok Sabha).]

Action taken

The Bicycle panel constituted by the Government to go into various aspects relating to the growth and restructuring of bicycle industry, better utilisation of existing capacity, modernisation, diversification, cost evaluation, quality control etc. has had three sittings so far. It has gone into the problems relating to development of bicycle industry, design, quality control, material conservation, cost reduction etc. and is considering the feasibility of establishing the Bicycle Development Institute.

The Committee set up under the Chairmanship of Secretary (Technical Development) to go into the question of quality control of engineering goods including bicycle and components has since submitted its report, which is under examination.

[Ministry of Commerce O.M. No. 5 (64)/77-EP (Engg.) dated the 30th June, 1978.]

APPENDIX

Conclusions or Recommendations

Sl. No.	Para No. of Report	Ministry/Department concerned	Conclusions or Recommendations
1	2	3	4
1	1.7	Commerce	<p>The Committee find that inspite of the reservations expressed by the Ministry of Finance in not agreeing to the rate of cash assistance proposed by the Commerce Ministry, the Cash Assistance Review Committee had decided upon a higher rate of cash assistance, overlooking the Finance Ministry's objections. It has been contended that the representatives of the Ministry of Finance both of the Department of Economic Affairs represented on the Committee, have also had opportunity to express their points of view. The Committee are unable to agree to this contention. In the opinion of the Committee, the role of the representatives of the Ministry of Finance at the sittings of the Cash Assistance Review Committee should be to explain the view point of the Ministry of Finance, which had already been communicated in writing. Where the Cash Assistance Review Committee has reasons to differ from the view of the Ministry of Finance, the representative of the Ministry of Finance should have no authority to concur in, as this detracts from a thorough examination of the pros and cons of the proposal by the Ministry of Finance. In such a case, the view of the Cash Assistance Review Committee should be referred to the Ministry of Finance for reconsideration of their earlier advice. In the case of diffe-</p>

rence of opinion between the Ministry of Finance and the Cash Assistance Review Committee persisting, the matter should be put up to the Minister (Finance) for final decision. This, in the Committee's considered view, is the only method of ensuring full consideration of the *pros and cons* and decision at the highest level.

2. 1.10 Commerce

The Committee find that the reply now furnished by the Ministry of Commerce does not meet the specific point raised in paragraph 1.172 of their 17th Report (Sixth Lok Sabha). The Cost Accounts Branch had, while pointing out that the concerned company had an excess import entitlement licence of 15 per cent, made a specific suggestion that the Commerce Ministry might take a view of the benefits, if any, on the import entitlements in deciding the quantum of cash assistance from 1 April, 1975. The Committee had earlier observed that that aspect did not appear to have been gone into. In view of the fact that the import replenishment on bicycles was admittedly found on examination to be much higher than the actual import content and the excess import entitlement could also be transferred at considerable premium, the Committee had sought clarification as to why this important and vital question had been overlooked in determining the quantum of cash assistance necessary for Sports Light Roadster model bicycles. The Committee regret to state that the Ministry's attempt to justify over-looking the excess import entitlement benefit, on the plea that "the premium depended on market conditions and, therefore, it was difficult to take this unstable element into account for purposes of determination of Cash Assistance", is

to say the least, untenable. If, as stated by the Ministry, the premia on import replenishment nominations depended on market conditions, which is an unstable element, this factor equally applied to f.o.b. realisations. Nevertheless, both these have necessarily to be taken into account for purposes of determination of cash assistance. The Committee, therefore, reiterate their earlier recommendation and desire that in future, the premia on import entitlement should invariably be assessed and kept in view while determining or revising the quantum of cash assistance.

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The Committee have gone into the reply furnished by the Ministry of Commerce. In the absence of any fresh statistics or clarification adduced by them, the Committee are constrained to maintain that in disregard of the reservations expressed by the Director General, Technical Development, the various officials in the Ministry of Commerce and the Ministry of Finance as also the Engineering Export Promotion Council themselves, no positive steps were taken by the Commerce Ministry to prevent the possible abuse of the cash assistance available for bicycle components. The reasons for the sizeable decline in the exports of complete bicycles and increase in export of components to countries 'P' and 'Q' has not been satisfactorily explained. It is difficult to comprehend that this situation could solely be attributed to fluctuating trade phenomenon. The Committee, therefore, reiterate their earlier observation that no positive steps were taken by the Ministry to prevent the possible misuse which, the Committee suspect, took place in this case, resulting in loss of foreign exchange on account of lower unit realisation for components as against complete bicycle and inadmissible payment of cash assistance on an item on which it was withdrawn.

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4 I.16 Commerce

The Director General, Technical Development while drawing the Commerce Ministry's attention, in February, 1974, to the possible misuse of the cash assistance on bicycle components, had suggested that to prevent abuses, cash assistance might be restricted to only eight components which constituted bulk of the exports from the country. The Directorate had also pointed out that as these components did not add up to a complete bicycle, it would have been easy for the customs authorities to identify consignments of these parts from those of complete bicycle exported in a knocked down condition. The Committee, find that the reply of the Ministry of Commerce does not meet the specific point made out in their earlier recommendation that if the question of grouping of components was pursued to its logical conclusion, it would have imparted greater rationality to the cash assistance scheme and would have curbed at least partially the misuse of the scheme besides resulting in considerable savings to the exchequer. The Committee regard this as a serious lapse on the part of the officials concerned who were responsible for the decision contrary to the specific suggestion of the D.G.T.D. They trust that such lapses would not recur in future.

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The Committee have gone into the reply furnished by the Department of Commerce to their pointed suggestion in regard to examining the feasibility of prescribing suitable monetary limits for the grant of cash assistance where it is not possible to obtain the Minister's specific approval and the approval is granted at the Secretary's level. The Committee have

been simply informed that this is not feasible. In the absence of any satisfactory explanation, the Committee find it difficult to reconcile themselves to the Department's reply. In this connection, the Committee fully subscribe to the views expressed by the Committee on Import-Export Policies and Procedures (Alexander Committee) that "the magnitude and pattern of cash assistance should be identified on the basis of well-defined principles". The Committee also reiterate their earlier suggestion of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval. It may be mentioned that the Committee had earlier also, in paragraph 1.22 of their 32nd Report (1977-78), made a similar recommendation.

6 I.23 -do-

The Committee have been informed that the setting up of a National Trade Information Centre, which would *inter alia* collect price data, is under consideration. The Committee would like an early decision to be taken in the matter under intimation to them.

7 I.26 -do-

The Committee have been informed that the Bicycle Panel constituted by the Government has gone into the problems relating to development of bicycle industry, design, quality control, material conservation, cost reduction etc. and is considering the feasibility of establishing the Bicycle Development Institute. Furthermore, the Committee set up under the Chairmanship of Secretary (Technical Development) to go into the question of quality control of engineering goods including bicycles and components has since submitted its report, which is stated to be under examination by

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Government. The Committee desire that Government may direct the Bicycle Panel to conclude their study within a laid down time target. They would also like Government to take early decisions on the recommendations of the Committee appointed under the Chairmanship of the Secretary (Technical Development), and also of the Bicycle Panel, when available.

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