

SEVENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

**CUSTOMS RECEIPTS—DUTY ON PASSENGERS
BAGGAGE**

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[**Action Taken on 200th Report of Public Accounts
Committee (Seventh Lok Sabha)**]



Presented in Lok Sabha on 14 August, 1985

Laid in Rajya Sabha on 14 August, 1985

LOK SABHA SECRETARIAT
NEW DELHI

August, 1985/Šravana, 1907 (Saka)

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PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT
OF BUSINESS IN LOK SABHA (SIXTH EDITION) AND PRINTED BY THE
GENERAL MANAGER, GOVERNMENT OF INDIA PRESS,
MINTO ROAD, NEW DELHI.

CORRIGENDA TO SEVENTH REPORT OF PUBLIC
ACCOUNTS COMMITTEE (EIGHTH LOK SABHA)

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
3	-	14-15	recommends	recommend
4	1.5	1	<u>Delete</u> "abuse...and the"	
9	-	19	impacts	impact
11	-	8	customs station	custom stations
19	-	18	uppaired	unpaired
19	-	33	an	and
20	-	2	recommended	recomend
20	-	17	ving	using
24	-	3 from bottom	asesment	assessment
24	-	2 from bottom	duly	duty

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(1985-86)

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INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Seventh Report on action taken by the Government on the recommendations of the Public Accounts Committee, contained in their Two Hundredth Report (Seventh Lok Sabha) on Customs Receipts—Duty on Passengers Baggage.

2. In their earlier Report, the Committee had examined various aspects of the system of assessment and collection of customs duty on passengers baggage. In this Report, the Committee have noted that even after a period of more than one year after the presentation of their Report, the Ministry of Finance have not made any serious effort to stem the increasing misuse of the Tourist Baggage Re-export system (TBRE) and take remedial measures. Expressing their displeasure and dissatisfaction over this, the Committee have observed why the TBRE procedure had then been evolved at all if it was not to be followed upto its logical conclusion. The Committee have recommended that the Ministry of Finance should thoroughly look into all the aspects of the TBRE procedures and ensure that they are complied with strictly and without any further delay. They have pointed out existence of specific loopholes which must be plugged.

3. The Committee have also reiterated their earlier recommendation for evolving a system whereby primary data of the baggage goods are recorded without hampering clearance of passengers and without causing harassment to the travelling public and supplement the present system of assessment and collection of duty on baggage goods including check exercised by TBRE procedure by using the relevant data as an additional measure of macro-control.

4. In this Report, the Committee, while appreciating the Department's desire for faster and harassment-free clearance of the passengers, have also reiterated their earlier recommendation to put a check on the travellers who travel frequently to ensure that the liberalisation of the Baggage Rules is not abused. The Committee have urged that the Government should devise a system which should meet both the objectives in view, viz., faster and harassment-free clearance and to prevent the abuse of the Baggage Rules, causing loss to the exchequer.

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

Shri E. Ayyapu Reddy—Chairman

Members

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

6. The Action Taken Sub-Committee of the Public Accounts Committee (1985-86) considered and adopted the Report at their sitting held on 1 August, 1985. The Report was finally adopted by the Public Accounts Committee on 12 August, 1985.

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

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

NEW DELHI

13 August, 1985

22 Sravana, 1907 (S)

E. AYYAPU REDDY,

Chairman,

Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Public Accounts Committee deals with the action taken by Government on the recommendations and observations of the Committee contained in their Two Hundredth Report (Seventh Lok Sabha) on Paragraph 1.19 of the Report of the Comptroller and Auditor General of India for the year 1981-82, Union Government (Civil) Revenue Receipts, Volume I, Indirect Taxes relating to Customs Receipts—Duty on Passengers Baggage.

1.2 The Two Hundredth Report of the Committee was presented to Lok Sabha on 25 April, 1984 and contained 14 recommendations| observations. Action taken notes in respect of all the recommenda- tions| observations have been received from Government. These have been categorised as follows:—

- (i) Recommendations and observations that have been accep- ted by Government

Sl. Nos. 1 to 3, 6 to 9

- (ii) Recommendations and observations which the Commit- tee do not desire to pursue in the light of the replies received from Government.

Sl. Nos. 4 and 5

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

Sl. Nos. 10, 11 to 14

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

Nil.

1.3 The Committee will now deal with action taken by Govern- ment on some of their recommendations.

Misuse of Tourist Baggage Re-export facility.

(Sl. No. 11-13, Paragraphs 1.98 to 1.100)

1.4 In their 200th Report (Seventh Lok Sabha) the Public Ac- counts Committee had examined various aspects of the present system of assessment and collection of customs duty from passengers baggage.

Commenting on the "Tourist Baggage Re-export Form" procedure the Committee in paragraphs 1.98 to 100 of the Report had observed:—

"1.98 The Committee note that the Tourist Baggage Rules provide for import, temporarily of personal effects of *bona fide* tourists, free of duty, provided they are re-exported when the tourists leave India. Articles of high value are passed free of duty on obtaining an undertaking in writing from the tourist that he will re-export them out of India, or pay duty leviable thereon on failure to do so. Such articles are entered in a "Tourists Baggage Re-export Form" (TBRE) a copy of which is given to the tourists to be surrendered by him at the port or airport of departure from India. The re-export forms collected from tourists at the port or airport of their departure from India are sent after suitable endorsement to the port or airport of issue of the TBRE form for pairing. This ensures that such articles of high value have been re-exported and have not been disposed of by the tourist within the Country unauthorisedly."

1.99 The Committee are concerned to note that 50,533 TBRE forms issued from Bombay Customs House between 1977 and 1980 valuing Rs. 19.93 crores and involving duty of Rs. 28.18 crores could not be paired. Similarly, 12,247 forms issued from the Delhi Customs House between 1980 and 1982 valuing Rs. 6.4 crores and involving Rs. 12.6 crores duty also remained unpaired. The Committee regret to point out that statistics of number of TBRE issued and the unpaired TBRE forms relating to certain Custom Houses were not furnished to the Committee on the plea that records were not available. This is really strange as the number of TBRE forms being numbered, there is no reason why the record of these forms should not have been available in the relevant Customs House. The Committee feel that the whole issue is not above suspicion.

1.100 What is particularly disturbing is that 60 per cent of the unpaired TBRE forms issued in Bombay in 1980 pertained to import of gold jewellery valuing more than Rs. 10,000 in each case, amounting in all to at least Rs. 8.8 crores of jewellery imported in that year, without payment of duty. More distressingly, there had been no departmental follow-up of unmatched TBRE forms even on a percentage basis. According to the Ministry, the department looks into if a complaint of misuse comes in and only then an investigation is carried out. The Committee

cannot but express their concern over this unsatisfactory state of affairs. During evidence, the Secretary Department of Revenue admitted that departmental action had not been taken against even a single employee so far for the loss of TBRE forms. The Committee cannot but conclude that the increasing use of TBRE procedure for importing jewellery, coupled with the failure to implement the procedure, had given ample scope to smuggling through this method. The Committee are not convinced with the argument of the Ministry of Finance that this facility was being utilised by Indians residing abroad to help them transfer their assets to India in the form of jewellery. If so, government should include a provision in the rules to permit such imports. The Committee recommends that the Ministry of Finance should investigate the reasons for high import of jewellery through TBRE forms at Bombay and take steps to prevent abuse of this facility."

Impact of Passengers Baggage on the economy

(Sl. No. 14—Paragraph 1.101)

1.5 After examining various aspects of the system of assessment and collection of customs duty from passengers baggage, the Committee had summed up their Report in paragraph 1.101 with the following observations and recommendations.

"1.101 The facts stated in the foregoing paragraphs clearly bring out inadequacy in the system of assessment and collection of duty from passengers' baggage. The present system does not provide for maintaining even basic data of baggage goods. The Ministry should evolve a system whereby primary data are recorded without hampering clearance of passengers and causing harassment to the travelling public. This is imperative in order to assess the impact of the policy in regard to baggage goods on the economy in all its ramifications. The Committee therefore recommend that the Ministry of Finance should supplement the present system of assessment and collection of duty on baggage goods including check exercised by the TBRE procedure by recording and maintaining relevant data as an additional measure of a macro control. This would in no way cause harassment in individual cases. While Government should ensure that the baggage concessions are availed of by the genuine travelling public the Committee are anxious that, there should be a system of macro control so that unscrupulous elements are kept in check

and the abuse of elements are kept in check and the abuse of the liberalised baggage facilities by them does not result in detriment to the country's economy."

1.6 In a common note indicating the action taken by Government on the recommendations and observations of the Committee in Paragraphs 1.98 to 1.101 furnished on 30 October, 1984 the Ministry of Finance (Department of Revenue) have stated:

"We had pointed out even during the oral hearing of the fact that TBRE forms not being matched does not itself mean that the goods have not been exported. This is because an endorsement is made on the passport to the effect that the passengers have availed of TBRE facility and this endorsement is checked at the time of his departure. Since passengers often leave from ports other than the ports of entry and in view of the large increase in passenger traffic TBRE forms some times remain unmatched. It had earlier been suggested that the facility should be discontinued as there is always a chance of it being misused. This would, however, go counter to the Government's policy to encourage tourism. We have already invited the comments of Collectors of Customs regarding measures that may be taken to reduce misuse of this facility, and the entire working is under close and constant supervision."

1.7 The Committee are unhappy to note that even after a period of more than one year after the presentation of their Report, the Ministry of Finance have not made any serious effort to stem the increasing misuse of the Tourist Baggage Re-export form (TBRE) and to take necessary remedial measures. In their action taken reply the Ministry have simply stated that the comments of Collectors of Customs have been invited regarding measures that may be taken to reduce misuse of this facility and the working is under close and constant supervision. Reacting to the Committee's deep concern over the perturbing position arising out of unpaired TBRE forms, the Ministry have stated that since passengers often left from ports other than the ports of entry and in view of the large increase in passengers traffic some TBRE forms remain unmatched. The Committee are constrained to observe that the reply is indicative of the casual approach of the Ministry to a serious issue. They regret to point out that no mention has been made in the reply by the Ministry of the action taken by them to ascertain the correct position in respect of the matching of TBRE forms from all the Customs Houses, the reasons for the non-availability of the relevant records in certain customs Houses, the reason for high import of jewellery through TBRE forms at Bombay and other important points

raised by the Committee in their Report. No attempt appears to have been made by the Ministry to analyse the reasons for the failure of the department in implementing the prescribed procedure and initiating necessary corrective action. The Committee cannot but express their displeasure and dis-satisfaction over this. They wonder why TBRE procedure had then been evolved at all if it is not to be followed upto its logical conclusion. They desire that the Ministry of Finance should thoroughly look into all the aspects of the TBRE procedures and ensure that they are complied with strictly and without any further delay. There is a clear loophole and it must be plugged.

1.8 In their earlier Report the Committee had also drawn the attention of Government to certain glaring inadequacies in the system of assessment and collection of duty on passengers baggage. The Committee had pointed out that the present system did not provide for maintaining even basic data of baggage goods. Emphasising the need for evolving a system whereby primary data are recorded without hampering clearance of passengers and causing harassment to the travelling public, the Committee had recommended that the Ministry of Finance should supplement the present system of assessment and collection of duty on baggage goods, including check exercised by the TBRE procedure by recording and using relevant data as an additional measure of macro control. The Committee are displeased to note that the Ministry of Finance have not intimated them of the action taken on their recommendation. As pointed out by the Committee earlier this is imperative in order to assess the impact of the policy in regard to baggage goods on the economy in all its ramifications. The Committee, therefore, reiterate their earlier recommendation and would like to be informed of the conclusive action taken.

Need for preventing carrier trade

(S. No. 10, Paragraph 1.97)

1.9 In their 200th Report, the Committee had noted with concern that after the liberalisation of Baggage Rules in March 1983, a new class of passengers viz., hired passengers who indulged in carrier trade had come into existence. These persons visited India's neighbouring countries from time to time and brought foreign goods which were in great demand in this country. Because of the wide differences in the prices of certain goods in those countries and in this country, those persons were able to make huge profits even after covering their tour expenses and paying duty as per Baggage Rules. Emphasising the need for preventing such abuses of the liberalised Baggage Rules, the Committee in paragraph 1.97 of their Report had recommended:—

“In the opinion of the Committee, the existence of carrier trade is made possible by a lacuna in the Baggage Rules, accord-

ing to which free duty allowance is the same per trip irrespective of the fact whether an individual undertakes only one foreign trip in a year or a number of such trips. The Committee recommend that in order to obviate the recurrence of misuses of baggage facilities, the Ministry of Finance should examine the feasibility of fixing a monetary ceiling beyond which a person should not be allowed to bring duty-free foreign goods as baggage during a year, irrespective of the number of his visits."

1.10 In their action taken note furnished on 30 October, 1984, the Ministry of Finance (Department of Revenue) have stated:—

"The department is already keeping a close watch on the trend of traffic and wherever the abuse of baggage concessions through proliferation of 'carrier' traffic is noticed, the department takes steps to prevent clearance under the Baggage Rules. Only in June last year, having regard to the developing abuse the free allowance for passengers coming from Maldives and Sri Lanka was curtained. In the case of other areas, the cost of travel or restrictions on frequent visits coupled with high rate of duty of 240% on the higher value slab would make such 'carrier' traffic unattractive and unremunerative. Moreover, all persons who travel abroad frequently are not necessarily 'carrier' and bonafide passengers would be adversely hit if an upper monetary ceiling is laid down regarding the extent of free allowance that could be availed of by a passenger in one year. It would also be time taking to monitor ceiling for each passenger on an annual basis as proposed."

1.11 The Committee, while appreciating the Department's desire for faster and harassment-free clearance of the passengers, reiterate their earlier recommendation to put a check on the travellers who travel frequently to ensure that the liberalisation of the Baggage Rules is not abused. The Committee urge that the Government should devise a system which should meet both the objectives in view, viz., faster and harassment-free clearance and stoppage of the abuse of the Baggage Rules, causing loss to the exchequer.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

As per Customs Act, "baggage" includes unaccompanied baggage but not motor vehicles. Declaration of baggages made by the passengers arriving at any port or airport may be in writing or oral. The accompanied baggage both by Air and Sea is cleared on oral declaration. For this purpose, passengers without any dutiable articles in their baggage walk through green channel and those with dutiable articles are assessed to duty on the basis of their declaration in the red channel. In cases of doubt, physical examination is conducted by preventive officers. Unaccompanied baggage is, however, cleared on a written declaration which contains details about the number of packages etc. On the basis of the declaration and examination, duty is assessed and collected and baggage cleared from customs control. The revenue from baggage has registered a steep increase over the years. It amounted to Rs. 42.39 crores in 1978, Rs. 57.98 crores in 1979, Rs. 85.53 crores in 1980 and Rs. 121.93 crores in 1981 respectively.

The rates of duty on passengers baggage and the exemption limit for duty free baggage have undergone changes from time to time. In 1978 the duty free allowance was raised to Rs. 1,000 and on goods valuing upto Rs. 2,000 in excess thereof, duty was leviable at 120 per cent *ad valorem*. The rate of duty was changed from 120 per cent to 150 per cent on 19 June, 1980. From 15 July, 1980, there was further liberalisation in that baggage in excess of Rs. 3,000 was also cleared charging duty effectively at 320 per cent instead of treating such imports as unauthorised, with the object of doing a way with the time consuming process of adjudication as also to secure quick clearance of passengers arriving at airports. The idea was to avoid unnecessary hardship or harassment to passengers. The purpose of high rates of duty in excess of the duty free allowance was to contain the quantities to be brought by the passengers as baggage. Revenue was also a consideration but only a relatively minor one. Minor increases were made in the duty in the years 1981 and 1982. From 1 March 1983 the duty structure has been considerably liberalised in pursuance of the recommendations of a study group on increasing the

flow of remittances and non-resident investment, submitted to Government in October, 1982. The higher slab of duty was reduced from 330 per cent to 235 percent in certain cases. Also, the general free allowance limit was increased from Rs. 1,000 to Rs. 1,250.

The Committee have been informed that the goods allowed to be imported as baggage are generally for personal use or for family use or for gifting away to relatives and friends. When goods are brought in commercial quantities or for trade purposes, the passenger has not only to pay duty at the prevailing rates but also fine and penalty may be imposed for breach of import trade control requirements. Further, the sale of goods imported as baggage is not allowed in terms of ITC public Notice as well as Customs Notification dated 22 August, 1975.

[S. Nos. 1 to 3 (Paras 1.88 to 1.90) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

These paras are only a factual narration of the procedure for clearance of passengers and baggage and the rates of duty charged at different times. No recommendations have been made in these paras.

[Ministry of Finance (Department of Revenue) O.M. No. 512/16/82-CUS VI (Vol. III) dated 1 March, 1985]

Recommendation

In this connection, the Committee note that out of total of 21.53 lakh incoming passengers in 1982, 13.01 lakhs passengers walked through green channel while 8.52 lakhs opted for red channel. In 1983, out of 17.36 lakhs incoming passengers whose details were available, 10.84 lakhs opted for green and 6.52 lakhs opted for red channels. The Committee are informed that a test check of not exceeding 10% is carried out before the passenger leaves the customs area. The number of misdeclarations detected by the department as a result of such test-checks (of passengers coming through both green and red channels) during 1981, 1982 and 1983 (upto September) were 7,694, 4,797, and 8700 respectively and the corresponding c.i.f. value of misdeclared goods were Rs. 2.47 crores, Rs. 3.86 crores and Rs. 3.20 crores respectively. Evidently, even the fractional test checks conducted by the department indicated that misdeclarations under the present set up are fairly widespread. In view of these facts the Committee do not agree with the contention of the Ministry that adequate checks exist to prevent smuggling by misdeclaration or non-declaration of dutiable baggage. The Committee recommend that Government

should adopt such legal and psychological measures as will prove really effective instead of the present system and manner of its implementation by customs staff which is lacking in its psychological impact. The Committee regret that the customs department have not adopted really effective methods for getting reliable feed back data designed to keep under continuous monitoring the psychological impact of the systems and approaches adopted by it.

[S. No. 6 (Para 1.93) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The Collectors of Customs at all international airports are regularly sending reports indicating the trend of passenger traffic as well as the extent of misdeclaration noticed in both Green Channel and Red Channel. It is unavoidable that in the system of clearance of passengers relying upon their oral declaration there would be a certain amount of misdeclaration by unscrupulous passengers. The Ministry have, however, taken steps to discourage such mis-declaration. Apart from the provision for random re-examination upto 10% of cases, Officers in plain clothes are posted at all international airports to observe the movements of suspicious passengers. At times 100% checks are resorted in respect of certain sensitive flights to create a psychological impacts. Close circuit televisions have also been installed at most of the international airports to keep a better watch over the passengers in the Baggage Hall. In addition Collectors of Customs have been instructed that whenever non-declaration of any articles of baggage is detected during the random check, the un-declared part of the baggage if of substantial value should be absolutely confiscated. A copy of the instructions is enclosed.

This is likely to have a salutary effect on unscrupulous passengers and discourage such passengers from making incorrect declarations.

Results of 100% check over flights carried out on occasions do not suggest any great evasion in flights not so subjected.

[Ministry of Finance (Department of Revenue) O.M. No. 512/
16/82-CUS VI (Vol. III) dated 1 March, 1985]

COPY

F. No. 495/6/83-Cus. VI (Vol. III)

GOVERNMENT OF INDIA

Central Board of Excise and Customs

New Delhi, the 4th June, 1984

To

The Collector of Customs,
Bombay/Calcutta/Madras/Delhi/Cochin

The Collector of Customs, (Appeals)
Bombay/Calcutta/Madras/Delhi

Subject:—Baggage clearance at International Airports—reg.

Sir,

As a result of the introduction of successive measures to facilitate clearance of passenger baggage during the recent past the majority of passengers are being cleared on the basis of their oral declaration without any examination of their baggage. It is possible that some unscrupulous passengers may misuse this facility and be tempted to import as baggage expensive articles without payment of duty.

In order to minimise the extent of abuse of this facilitation measure, passengers who are found to misdeclare their baggage, should be severely dealt with to have a salutary effect. Whenever non-declaration of articles is detected during random check, the undeclared part of the baggage should be confiscated absolutely. The dealing officers should, however, be cautious so that where discrepancies are on account of valuation only suitable compassionate view is taken as distinct from cases when the declaration completely suppresses a costly article or substantial part of the quantity.

Yours faithfully,

Sd/-

(A. D. NAGPAUL),
Director (Customs).

Recommendation

The Committee are surprised to note that no separate records are maintained in respect of the total number of passengers opting for green and red channels at Trivandrum Airport, Amritsar Land Customs Station and Bombay Seaport. This would clearly show that even in the matter of collecting and utilising the basic data the department has still to go a long way. The Committee recommend that the Ministry should adopt a more dynamic and effective data generation and retrieval system in all customs station without which control through psychological impact can hardly become a reality.

[S. No. 7 (Para 1.94) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The dual channel system of clearance of passengers has been introduced only at the international airports, and has not been extended to Land Custom Stations or Seaports. Separate record of passengers opting for the Green and Red Channel is being maintained at such airports. So far as Trivandrum airport is concerned, separate records are now being maintained for passengers opting for Green and Red Channels at Trivandrum Airport. Weekly statements of incoming passengers with channel wise break up, cases detected and adjudicated and duty collected on baggage, number of flights arrived time taken in flight clearance etc. are being received by the Ministry. Through the weekly statements, trends in flow of passengers and realisation of duty etc. are being analysed for review and remedial action has been initiated through visits of officers from Delhi and correspondence.

[Ministry of Finance (Department of Revenue) O.M. No. 512/16|82-Cus. VI (Vol. III) dated 1 March, 1985]

Recommendation

The Committee find that in the absence of any reliable data on baggage imports, it would be a sheer guess-work to assess the impact of baggage imports on the indigenous economy or any particular industry. According to the Ministry of Finance' the impact can only be guessed only on the basis of trends and the total amount of revenue collections from baggage. The Committee are informed that the annual value of baggage imports may be roughly about Rs. 300 crores. The Ministry of Finance have also admitted that certain industries like electronics have in their representations to Government pointed out the adverse effect of baggage liberalisations on indigeous industries.

Keeping in view the representations of the electronics industry and based on the recommendations of the Department of Electronics, Government decided in August, 1983 to grant a series of concessions to enable the electronics industry to attain economic viability and a competitive edge. Ironically, these concessions involved a total annual revenue sacrifice of Rs. 98 crores to the exchequer by way of customs and excise duties. While the Committee agree that undue harassment and delay in clearance of incoming passengers including tourists have to be removed, the impact of the liberalised baggage rules on the indigenous industry has also to be taken into account. The Committee would like Government to ensure that no indigenous industry is adversely affected as a result of liberalisation of baggage rules.

[S. No. 8 (Para 1.95) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]
Action Taken

This department is liberalising the Baggage Rules only in consultation with various concerned departments like the Department of Electronics, Ministry of Commerce, Department of Economic Affairs, etc. Adequate measures are already being taken to ensure that liberalisation in the Baggage Rules does not affect indigenous interests.

[Ministry of Finance (Department of Revenue) O.M. No. 512/16,82-Cus. VI (Vol. III) dated 1 March, 1985]

Recommendations

The Committee are concerned that after the liberalisation of Baggage Rules in March 1983, a new class of passengers, viz., hired passengers indulged in carrier trade, has come into existence. These persons visit India's neighbouring countries from time to time and bring foreign goods in great demand in this country. Because of the wide differences in the prices of certain goods in those countries and in this country, these persons are able to make huge profits even after covering their tour expenses and paying duty as per baggage rules. The Ministry of Finance have admitted that such cases have come to their notice on certain routes, particularly Sri Lanka-India and Maldives-India routes. It was, therefore, decided to reduce the general free allowance from Rs. 1250 to Rs. 300 for passengers arriving from Sri Lanka and Maldives. From the figures furnished by the Ministry of Finance, the Committee find that while the passenger traffic to Sri Lanka and Maldives recorded a substantial increase to 56671 during 1 March to 8 June 1983 over the figures of 43,816 during the corresponding period in 1982, it suddenly came to as low a level as 18030 during the period 9 June 1983 to 30 September, 1983. The overall collection of duty per capita has also dec-

reased from 8 June 1983. The Committee are not convinced with the replies of the Ministry that per capita increase in the duty realisation from baggage (even when rates of duty were reduced), is not indicative of increase in import of baggage with consequential adverse impact on economy. The figures relating to Sri Lanka and Maldives clearly disprove this. The Committee are clearly of the view that the extent of abuse of liberalisation is on the increase. The Committee would like the department to collect relevant data relating to baggage import continuously and to review it and act immediately to prevent abuse of the liberalised baggage rules as and when the situation so warrants.

[S. No. 9 (Para 1.96) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

There already exists a system through which the operation of Baggage Rules is being constantly reviewed. The Department is receiving regular reports from Customs authorities at the airports indicating the trend of passenger traffic, specially from neighbouring countries, as well the per capita collection of duty from passengers coming from such countries. With the reduction in the free allowance for passengers coming from Sri Lanka and Maldives the 'carrier' traffic from these countries has stopped and only bonafide tourists are travelling on those routes. The return air fare on the Calcutta—Bankok and Madras-Singapore routes is about Rs. 4,000/- which is high enough to eliminate profits that could be made from 'carrier' trade on these sections. The reason for per capita increase in duty is that the reduction in the higher slab of duty has acted as an incentive to the passengers to make a correct declaration of their baggage. The Ministry have also issued instructions to Customs authorities at the Airport to deal severely with passengers who have either not declared their baggage or substantially misdeclared the articles imported. It is felt that this would have a salutary effect on unscrupulous passenger. A copy of the instruction is enclosed.

However, if any distortions come to notice appropriate remedial action would be taken by the Department. The main emphasis being on fast clearance of passengers, the procedure adopted has to make sure that no avoidable inconvenience or let up in speedy clearance takes place.

[Ministry of Finance (Department of Revenue) O.M. No. 512/16182-Cus. VI (Vol. III) dated 1 March, 1985]

F. No. 495|6|83-Cus. VI (Vol. III)

GOVERNMENT OF INDIA

CENTRAL BOARD OF EXCISE AND CUSTOMS

*New Delhi, the 4th June, 1984***To**The Collector of Customs,
Bombay|Calcutta||Madras|Delhi|CochinThe Collector of Customs, (Appeals)
Bombay|Calcutta|Madras|Delhi**SUBJECT:—***Baggage clearance at International Airports—reg.***Sir,**

As a result of the introduction of successive measures to facilitate clearance of passenger baggage during the recent past the majority of passengers are being cleared on the basis of their oral declaration **without any examination of their baggage**. It is possible that some unscrupulous passengers may misuse this facility and be tempted to import as baggage expensive articles without payment of duty.

In order to minimise the extent of abuse of this facilitation measure, passengers who are found to mis-declare their baggage, should be severely dealt with to have a salutary effect. Whenever non-declaration of articles is detected during random check, the undeclared part of the baggage should be confiscated absolutely. The dealing officers should, however, be cautious so that where discrepancies are on account of valuation only suitable compassionate view is taken as distinct from cases when the declaration completely suppresses a costly article or substantial part of the quantity.

Yours faithfully,
Sd/-(A. D. NAGPAUL)
DIRECTOR (CUSTOMS)

CHAPTER III

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

Recommendations

The Committee are surprised to find that while the law clearly prohibits sale of goods imported as baggage within a specified period, Government do not have adequate mechanism to ensure that such sales do not take place. There is no consolidated record of all goods cleared as baggage even in the case of those charged to duty. It is common knowledge that a large number of imported items are freely sold in the open market in most metropolitan cities and border towns. Evidently these goods are either smuggled goods or goods which have been brought as baggage. If the goods have been imported as baggage, they are not allowed to be sold under the law for a specified period. However, as Government have no record of baggage goods they cannot check their sale in the Indian market and take penal action in terms of the notification dated 22 August, 1975. The Ministry of Finance have contended that the notification acts as a deterrent both legal as well as psychological to all persons who intend selling goods imported by them as baggage. The Ministry have, however, not been able to cite a single case booked for violation of the orders during the past eight years. Thus, the only conclusion that can be drawn is that the notification dated 22, August, 1975 has failed to make any impact or serve the objective for which it was issued.

The Committee note that the value of smuggled goods seized by customs authorities amounted to Rs. 30.94 crores, Rs. 40.42 crores, Rs. 52.85 crores, Rs. 39.70 crores, and Rs. 66.39 crores during each of the years 1978 to 1982 respectively. Out of these, the values of goods seized in raids and searches in towns/cities during the corresponding period were Rs. 3.66 crores, Rs. 6.48 crores, Rs. 5.64 crores, Rs. 8.65 crores and Rs. 14.22 crores, respectively. The principal items seized were gold, watches, synthetic fabrics, diamonds, electronic goods like cassette recorders, videos, calculators, etc. Obviously, the

figures of seizures indicate only a tip of the iceberg. Even so, they would indicate that over the years, the menace of smuggling and its adverse impact on our economy are on the increase. The Ministry of Finance have pleaded that in the absence of records of baggage it is not possible to apportion the source of smuggled goods seized in raids and searches. However, the Ministry have conceded that the enquiries conducted in those cases had revealed that part of such goods were those cleared as baggage either under free allowance or on payment of duty. Considering that the percentage of value of seizures in towns and cities forms a substantial part of the total seizures and that the goods seized in town seizures are generally of the same kind as are usually brought as baggage, the Committee cannot but conclude that the loopholes in Baggage Rules supplement the adverse impact on the economy caused by smuggling.

[S. Nos. 4 and 5 (Paras 1.91 and 1.92) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

Since the introduction of the dual channel system for clearance of passengers and reliance on their oral declaration about 60 per cent of all passengers are opting for the green channel. In fact physical examination of baggage has been drastically reduced. This measure of facilitation has been introduced in spite of the fact that there is an element of risk of passengers misdeclare their baggage and clearing articles without payment of duty. This risk is partially obviated by Intelligence Officers being posted in the arrival hall as well as random checking of passengers. In addition 100 per cent check of some flights is resorted to. It is difficult to keep a strict control over sale of goods cleared as baggage. In cases of town seizures, statistics are not being separately maintained regarding the source of the goods. It is true that articles imported as baggage may be disposed of by persons in violation of the notification dated 22nd August, 1975. That notification, however, acts as deterrent and is applied by the Department to penalise persons found to have sold goods imported as baggage, when no other contravention can be established. The Customs Authorities at various ports and border towns conducted raids

and searches of shops, vendors and hawkers dealing with smuggled goods (which would include goods disposed off by passengers) in the principal markets with a view to preventing display and sale of such goods. The number of raids and searches conducted and the value of goods seized as a result thereof during the last 4 years are furnished below:—

(Rs. in Lakhs)

<i>Year</i>	<i>No. of raids and searches</i>	<i>Value of goods seized</i>
1981	2172	46.12
1982	2046	121.51
1983	3310	120.16
1984 (Upto Oct.)	3147	244.09

[Ministry of Finance (Department of Revenue) O.M. No. 512/
16/82-Cus. VI (Vol. III) date 11 March, 1985]

CHAPTER IV

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

Recommendations

In the opinion of the Committee, the existence of carrier trade is made possible by a lacuna in the Baggage Rules, according to which free duty allowance is the same per trip irrespective of the fact whether an individual undertakes only one foreign trip in a year or a number of such trips. The Committee recommend that in order to obviate the recurrence of misuse of baggage facilities, the Ministry of Finance should examine the feasibility of fixing a monetary ceiling beyond which a person should not be allowed to bring duty free foreign goods as baggage during a year, irrespective of the number of his visits.

[S. No. 10 (Para 1.97) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The department is already keeping a close watch on the trend of traffic and wherever the abuse of baggage concessions through proliferation of 'carrier' traffic is noticed, the department takes steps to prevent clearance under the Baggage Rules. Only in June last year, having regard to the developing abuse the free allowance for passengers coming from Maldives and Sri Lanka was curtailed. In the case of other areas, the cost of travel or restrictions on frequent visits coupled with high rate of duty of 240 per cent on the higher value slab would make such 'carrier' traffic unattractive and unremunerative. Moreover, all persons who travel abroad frequently are not necessarily 'carriers' and *bona fide* passengers would be adversely hit if an upper monetary ceiling is laid down regarding the extent of free allowance that could be availed of by a passenger in one year. It would also be time taking to monitor the monetary ceiling for each passenger on an annual basis as proposed.

[Ministry of Finance (Department of Revenue) O.M. No. 512/16/82-Cus. VI (Vol. III) dated 1 March, 1985]

Recommendations

The Committee note that the Tourist Baggage Rules provide for import, temporarily of personal effects of *bona fide* tourists, free of duty, provided they are re-exported when the tourists leave India. Articles of high value are passed free of duty on obtaining an undertaking in writing from the tourist that he will re-export them out of India, or pay duty leviable thereon on failure to do so. Such articles are entered in a "Tourists Baggage Re-export Form" (TBRE) a copy of which is given to the tourist, to be surrendered by him at the port or airport of departure from India are sent after suitable endorsement to the port of airport of issue of the TBRE form for pairing. This ensures that such articles of high value have been re-exported and have not been disposed of by the tourist within the country unauthorisedly.

The Committee are concerned to note that 50,533 TBRE forms issued from Bombay Customs House between 1977 and 1980 valuing Rs. 19.93 crores and involving duty of Rs. 28.18 crores could not be paired. Similarly, 12,247 forms issued from the Delhi Customs House between 1980 and 1982 valuing Rs. 6.4 crores and involving Rs. 12.6 crores duty also remained unpaired. The Committee regret to point out that statistics of number of TBRE issued and the unpaired TBRE forms relating to certain Customs Houses were not furnished to the Committee on the plea that records were not available. This is really strange as the number TBRE forms being numbered, there is no reason why the record of these forms should not have been available in the relevant Customs House. The Committee feel that the whole issue is not above suspicion.

What is particularly disturbing is that 60 per cent of the unpaired TBRE forms issued in Bombay in 1980 pertained to import of gold jewellery valuing more than Rs. 10,000 in each case, amounting in all to at least Rs. 8.8 crores of jewellery imported in that year, without payment of duty. More distressingly, there had been no departmental follow-up of unmatched TBRE forms even on a percentage basis. According to the Ministry, the department looks into if a complaint of misuse comes in an only then an investigation is carried out. The Committee cannot but express their concern over this unsatisfactory state of affairs. During evidence, the Secretary, Department of Revenue admitted that departmental action had not been taken against even a single employee so far for the loss of TBRE forms. The Committee cannot but conclude that the increasing use of TBRE procedure for importing jewellery, coupled with the failure to implement the procedure, had given ample scope to smuggling through this method. The Committee are not convinced with the argument of the Ministry of Finance that this facility was being utilised by Indians residing abroad to help them transfer their assets to India in the form of jewellery.

If so, government should include a provision in the rules to permit such imports. The Committee recommended that the Ministry of Finance should investigate the reasons for high import of jewellery through TBRE forms at Bombay and take steps to prevent abuse of this facility.

The facts stated in the foregoing paragraphs clearly bring out **inadequacy in the system of assessment and collection of duty from passengers' baggage**. The present system does not provide for maintaining even basic data of baggage goods. The Ministry should evolve a system whereby primary data are recorded without hampering clearance of passengers and causing harassment to the travelling public. This is imperative in order to assess the impact of the policy in regard to baggage goods on the economy in all its ramifications. The Committee therefore recommend that the Ministry of Finance should supplement the present system of assessment and collection of duty on **baggage goods including check exercised by the TBRE procedure** by recording and vining relevant data as an additional measure of a macro control. This would in no way cause harassment in individual cases. While Government should ensure that the baggage concessions are availed of by genuine travelling public the Committee are anxious that, there should be a system of macro control so that unscrupulous elements are kept in check and the abuse of the liberalised baggage facilities by them does not result in detriment to the country's economy.

[S. Nos. 11 to 14 (Paras 1.98 to 1.101) of Appendix to 200th Report of Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

We had pointed out even during the oral hearing of the fact that TBRE forms not being matched does not itself mean that the goods have not been exported. This is because an endorsement is made on the **passport to the effect that the passengers have availed of TBRE facility** and this endorsement is checked at the time of his departure. Since passengers often leave from ports other than the ports of entry **and in view of the large increase in passenger traffic TBRE forms** sometimes remain unmatched. It had earlier been suggested that the facility should be discontinued as there is always a chance of it being misused. This would, however, go counter to the Government's policy to encourage tourism. We have already invited the comments of Collectors of Customs regarding measures that may be taken to reduce **misuse of this facility**, and the entire working is under close and constant supervision.

[Ministry of Finance (Department of Revenue) O.M. No. 512/16/82-Cus. VI (Vol. III) dated 1 March 1985]

CHAPTER V

**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF
WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI;
13 August, 1985

22 Sravana, 1907 (S)

E. AYYAPU REDDY,
Chairman,
Public Accounts Committee.

APPENDIX

CONCLUSIONS|RECOMMENDATIONS

S. No.	Para No.	Ministry/Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1	1.7	Ministry of Finance (Deptt. of Revenue)	<p>The Committee are unhappy to note that even after a period of more than one year after the presentation of their Report, the Ministry of Finance have not made any serious effort to stem the increasing misuse of the Tourist Baggage Re-export Form (TBRE) and to take necessary remedial measures. In their action taken reply the Ministry have simply stated that the comments of Collectors of Customs have been invited regarding measures that may be taken to reduce misuse of this facility and the working is under close and constant supervision. Reacting to the Committee's deep concern over the perturbing position arising out of unpaired TBRE forms, the Ministry have stated that since passengers often left from ports other than the ports of entry and in view of the large increase in passenger traffic some TBRE forms remain unmatched. The Committee are constrained to observe that the reply is indicative of the casual approach of the Ministry to a serious issue. They regret to point out that no mention has been made in the reply by the Ministry of the action taken by them to ascertain the correct position in respect of the matching of TBRE forms from all the Customs Houses, the reasons for the non-availability of the relevant records in certain customs Houses, the reason for</p>

Ministry of Finance
(Deptt. of Revenue)

high import of jewellery through TBRE form at Bombay and other important points raised by the Committee in their Report. **No attempt appears to have been made by the Ministry to analyse the reasons for the failure of the department in implementing the prescribed procedure and initiating necessary corrective action. The Committee cannot but express their displeasure and dis-satisfaction over this. They wonder why TBRE procedure had then been evolved at all if it is not to be followed upto its logical conclusion. They desire that the Ministry of Finance should thoroughly look into all the aspects of the TBRE procedures and ensure that they are complied with strictly and without any further delay. There is a clear loophole and it must be plugged.**

Do.

In their earlier Report the Committee had also drawn the attention of Government to certain glaring inadequacies in the system of assessment and collection of duty on passengers baggage. The Committee had pointed out that the present system did not provide for maintaining even basic data of baggage goods. Emphasising the need for evolving a system whereby primary data are recorded without hampering clearance of passengers and causing harassment to the travelling public, the Committee had recommended that the Ministry of Finance should supplement the present system of assessment and collection of duty on baggage goods including check exercised by the TBRE procedure by recording and using relevant data as an additional measure

of macro control. The Committee are displeased to note that the Ministry of Finance have not intimated them of the action taken on their recommendation. As pointed out by the Committee earlier this is imperative in order to assess the impact of the policy in regard to baggage goods on the economy in all its ramifications. The Committee, therefore, reiterate their earlier recommendation and would like to be informed of the conclusive action taken.

1.11 Do.

The Committee, while appreciating the Department's desire for faster and harassment-free clearance of the passengers, reiterate their earlier recommendation to put a check on the travellers who travel frequently to ensure that the liberalisation of the Baggage Rules is not abused. The Committee urge that the Government should devise a system which should meet both the objectives in view, viz., faster and harassment-free clearance and stoppage of the abuse of the Baggage Rules, causing loss to the exchequer.

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