

**HUNDRED AND FIFTY-SECOND  
REPORT**

**PUBLIC ACCOUNTS COMMITTEE  
(1982-83)**

(SEVENTH LOK SABHA)

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

**MINISTRY OF COMMERCE**



*Presented to Lok Sabha on 29-4-1983*

*Laid in Rajya Sabha on 29-4-1983*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1983 | Vaisakha, 1905 (S)*

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<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
(v)	4	7	1980-81	1981-82
(vi)	-	-	Delete the foot note (*Not appended)	
1	1.5	1	reference	reference
22	1.49	8	bear	year
22	1.49	2 from bottom	exproters	exporters
24	1.53	1	lose	close
24	1.54	6	Rs. 9.10 crores	Rs. 5.10 crores
24	1.54	8	Rs. 18.83 10 crores	Rs. 18.83 crores
25	1.59	12	Add "expressed the" after "have"	
26	1.60	3 from bottom	now	how
27	2.1	2	contract	contract secured
28	2.5	4-5	46,691,710	46,691.710
28	2.6	8	recozered	recovered
29	2.7	4	34.844	34,844
29	2.7	4	4.153	4,153
33	2.21	1	with	which
37	2.33	7	in admissible	inadmissible
37	2.33	7	The	This
39	2.36	6	estimates	estimated
40	2.40	13	waiver	waiver
41	2.41	17	soled	sold
44	2.45	6	orises	crises
	(iii)			
45	2.45	1	was	was not
	(vi)			
45	2.45	6	because	became
	(vii)			
46	2.46	21	trancation	truncation
48	2.52	4	short- termed	short-landed
49	2.55	1	given	were given
50	2.56	9	lay	by
50	2.58	3	Add after the word certain the following:	
			'conditions. One of the'	
50	2.58	9	evidence	evident
64	-	11	experts	exports
67	-	4	1978-79, 1980-81	1978-79 to 1980-81
68	-	16	and	an
69	-	6	Remove	inverted coma
70	-	3 from bottom	add "for" after "disincentive"	
72	-	12	for	far
74	2.49	1	od	on
79	2.58	7	under and	under any
80	2.60	2	as	an

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PUBLIC ACCOUNTS COMMITTEE  
(1982-83)

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3. Shri K. K. Sharma—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this 152nd Report on Paragraphs 2 and 3 of the Advance Report of the Comptroller and Auditor General of India for the year 1980-81, Union Government (Civil) relating to cash assistance for Export of ossein and Export of Railway wagons to a foreign country respectively.

2. The Advance Report of the Comptroller and Auditor General of India for the year 1980-81, Union Government (Civil), was laid on the Table of the House on 21 April 1982.

3. In Chapter I of the Report, the Committee have observed that the decision to grant cash assistance on export of ossein was unjustified *ab initio*. While taking a decision in the matter the Ministry of Commerce not only overlooked the objections raised by the MDF Committee but also did not bother to have a proper cost study carried out at any stage. The scheme was extended on the basis of unverified and incorrect cost data. In retrospect, the Committee cannot help feeling that greater vigilance should have been exercised by the Government while allowing large payments from the exchequer. While the Committee realise the necessity of boosting the country's exports by providing necessary assistance and incentives to our exporters, they expect the Government to be more vigilant, prudent and discriminating in granting cash assistance.

4. The Committee have expressed concern that the administration of the Cash Compensatory Scheme continues to suffer from deficiencies which have been repeatedly highlighted by the Committee in their earlier Reports. The Committee have expressed their strong view that since the scheme of cash compensatory assistance has now been in operation for more than 16 years and a substantial amount is being paid every year (e.g. Rs. 500 crores in 1980-81) as cash assistance for export of various commodities, its efficacy and usefulness should be evaluated without delay by a Team of Experts with a view to finding out how far the scheme has been able to achieve the objectives for which it was started and what modifications are necessary to make it more effective and meaningful.

5. In Chapter II of the Report, the Committee have pointed out that the various lapses in executing the contract secured by the State Trading

(vi)

Corporation in October 1970 for the supply of 3600 wagons to a foreign country at a contract price of Rs. 37.45 crores have cost the country heavily. As against an expected earning of Rs. 15 crores of foreign exchange, the net earning was to the tune of Rs. 34 lakhs only and that too after the payment of Rs. 5.37 crores as subsidy to wagon builders for importing the steel required for manufacture of wagons. If the foreign exchange spent on the visits of a number of delegations to the foreign country is taken into account, the earnings would be practically nil. The Committee have concluded that the entire deal has been mismanaged at every level and has tarnished the country's image. The Committee has therefore desired that the Government should examine this whole matter in depth with a view to identifying the lapses, fixing responsibility and taking suitable remedial measures to avoid recurrence of such lapses in future. The Committee have emphasised that no amount of money and energy spent on export promotion would be able to achieve the desired results until and unless supply of timely and good quality products are ensured.

6. The Committee (1982-83) examined paragraph 2 and 3 on the basis of written information furnished by the Ministry of Commerce. The Committee considered and finalised the Report at their sittings held on 24 March 1983 and 26 April 1983. Minutes of the sittings of the Committee form Part II of the Report.

7. For facility of reference and convenience the observations and recommendations 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 Appendix II\* to the Report.

8. The Committee would like to express their thanks to the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

9. The Committee also place on record their appreciation of the assistance rendered by the Office of the Comptroller and Auditor General of India in the examination of these paragraphs.

NEW DELHI ;  
April 27, 1983  
Vaisakha 7, 1905 (Saka)

SATISH AGARWAL  
*Chairman*  
*Public Accounts Committee.*

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\*Not appended.

## **CHAPTER I**

### **REPORT**

#### **CASH ASSISTANCE FOR EXPORT OF OSSEIN**

##### *Audit Paragraph*

1.1 Paragraph 2 of Advance Report of the C&AG for the year 1980-81, Union Govt. (Civil) on which this Report is based, is reproduced as Appendix I.

#### **Scheme of Cash Compensatory Support—An Introduction**

1.2 The scheme of grant of cash compensatory support on exports of specific non-traditional products has been in operation in India since June, 1966. Under this scheme exporters of selected products are granted cash subsidies specified as a percentage of the f.o.b. value of exports. The objective of cash subsidy is to enable exporters to meet competition in foreign markets, develop marketing competence and neutralise disadvantages inherent in the present stage of development of the economy.

1.3 The schemes has undergone several revisions, both in terms of rates and coverage ; at present the rates of cash assistance range from 5 to 25 per cent.

1.4 The Public Accounts Committee have from time to time examined the scheme of cash compensatory support on various items and submitted Reports to Parliament.

1.5 In particular, preference may be made to the following Reports :

- (i) 174th Report (1975-76) (Fifth Lok Sabha) on cash assistance for export of walnuts.
- (ii) 178th Report (1975-76) (Fifth Lok Sabha) on cash assistance for export of man-made fabrics.
- (iii) 10th Report (1977-78) (Sixth Lok Sabha) on cash assistance for export of engineering goods.
- (iv) 17th Report (1977-78) (Sixth Lok Sabha) on cash assistance for export of bicycles and bicycle components.
- (v) 108th Report (1978-79) (Sixth Lok Sabha) on cash assistance for export of absorbant cotton.



(vi) 129th Report (1978-79) (Sixth Lok Sabha) on cash assistance for export of transmission line towers.

(vii) 39th Report (1980-81) (Seventh Lok Sabha) on cash assistance for export of deoiled rice bran.

1.6 The inadequacy of the present system of decision making in regard to grant of cash compensatory support for various export commodities as well as the need to examine the feasibility of replacing the cash assistance scheme by an inbuilt system of providing relief to the exports by way of relief in taxes, duties etc. was impressed by the Committee in their 111th Report on J. C. C. I & E, New Delhi presented on 30.4. 1982.

#### **Role of MDF Committee in the Sanction of Cash Assistance**

1.7 The Marketing Development Fund Committee which is now known as the Marketing Development Assistance Main Committee comprising of Secretary (Commerce), Secretary (Expenditure) and Secretary (Economic Affairs), lays down the guidelines according to which Cash Compensatory Support is to be sanctioned by the Ministry of Commerce.

Moreover, when the grant of CCS is recommended in respect of new products which have not previously been enjoying CCS, the cash is reviewed by the MDA Main Committee.

#### **Cash Assistance for Ossein**

1.8 Ossein is an intermediate product used in the manufacture of gelatine which is used in medicines, photography, desserts, ice-creams, confectionary and other food products. Ossein is obtained by demineralisation of crushed bones with hydrochloric acid and lime. Out of 4 tonnes of crushed bones, 1 tonne of ossein and 2 tonnes of dicalcium phosphate are obtained. Production of ossein in India is of recent origin, though crushed bones, a basic raw material for its production, is one of India's traditional export items. In 1980, there were 10 units producing Ossein (of which 2 were state public sector undertakings) with a licensed capacity of 22,3000 tonnes per annum.

1.9 Exports of ossein during 1974-75 to 1980-81 and their percentage to the total production in the country, are indicated in the following Table :

Year	Exports		Percentage of ossein exported out of total Production in the country
	Qty. (MT)	Value (Rs. 1 lakhs)	
1975-76	3004	311.2	66
1976-77	5353	424.7	93
1977-78	7363	782.9	84
1978-79	8943	872.1	96
1979-80	13199	1376.7	97
1980-81	13966	1715.2	97
1981-82	11033	1267.2	95

1.10 The Ministry of Commerce sanctioned cash assistance for export of ossein in October 1975 at the rate of 10 per cent of f. o. b. realisation of export of ossein from October 1975 to March 1976.

1.11 It has been pointed out by the Audit that in August, 1975, the Ministry of Finance had taken the view that there was no justification for the grant of cash assistance for the export of ossein. Moreover, the Marketing Development Fund Committee to whom the proposal for cash assistance for export of ossein was submitted by the Ministry of Commerce in August 1975 had considered the case and directed (September, 1975) that the case be studied further with reference to the exact nature of the product and by-products, its usage and the relevant economics. However, while granting cash assistance for export of ossein, the Ministry of Commerce had not complied with the direction of the Marketing Development Fund Committee.

1.12 The criteria for sanctioning of cash assistance adopted in October, 1975 as intimated by the Ministry of Commerce to Committee was as follows :—

“Till 1975-76 cash assistance was sanctioned mainly to bridge the gap between fob cost and fob realisation. However, in October,

1975 the Cabinet Committee on Exports decided that having regard to the export prospects, production capability in the country, the competitive strength of the products *vis-a-vis* international prices and other relevant factors, additional cash assistance may be sanctioned in respect of certain selected export products. While deciding upon the additional rates of cash assistance, it was made clear that these rates were not related to the principle of costing nor were these subject to the cut-off point of 25% based on the value added. These rates had been determined having regard to the promotional assistance which the commodities in question needed under the circumstance prevailing at that time."

1.13 Asked whether the above criteria was observed while sanctioning cash assistance for export of ossein, the Ministry stated as under :

"Cash assistance on ossein was sanctional based on the criteria approved by the Cabinet Committee on Exports in October, 1975."

1.14 The Committee wanted to know whether the views of the MDF Committee were contradictory to/in variance with the criteria laid down by the Cabinet Committee on Exports in October, 1975. The Ministry of Commerce stated :

"The MDA Main Committee had considered the proposal for grant of cash assistance on export of ossein in the light of the earlier criteria which was largely in terms of bridging the gap between f.o.b. cost and f.o.b. realisation, and had recommended that the matter should be studied further with reference to the exact nature of the product, its uses and the relevant economics. However, the criteria laid down by the Cabinet Committee on Exports were in terms of the export prospects, the production capability in the country, the competitive strength of the export products *vis-a-vis* international prices and other relevant factors. It had also been made clear that the CCS rates were not to be related to the principle of costing but should be determined having regard to the promotional assistance which the commodity in question needed under the circumstances prevailing at that time.

1.15 When asked why then was the matter not referred again to the MDF Committee and their requirements complied with, the Ministry stated ;

“The criteria laid down by the Cabinet Committee on Exports were not the same as the criteria followed by the Market Development Fund Committee earlier as the Cabinet dispensation had made clear that the grant of CCS was not necessarily to be related to the principle of costing. The matter was therefore not referred back to the MDA Main Committee.”

1.16 It is seen from the Audit paragraph that in February, 1976, the Ossein and Gelatine Manufacturers Association of India requested Government to extent cash assistance beyond March, 1976 and sought its enhancement to 25 per cent of f.o.b. value. In October 1976, the Ministry of Commerce extended cash assistance at the same rate of 10 per cent of f.o.b. realisation for 3 years from 1 April 1976 to 31 March, 1979. Thus, the cash assistance introduced on an *ad hoc* basis in October, 1975 was extended for 3 years at a stretch without any cost study as advised by the MDF Committee. The Committee desired to know if the cash assistance sanctioned by the Inter Ministerial Committee for six months from 1 October 1975 could be extended further without observing the criteria then prevailing. In reply the Ministry of Commerce have stated :

“The cash assistance on ossein introduced in October, 1975 was initially allowed to be continued upto 31st March, 1977 in pursuance of the decision of the Cash Assistance Review Committee. This was on the basis of specific proposal made by the Commodity Division and after satisfying the criteria laid down for grant of cash assistance.

Subsequently with a view to inducting an element of stability in the rates of cash assistance a note was placed by the Ministry of Commerce before the Cabinet proposing that the rates of cash assistance decided for the year 1976-77 may be continued on long term basis for three years. The proposal was agreed to by the Cabinet Committee on Exports at its meeting held on 7th September, 1976 except for a few items like cotton, textiles, jute, manufacturers etc. for which it was decided that the rates should continue for one year. The continuance of the rates for three years was with the specific approval of the Cabinet Committee on exports which was taken in the interest of stability in the field of exports.”

#### **Verification of cost data for Export Promotion Council/Ministry**

1.17 The Alexander Committee set up by the Ministry of Commerce

in November, 1977 recommended (January 1978) the following basic principles of cash assistance for exports :—

- (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 purchased 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. in order 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."

1.18 The Ministry of Commerce directed the Chemicals and Allied Products Export Promotion Council in October 1978 to furnish certain information so as to formulate the policy of cash assistance on export of ossein on the basis of the criteria laid down by the Alexander Committee. The Council while recommending cash assistance at 20 per cent of f.o.b. value forwarded the requisite data in February 1979 in respect of 5 ossein units. There was wide difference in the cost data furnished by these units. The shortfalls in the f. o. b. realisation, as indicated ranged from 15 to 30 per cent (Rs. 1,416 to Rs. 3,008 per tonne). Considering the wide variations in the data, the Ministry of Commerce adopted *ad hoc* percentages of different incidences and worked out a total loss of 17.45 per cent on the f.o.b. realisation and recommended cash assistance at 15 per cent in March 1979 for a further period of 3 years from 1 April, 1979. However the Cash Assistance Review Committee decided to grant cash assistance at 10 per cent for a period of 3 years from 1 April 1979.

1.19 It has been pointed out by Audit that an independent scrutiny of the cost data conducted by them had revealed that there were profits of Rs. 107 to Rs. 1529 per tonne in 4 cases and loss of Rs. 819 per tonne in 1 case whereas all the 5 units had shown losses in exports while furnishing the cost data. In this connection, the Committee desired to know the role of the Export Promotion Councils in the fixation of rates of Cash Compensatory Support and whether those Councils were expected to verify the correctness of data furnished by the trade before forwarding the same to the Ministry. In reply, the Ministry of Commerce have stated in a note as follows :—

“The Export Promotion Councils have been constituted to secure the active association of producers & exporters in the country's export effort. They perform both advisory and executive functions.

For fixation of rates of CCS on various items, the concerned EPCs collect data in the prescribed proforma from representative units and forward them to the Ministry of Commerce.

The Councils are expected to satisfy themselves that the data as given by the trade is generally in order before forwarding the same to the Ministry. However, during the period under consideration, it was not obligatory that data furnished should be certified by the Chartered Accountants of the concerned units.”

1.20 To a query if the Export Promotion Councils were discharging their responsibilities properly, the Ministry have stated :—

“The EPCs are by and large discharging their responsibilities adequately given the resources and expertise available to them. However, wherever any instances of discrepancies in the data furnished by the councils on any commodity come to light, the Ministry of Commerce takes appropriate action to get the discrepancies rectified by the Councils.”

1.21 The Committee enquired how the correctness of data given by the Trade/Export Promotion Councils with regard to refund of indirect taxes, expenditure in adopting marketing strategies, freight disadvantage, initial promotional costs etc. were verified by the Ministry. In reply, the Ministry of Commerce have stated :—

“The Ministry tries to secure data from a representative sample of exporters through the Export Promotion Council. The data so received is closely examined, first by the Commodity Division concerned in the Ministry of Commerce and then by the Cash Assistance Review Committee which is an inter-ministerial body under the Chairmanship of Additional Secretary, Ministry of Commerce and having members from Department of Economic Affairs, Expenditure, Directorate General of Technical Development, Chief Controller of Imports & Exports and Drawback Directorate. The data are also simultaneously scrutinised by the Finance Division in the Ministry. In case of

doubt about the correctness of the data, a reference may be made to the Cost Accounts Branch of the Ministry of Finance. Though not obligatory earlier, the Ministry now insists on the submission of Chartered Accountants' certificate whenever data for fixation of CCS is submitted."

1.22 Regarding the verification of the correctness of raw material realisation from the by-product and f.o.b. realisation of the main product as given the trade in respect of ossein in February 1979, the Ministry of Commerce stated :

".....In the present case, the data on by-product realisation was not independently verified by the Ministry since the variation in the figures could be attributed to differences in plant efficiency, cost of plant and equipment, depreciation cost and the number of years the plant was in operation. The variation in fob realisation could be normally expected in commercial exports of a relatively new product which was yet to be established in the international market."

1.23 In reply to a query of the Committee regarding the date from which the submission of certificates by Chartered Accountants for ensuring the correctness of data furnished by trade was made obligatory, the Ministry of Commerce have stated that the requirement that the cost data submitted to the Ministry for fixation of CCS rate should be certified by Chartered Accountants has been introduced during the review of all CCS rates conducted in 1982 for fixation of CCS rates from 1 October, 1982 onwards.

1.24 Asked what was the mechanism available with the Ministry/Export Promotion Council prior to the introduction of the above requirement for verifying accuracy of the data furnished by the trade, the Ministry of Commerce have replied :

"Even prior to the introduction of the obligatory requirement of Chartered Accountants certification of the cost data, in many cases the data was certified by Chartered Accountants. Moreover, as a normal practice, the Ministry required that the data submitted for the grant of CCS should be from a representative cross-section of exporting firms. The data received from individual exporting firms was vetted by the Export Promotion Councils who perform advisory functions vis-a-vis the Government. Further, the data as received through EPC was analysed within the Ministry and instances of discrepancies wherever

found were got rectified. Finally the data, duly analysed by the Commodity Division, was placed before the Inter-Ministerial Cash Assistance Review Committee to enable them to consider the data and to arrive at a decision."

1.25 When asked how the cost details furnished by four out of the five units in February, 1979 to the Export Promotion Council were later on found to be incorrect by Audit, the Ministry of Commerce in their note stated :—

"After the receipt of present Audit para pointing out the inconsistency in the f.o.b. prices submitted by the companies to the Government at the time of seeking CCS and subsequently to the Audit, the Ministry of Commerce examined this point in detail in consultation with the Chemicals & Allied Products Export Promotion Council. The examination revealed that the CCS data/information were compiled by the 4 units mostly during December, 1978/January 1979 and the estimated unit f.o.b. price for ossein shown by these firms were worked out by them on the basis of the then price trend and/or prices at which they were able to procure orders at that time. It is because of this that the prices furnished by the firms did not represent the average unit f.o.b. realisation for the respective years as a whole. The concerned units have explained that since the price data/information were required by the Ministry to work out the future CCS rate, comparison of f.o.b. cost was made with the prevailing or estimated export realisation for the next year and not with the average f.o.b. realisation for the year which was already over....."

1.26 In this connection, it is pertinent to recall the observations of the Public Accounts Committee made in para 1.123 of their 10th Report (1977-78) as under :—

"An almost exclusive reliance had to be placed on the data furnished by the Export Promotion Council, which is comprised of the interested exporters and industrialists themselves and it was admitted by the Chairman of the Engineering Goods Export Promotion Council himself that there was also no machinery at the disposal of the Council to check the veracity of the data relating to cost of production furnished by the exporters for this purpose. Besides, the representative of the Finance Ministry also admitted that the data furnished in this regard by the Council was examined only "wherever possible" and



that the weakest link in the scheme was the determination of f. o. b. realisation."

### Restrictions on export of crushed bones

1.27 Ossein is obtained by demineralisation of crushed bones with with hydrochloric acid and lime. India has been the largest manufacturer and exporter of crushed bones. There are more than 100 bone mills in the country. The global consumers of ossein and crushed bones are the same. The production and exports of crushed bones during 1975-76 to 1980-81 are shown in the following Table :

Year	Production (No. Tonne)	Exports		
		Quantity (Tonnes)	f. o. b. (Rs. in lakhs)	f.o.b. unit value (Rs. per tonne)
1975-76	60,000	41,056	568	1383
1976-77	75,000	64,201	772	1202
1977-78	1,25,000	73,006	1313	1798
1978-79	1,00,000	37,834	633	1673
1979-80	1,10,000	29,980	510	1701
1980-81	1,20,000	17,000	340	2000

1.28 It has been stated in the Audit paragraph that the ossein manufacturers approached Government in January, 1977 to restrict the outflow of crushed bones in order to compel the importers of crushed bones to import ossein. The Ministry of Commerce drastically restricted the export quota of crushed bones from 1977-78. The Committee enquired whether it was a fact that the quota restriction on crushed bones was imposed at the instance of ossein manufacturers. The Ministry of Commerce have stated :

"Quota restriction on crushed bones was imposed by Government after taking into account all relevant factors including the total availability of crushed bones in the country, the requirements of ossein manufacturers and the overall policy consideration of increasing the exports of value added items in this sector. While it is true that the ossein industry had been representing

for restrictions on the export of crushed bones, the decision to impose quotas on the exports of crushed bones was taken by the Ministry in consultation with the concerned Council and the ossein and crushed bones trade. The Council had set up a Joint-Committee comprising representatives of the ossein and crushed bones panels to make recommendations to the Ministry for working out a realistic export policy for crushed bones."

1.29 According to Audit, the quota restrictions has been very beneficial to the ossein manufacturers as the price of the crushed bones per tonne had fallen from Rs. 1750 in 1977-78 to Rs. 1650 in 1978-80 and Rs. 1500 in 1980-81. The Committee asked whether the Government were aware that prices of crushed bones had come down considerably in the domestic market due to the imposition of quota restrictions. In a note the Ministry of Commerce have stated :—

"Government were keeping a watch on the changes in the price of crushed bones in the domestic market after imposition of quota restrictions in October, 1977. Government was aware that the domestic price of crushed bones had declined, but considered that this was not due to the imposition of export restrictions. In fact, the domestic price of crushed bones had moved more or less in tandem with the export price of crushed bones during the period 1974-75 to 1978-79 as indicated below :—

(In Rs. per MT)

<i>Year</i>	<i>Average f. o. b. export price</i>	<i>Average local price as reported to have been received from the ossein industry</i>
1974-75	1889.0	1800.0
1975-76	1383.0	1375.0
1976-77	1202.0	1200.0
1977-78	1799.0	1750.0
1978-79	1672.0	1650.0

The Audit have provided prices for 1979-80 and 1980-81 which are as under" :—

<i>Year</i>	<i>f. o. b. export (Per MT)</i>	<i>Average local price (Per MT)</i>
1979-80	Rs. 1701	Rs. 1650
1980-81	Rs. 2000	Rs. 1500

1.30 Asked why Government continued to give cash assistance on export of ossein even when the price of crushed bones had come down considerably in the domestic market, the Ministry of Commerce stated :—

"The rate of Cash Compensatory Support is fixed on the basis of certain objective criteria, including the disadvantages suffered by exporters and the export prospects of the products in question. Short term fluctuations in the price of raw material though important in determining the difference between f. o. b. cost and realisation at any given point of time, may not alter the balance of factors underlying the fixation of Cash Compensatory Support on any given product, Ministry of Commerce also considers that in order that the Cash Compensatory Support programme be effective, the rate of Cash Compensatory Support on particular products should be held stable for some period of time so as to enable the exporters to plan their long term exports."

1.31 In reply to a question relating to the reasons for the sudden fall in prices for crushed bones after 1974-75, the Ministry of Commerce have stated :—

"Government of India does not normally monitor export realisation for commodities in respect of which minimum export prices have not been fixed. However, the point raised by Audit was referred to the trade through the Chemical & Allied Products Export Promotion Council. The explanation given is that the unit f. o. b. value realisation per MT for crushed bones was Rs. 739 in 1972-73, Rs. 1,065 in 1973-74, and Rs. 1889 in 1974-75 before falling to Rs. 1383 in 1975-76 and Rs. 1202 in 1976-77. In view of this, the trade feels that overseas buyers anticipated restrictions on export of crushed bones which led

to sudden spurt in export orders and helped Indian exporters to secure higher prices in 1974-75. The fall in prices in 1975-76 and 1976-77 was due to overstocking by foreign buyers as also due to fall in demand for crushed bones due to the increasing use of green bone by certain countries. It would also be seen that since the price realisation during 1975-76 and 1976-77 was in fact higher than that realised during 1972-73 and 1973-74 it may not be correct to presume that there was an undue fall in the unit value realisation of crushed bones after 1974-75."

### **Export of Ossein to USA and Japan**

1.32 The principal countries importing ossein from India are USA and Japan. Since 1977-78 90% of ossein produced in the country was exported to USA and Japan.

1.33 It has been pointed out by Audit that the exports to Japan were due to the collaboration arrangements with two Indian ossein processing units (M/s Indian Gelatine and Chemicals, Bombay and M/s Kerala Chemicals and Proteins Ltd. Cochin) which had been under obligation to offer bulk of their production to Japan at a mutually agreed price. In the case of M/s Kerala Chemicals and Proteins Ltd. Cochin, it included an element of profit at 10 per cent (1979-80), 20 per cent (1980-81) and 33<sup>1</sup>/<sub>3</sub> per cent (1981-82 towards) of the equity capital. The Committee desired to know how far it was justified to give cash assistance to such units also, when there was an element of profit in the export price in collaboration agreements. The Ministry of Commerce stated :—

"The question whether or not cash assistance should be allowed in case of export made as part of buy back arrangement of collaboration agreement has been considered by the Cash Assistance Review Committee recently. The Committee's decision in the matter is reproduced below :—

"Regarding CCS on items manufactured in units set up with foreign collaboration, the Committee observed that since CCS is allowed on an exported product (and not for the unit where the item is manufactured) on the basis of certain criteria like incidence of unrefunded taxes etc. no distinction can be made on the ground that an item is manufactured in a unit set up with foreign collaboration. In many cases, the condition of foreign collaboration may itself be contingent upon the existence of CCS. Besides, exports are made not only by manufacturer-exporters but also by merchant exporters. Hence,

it would not be appropriate to deny CCS to a merchant exporter on the ground that the item exported by him is manufactured in a unit set up with foreign collaboration."

1.34 In a further note furnished to the Committee, the Ministry of Commerce stated that the above decision was taken on 31 July 1982. About the position prevailing earlier, the Ministry have stated :—

"Earlier also the cash compensatory support wherever granted has been allowed to all exporters of the products in question and no distinction has been made on the ground that the item is being manufactured by units set up with foreign collaboration or otherwise. However since the Audit Paragraph on ossein had raised this issue, the Ministry brought the matter specifically before the CARC for consideration at the policy level of the practice being followed earlier and for an enunciation of the policy to be followed by the Government in this regard."

1.35 As regards exports to USA, it has been pointed out by Audit that an analysis of country-wise imports in USA had revealed that during 1977 and 1978 the c. i. f. value per tonne of supplies from another country 'B' (Belgium) was higher by about US \$ 500 (Rs. 4,000) than that of the Indian suppliers. India's and Belgium's share of exports to USA had been 69% and 30% respectively. The Committee desired to know why ossein was exported to USA at such a low price. The Ministry of Commerce in their reply stated :—

"Indian exporters considered it necessary in 1975 to export ossein to USA at prices lower than those at which ossein was being exported from country 'B' to the USA in order to overcome the resistance of the US market to effect imports from a hitherto unknown source and to persuade US purchasers to shift from their well established and well tested sources of supply in country 'B'. Ossein is an industrial raw material/intermediate used in the production of bone gelatine, which is highly technical and capital intensive industry. Further bone gelatine is a 'tailor made' product and is prepared as per the specific requirement of the respective ultimate consumers. Again, production processes are also extremely complicated. Against this background, gelatine manufacturers are generally reluctant to change the source of supply for ossein as in that event they would have to change technical parameters of production. It is, therefore, apparent that in the initial stages sufficient incentive would have to be offered to the buyers, particularly in regard

to price, to persuade them to change their source of supply of ossein. Belgium has been a traditional supplier of ossein to the USA and therefore Indian manufacturers had to offer sufficient price incentive to persuade the American gelatine manufacturers to use Indian ossein in preference to Belgium ossein. That this strategy was successful is evident from the following Table.

**US Imports of Ossein (In MT/000' US\$)**

<i>Year</i>	<i>Belgium</i>	<i>India</i>
<b>1977</b>		
Quantity	3765.0	2615.6
Value	5785.6	2618.1
Unit Value	1536.6	1000.9
<b>1978</b>		
Quantity	2402.0	9608.0
Value	4115.4	7516.0
Unit Value	1713.2	1340.2
<b>1979</b>		
Quantity	52.9	6112.0
Value	72.7	7185.8
Unit Value	1374.2	1175.7
<b>1980</b>		
Quantity	8.0	6767.9
Value	11.9	9929.3
Unit Value	1487.5	1407.1

The trend of unit value realisation by Indian exporters as compared to exporters in country 'B' (Belgium) increased progressively, and there was practically no difference between the two by 1980. Also, India had succeeded in largely displacing country

'B' in the US market by 1980, and country 'B' itself was importing ossein from India by that year."

1.36 In a note furnished subsequently, the Ministry of Commerce stated :--

"The Government does not generally monitor the unit value realisation by Indian exporters *vis-a-vis* the unit value for similar product realised by exporters in foreign countries *vis-a-vis* third country markets. It is considered that unit value realisation is a function of the normal commercial judgement of our exporters except in cases where prices are specified by government, or where there is a suspicion that under-invoicing takes place.

Moreover, it may be mentioned that India was not the only source of crushed bones for country 'B' which, in addition, imports crushed bones from West Germany, Pakistan, France and Argentina. In view of this, the basic effect of the restrictions on the export of crushed bones were not so much on the production of ossein in Belgium as on the export of ossein from India."

1.37 Asked whether it had occurred to the Govt. that the exporters could have indulged in under-invoicing, the Ministry of Commerce stated :—

"No complaints of under-invoicing were received by the Council on exports of ossein during this period.....Government does not normally monitor the value realisation *vis-a-vis* other countries. Also, unit value realisation of Indian ossein exports to USA has been progressively increasing as compared to exports from Belgium."

1.38 When asked to indicate the specific action taken, if any, by the Ministry to look into the transactions and satisfy themselves that there were no cases of under-invoicing, the Ministry of Commerce stated :—

"No case of under-invoicing has been reported to the Government nor does the Government monitor the export prices of commodities in other countries. Normally precautions had been

taken to check any attempt at under-invoicing in respect of ossein and other commodities.”

### Fall in foreign exchange earnings

1.39 The foreign exchange earnings of crushed bones declined from Rs. 18.02 crores in 1974-75 to Rs. 5.10 crores in 1979-80. The exports of ossein with cash assistance and restricted export of crushed bones increased from Rs. 2.02 crores in 1974-75 to Rs. 13.73 crores in 1979-80. Thus, there was overall decline in the foreign exchange earnings from Rs. 20.04 crores (1974-75) to Rs. 18.83 crores (1979-80) on these two commodities, even after paying a total cash assistance of Rs. 3.64 crores during 1975-76 to 1979-80 on export of ossein.

### Gelatine

1.40 Gelatine is used in medicines, photography, desserts, ice creams, confectionary and other food products. Ossein is used as a raw materials for the production of gelatine. The estimated production of gelatine during the years 1975-76 to 1979-80 as intimated by the Ministry of Commerce is shown in the following Table :--

<i>Year</i>	<i>Production (MT)</i>
1975-76	1,090
1976-77	1,936
1977-78	2,270
1978-79	2,439
1979-80	2,459

1.41 Government have been sanctioning cash assistance for export of gelatine at 10 per cent of the f. o. b. value from 1971-72 to 30 September, 1982. Cash compensatory support for export of gelatine has been withdrawn from 1.10.1982. During 1974-75 to 1979-80, 727 tonnes (value Rs. 97.83 lakhs) of gelatine was exported attracting cash assistance of Rs. 9.78 lakhs. During the same period 2778 tonnes (value



Rs. 387.4 lakhs) of gelatine was imported into the country. The percentage of Ossein exported out of the total indigenous production during the years 1975-76 to 1981-82 was as shown in the following Table :—

<i>Year</i>	<i>Percentage of ossein exported out of total indigenous production</i>
1975-76	66
1976-77	93
1977-78	84
1978-79	96
1979-80	97
1980-81	97
1981-82	95

1.42 According to the Audit Paragraph, the Indian Ossein manufacturers did not pay attention to developing gelatine within the country apparently because they were getting cash assistance for the export of its raw material (i.e. ossein) although it is a value added item and it fetches 3 to 4 times the price of ossein.

1.43 The Committee desired to know the steps taken to increase the production of gelatine which is the final product. The Ministry of Commerce stated :—

“In line with Government’s policy of encouraging the export of value added product, CCS on export of gelatine has been available since 1971-72. So far as production of gelatine is concerned, there are no Government restrictions on the production of gelatine. Installed capacity in the gelatine sector is now 5,400 tonnes and permission has been given for additional production capacity of 1,600 tonnes. However, as conveyed in the action taken note against Para 3 of the Audit observations, manufacture of gelatine is subject of certain intrinsic disabilities which account for the somewhat slow growth of the industry in India.”

**Withdrawal of cash compensatory support for export of ossein**

1.44 The Cash Compensatory Support for export of ossein has been withdrawn with effect from 1 October, 1982. The Committee desired to

know the circumstances in which the cash Compensatory Scheme for export of ossein was granted and the subsequent developments which have now prompted the Government to withdraw the same. The Ministry of Commerce in their note stated as under :—

“Cash Compensatory Support was introduced for ossein as well as for other products in October, 1975 having regard to the export prospects, production capability in the country, the competitive strength of the product *vis-a-vis* international prices and other relevant factors. These criteria were laid down by the Cabinet Committee on Exports.

The rates of CCS on all products (which were due to expire on 30.9.82) were reviewed by the Cash Assistance Review Committee, during 1982. For this purpose the Ministry of Commerce called for detailed data from a representative sample of exporters regarding indirect tax incidence, interest on working capital freight disadvantage, costs of products and market development, details of f.o.b. cost and f.o. b. realisation etc. The CARC reviewed the CCS payable on export of ossein as well as on all other products, keeping in view the above factors as the export potential of the product and the need to optimally allocate CCS payments among different exported products. In this context, it was decided to withdraw CCS on exports of ossein after 30.9.82.”

1.45 The Committee wanted to know whether the Ministry of Commerce had undertaken any evaluation/study in order to determine whether the benefits achieved from the Cash Compensatory Support Scheme for export of ossein were commensurate with the quantum of assistance extended, whether the exports were upto the expected levels and if so, what the findings were. The Ministry of Commerce replied :—

“Cash Compensatory Support in respect of exported items is periodically reviewed by the Ministry of Commerce where the export performance is analysed, and the incidence of indirect taxes as well as other handicaps faced by exporters are taken into account. In the case of ossein, these factors were analysed while allowing the CCS to continue after April 1979 and also recently when the decision was taken to withdraw CCS on ossein with effect from 1.10.82. After the introduction of CCS

on ossein, its exports has kept on showing steady increase as may be seen from the figures given below :—

Year	Exports	
	Qty (MT)	Value (Rs. lakhs)
1975-76	3004	311.2
1976-77	5353	424.7
1977-78	7363	782.9
1978-79	8943	872.1
1979-80	13199	1376.7
1980-81	13966	1715.2
1981-82	11033	1267.2

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

1.47 The Ministry of Commerce have attempted to justify this lapse on the plea that "cash assistance on ossein was sanctioned based on the criteria approved by the Cabinet Committee on Exports in October, 1975". According to the Ministry, "the criteria laid down by the Cabinet Committee

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

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

1.49. In October 1978 the Ministry of Commerce directed the Chemicals and Allied Products Export Promotion Council to furnish certain information so as to formulate the policy of cash assistance for export of ossein in the light of the basic principles outlined by the Alexander Committee in January, 1978 for grant of cash assistance for export. The Council while recommending cash assistance at 20 per cent of f. o. b. value forwarded the requisite data in respect of 5 units showing shortfalls in f.o.b. realisations ranging from 15 to 30 per cent (Rs. 1416 to Rs. 3008 per tonne). However, an independent scrutiny carried out by audit, of the cost data furnished by the trade to the Export Promotion Council had revealed that

there were profits ranging from Rs. 107 to Rs. 1529 per tonne of ossein in four cases and loss of Rs. 819 per tonne in one case, whereas all the five units had shown losses in exports while furnishing the cost data. In reply to a query of the Committee, the Ministry of Commerce admitted that the cost data sent by the units was not independently verified by the Ministry. The Committee find that the units concerned had furnished the data on the basis of the then price trend and not with reference to the average f. o. b. realisation for the bear which was already over on the plea that the data was required for determining the future CCS rate. The Committee cannot accept this as a valid basis for determining the cash compensatory support. It is unfortunate that the Ministry accepted the data without proper verification. The Committee are constrained to point out that inadequacy of the Governmental machinery to evaluate effectively the f. o. b. realisations and other cost data and putting an almost exclusive reliance on the data furnished by the Export Promotion Councils which comprise of interested exporters and industrialists, has been a glaring shortcoming in the management of the scheme of cash compensatory support.

1.50 The Committee find that the ossein manufacturers approached Government in January 1977 to restrict the export of crushed bones in order to compel the importers to import ossein (the global consumers of ossein and crushed bones are practically the same). From 1977-78 export quota was released every year by the Ministry of Commerce after assessing the requirements of the ossein industry and this came to be reduced drastically after 1977-78 so much so that the level of exports of crushed bones came down from 73,006 tonnes in 1977-78 to 17,000 tonnes in 1980-81. Significantly, while the f.o.b. unit value of ossein continued to rise during the period 1978-79 to 1980-81, the price per tonne of crushed bones came down in the domestic market during the corresponding period. This enabled the manufacturers of ossein to avail of the additional advantage of obtaining raw material at rates much below the international prices. It is distressing that this gain to manufactures of ossein accrued at the cost of a large number of bone collectors belonging to the economically weaker sections of society. While admitting that Government were aware of the fall in prices of crushed bones in the domestic market, the Ministry of Commerce have contended that the fall in domestic prices of crushed bones could not be attributed to the imposition of export restrictions. Whatever be the reason the Committee strongly feel that way and means should be found in concert with the State Governments to protect the interest of the poor bone collectors.

1.51. The Ministry have further stated that "short term fluctuations in the price of raw material though important in determining the difference between f.o.b. cost and realisation at any given point of time, may not alter

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

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

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

**Wing should keep a close and constant watch in cases where Indian goods are fetching much lower price than the prevailing international prices to ensure that there are no cases of under-invoicing.**

**1.54. The Committee find that an amount of Rs. 3.64 crores was paid as cash assistance for export of ossein during the period 1975-76 to 1979-80. While the value of export of ossein with cash assistance and restricted export of crushed bones increased from Rs. 2.02 crores in 1974-75 to Rs. 13.73 crores in 1979-80, the foreign exchange earnings of crushed bones decreased from Rs. 18.02 crores to Rs. 9.10 crores during this period. Thus, there was an overall decline in the foreign exchange earnings from Rs. 20.04 crores in 1974-75 to Rs. 18.83 crores in 1979-80 on these two commodities even after paying a total cash assistance of Rs. 3.64 crores during this period. It is evident that the grant of cash assistance on the export of ossein has failed to achieve the basic objective viz. increase in the foreign exchange earnings.**

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

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

tives to our exporters, they expect the Government to be more vigilant, prudent and discriminating in granting cash assistance.

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

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

1.59 In their 174th Report (1975-76), the Committee had pointed out that the basic defect of the system of determining cash assistance is that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisation and the impact of various kinds of assistance given for export promotion (para 1.49). In their 10th Report (1977-78) on "Export of Engineering Goods", the Committee had recommended that Government should do well to attempt a quantification, in monetary terms of the various concession given in the past to exporters with a view to determining how far these export promotion measures have actually succeeded in achieving the objectives envisaged (para 1.120). In para 1.6 of their 77th Report (1981-81) on "cash assistance on export of deoiled rice bran", the Committee have view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or reviewing the cash assistance on any commodity, particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying the facility for a number of years. In their 111th Report (1981-82) on the "Working of the Office of Joint Chief Controller of Imports and Exports, New Delhi", the Committee had expressed the view that Indian export goods should not be heavily subsidised at the cost of the exchequer and for the benefit of exporters who can afford to export goods without asking for cash assistance (Para 86).

1.60 The Committee are concerned to note from the Audit Paragraph under examination that the administration of the Cash Compensatory Support Scheme continues to suffer from deficiencies which have been repeatedly



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

## CHAPTER II

### EXPORT OF RAIWAY WAGONS TO A FOREIGN COUNTRY

#### *Audit Para*

2.1 Mention was made in paragraph 7.20 of Audit Report, Union Government (Commercial), 1976 (Part II) about a contract by the State Trading Corporation (STC) in October 1970, for the supply of 3600 wagons to a foreign country at a contract price of Rs. 37.45 crores; the contract was to be executed through 5 wagon builders. The shipments were to commence from August 1972 and be completed by July 1973. The contract included about 30 per cent import content on account of assembly, wheel sets and other components. The contract was implemented by the Projects and Equipment Corporation (PEC) of India (subsidiary company of the STC) from April 1971.

2.2 In May 1971, the PEC approached Government for the import of 46,000 tonnes of steel for supply to the wagon builders at indigenous prices without affecting their cash assistance and freight subsidy on the ground that the costing of the wagons was based on indigenous steel (ISS) which was not available. The cost differential (with reference to import prices and indigenous prices) was then estimated at Rs. 158.89 lakhs and the import duty at Rs. 179 lakhs and these were proposed to be reimbursed by Government to the importing agency (PEC).

2.3 In June 1971, the main committee of the Marketing Development Fund (MDF) approved the proposal for import/supply of steel actually required for the contract to the fabricators at Joint Plant Committee (JPC) Column-I price and also agreed that the cost differential as well as the import duty would be reimbursed from the MDF. The net value added in foreign exchange was then estimated at Rs. 15 crores as against Rs. 7.52 crores being the total subsidy payable. In August 1971, the Ministry of Commerce sanctioned the reimbursement of full import duty and Rs.158.89 lakhs representing the cost differential.

2.4 In September 1971 and March 1972, the Ministry of Finance released Rs. 7.32 crores of foreign exchange for the import of steel. In

August 1971, the Chief Controller of Imports and Exports issued the import licence on the following conditions:

- the PEC would export 3600 wagons within 6 months of the import of the first consignment of steel into India against the advance licence ;
- the PEC would, at the time of clearance of the first consignment, execute an undertaking about the export obligations ;
- the goods imported would be exclusively utilised for the execution of export orders in question and no portion thereof should be utilised or disposed of otherwise ; and
- in the event of PEC's failure to fulfil the required obligation within the specified time, the shortfall in obligation should be adjusted against PEC's future entitlement to import licences under any categories. In addition, the PEC should also be liable to penal action for deregistration, debarment, etc. under the import trade control (ITC) rules.

2.5 In May 1972, the Ministry of Finance released Rs. 7.21 crores of foreign exchange for the import of wheel sets, ring springs and brake equipment required for executing the export of wagons. The PEC actually imported 57,691.710 tonnes of steel (11,000 tonnes in 1971-72 and 46,691,710 tonnes in 1972-73 including 6,2372 tonnes of steel short landed), against original estimate of 46,000 tonnes at a cost of Rs. 1099 lakhs. The wagon builders were asked (November 1971) to pursue their claims for loss of steel directly with the Insurance Company. The subsidy per tonne of imported steel worked out to Rs. 447.

2.6 The PEC lodged claims amounting to Rs. 258.05 lakhs (including subsidy of Rs. 2.78 lakhs on 622.372 tonnes short landed and Rs. 80.56 lakhs on account or countervailing duty). The Ministry of Commerce made 'on account' payments of Rs. 239.28 lakhs during May 1972 to February 1974. While scrutinising the claims, the Ministry of Commerce observed (September 1974) that countervailing duty (Rs. 80.56 lakhs) was inadmissible. This resulted in an overpayment of Rs. 61.79 lakhs. The Ministry of Commerce had neither recozered the amount overpaid during 1972 to 1974, nor did it settle the accounts with the PEC against 'on account' payments till September 1981. When pointed out by Audit, the Ministry of Commerce stated (November 1980) that the PEC had submitted a detailed bill (September 1980), which was under examination (September 1981).

2.7 The contract did not run smoothly and in January 1975, it was amended to reduce the number of wagons to be supplied from 3600 to 1300 and the contract value was reduced from Rs. 37.45 crores to Rs. 18.39 crores. This resulted in 34,844 tonnes (including 4.153 tonnes consumed on surplus components) of imported steel supplied to the wagon builders becoming surplus. The subsidy paid by Government on this quantity worked out to Rs. 155.75 lakhs which became refundable to Government. A total amount of Rs. 433 lakhs had been spent in foreign exchange in the procurement of the surplus steel.

2.8 Although Government were aware of the steel becoming surplus in May 1974, no action was taken for its alternative use or disposal. In April 1975, the PEC approached Government for the disposal of 30,069 tonnes of steel (value : Rs. 4.48 crores) against 34,844 tonnes of actual surplus steel and estimated the Government subsidy on it to Rs. 123.28 lakhs.

2.9 In June 1977, the PEC requested Government for the waiver of recovery of subsidy stating that the builders had already incurred heavy losses on account of storage charges (Rs. 62.77 lakhs), interest charges (Rs. 247.87 lakhs) and incidental charges (Rs. 4.91 lakhs). By adding these charges to the original price of imported steel, the PEC computed the average cost at Rs. 2,538 per tonne as against the market price of Rs. 1,964 per tonne then prevailing.

2.10 In January 1978, the Ministry of Finance (Commerce Division) observed that "if a decision had been taken much earlier within the present span of 3 years between January 1975 and January 1978 for the disposal of surplus steel, interest and storage charges worked out by the PEC ( Rs. 247.87 lakhs and Rs. 62.77 lakhs ) would have been much less.....".

2.11 In March 1978, the main committee of MDF agreed to waive the recovery of subsidy estimated at Rs. 123.28 lakhs provided there was no negligence on the part of the PEC in disposing of or otherwise utilising the surplus steel held by them.

2.12 While explaining the reasons for slow utilisation of surplus steel, the PEC stated (May 1978) that Government had taken 3 years in permitting the utilisation of the steel. In June 1979, the Ministry of Commerce issued a sanction waiving the recovery of the subsidy on the conditions that :

- each wagon builder should furnish six-monthly certificates to the PEC duly attested by Chartered Accountant about the manner of utilisation of surplus steel ; and

—if it was established through Chartered Accountant's certificates that the surplus steel was used for other export or domestic orders by the wagon builders, the refund of subsidy would be waived. However, if the surplus steel was sold to actual users at higher rates as compared to the price at which steel was supplied to wagon builders plus the carrying cost, such higher realisation should be credited to Government account.

2.13 The monitoring of the above action was entrusted to the PEC. Against the surplus of 34,844 tonnes of steel, the wagon builders had only 27,560 tonnes on 1st January 1975 which indicated that they had been utilising the steel for other purposes even before the amendment of the original contract in January 1975. By January 1980, the wagon builders had 3,910 tonnes of surplus steel.

2.14 In reply to an audit query, the PEC stated (October 1980) that the surplus steel had been utilised/disposed of by wagon builders either against their own domestic and export orders or by sale to actual users and some quantity rusted.

2.15 The half-yearly certificates indicating the disposal of surplus steel were not received regularly till June 1981 ; such certificates were awaited from two wagon builders from June 1980 and from other two from December 1980 onwards. The information as to whether any amount had been credited to Government account was not available with the Ministry of Commerce (July 1981). The Ministry stated (September 1981) that up-to-date certificates of surplus steel available/sold in respect of one firm had been received and were under examination.

2.16 The delivery of the wagons was to be completed by December 1975. Since these were actually delivered by August 1976, the buyer asked the State Bank of India (March 1977) to invoke the bank guarantee and realised Rs. 39.10 lakhs (August 1977) as damages for the delay in delivery.

2.17 The contract ran into difficulty from the very beginning and a number of delegations (consisting of representatives of the wagon builders, the PEC and Government) had to visit the foreign country for negotiations and settlement of terms at various stages and assembly of wagons involving outgo of foreign exchange. The PEC and wagon builders had been asked to intimate the expenditure incurred on these delegations, which was awaited (June 1981).

2.18 In all, 1300 wagons exported to the foreign country at c.i.f. value of Rs. 18.39 crores. The wagon builders were paid a total subsidy of Rs. 5.37 crores (Rs. 2.51 crores as cash assistance, Rs. 2.39 crores as cost subsidy and Rs. 0.47 crores as freight subsidy). The net foreign exchange earnings (net value added) originally estimated at Rs. 15 crores actually amounted to Rs. 34 lakhs and that too, without taking into account the expenditure incurred on the delegations' visits abroad.

2.19 The following points emerge :—

- The main committee of MDF had allowed import of 46,000 tonnes of steel estimated to cost Rs. 6 crores against which 57,691.710 tonnes of steel (c.i.f. value : Rs. 7.17 crores) were actually imported.
- The surplus steel (34,844 tonnes) involved expenditure of Rs. 4.33 crores in foreign exchange.
- Government took 4 years to decide the manner of disposal of the surplus steel. Had this decision been taken in January 1975 itself, the wagon builders could not have taken the plea of having incurred the interest (Rs. 247.87 lakhs) and storage charges (Rs. 62.77 lakhs) as till then, they were liable to bear these charges for fulfilment of the original contract. Delay in decision resulted in non-recovery of Rs. 155.75 lakhs of over-paid subsidy on 34,844 tonnes of imported steel.
- 34,844 tonnes of steel were surplus against which only 30,069 tonnes were taken into account while considering the case of surplus steel.
- Government paid to the PEC Rs. 239.28 lakhs during May, to February 1974 as 'on account' payments and detected in September 1974 that countervailing duty was inadmissible. This resulted in overpayment of Rs. 61.79 lakhs which had not been recovered (September 1981).
- 622.372 tonnes steel were short landed, but the PEC had claimed Rs. 2.78 lakhs (at the rate of Rs. 447 per tonne) as subsidy on this quantity also.
- Government issued sanction for the waiver of refund of subsidy without indicating the amount. Sanction of waiver without settling the accounts and indicating the amount was premature and not specific.

- The six-monthly returns prescribed in the sanction letter of June 1979 were not received regularly from the wagon builders though 30,934 tonnes of the surplus steel (34,844 tonnes) had been utilised till January 1980.
- Against the original assessment of net value added of Rs. 15 crores, the actual net gain was only Rs. 34 lakhs and Government had to pay Rs. 5.37 crores as subsidy on imported steel (Rs. 2.39 crores) freight subsidy (Rs. 0.47 crores) and cash assistance (Rs. 2.51 crores).

[Paragraph 3 of the Advance Report of the Comptroller & Auditor General of India for the year 1980-81, Union Government (Civil).]

2.20 The Audit Paragraph points out that a contract was secured by the State Trading Corporation through their subsidiary company, M/s. Projects and Equipment Corporation of India (PEC) in October, 1970 for the supply of 3600 wagons to a foreign country at a contract price of Rs. 37.45 crores. In May, 1971, PEC approached Government for the import of 46,000 tonnes of steel for supply to the wagon builders at indigenous prices without affecting their cash assistance and freight subsidy. The Committee desired to know whether the State Trading Corporation/Projects and Equipment Corporation of India had assessed the availability of indigenous steel required for the manufacture of wagons to be exported before entering into the contract with the foreign country in October, 1970. The Ministry have stated :

\*"According to accepted and past practice, STC advised the Ministry of Steel regarding requirements for the Yugoslav Wagon contract in advance of signing of the contract vide their letters No. MEB/4, dated 13th February, 1970, and MEA/121, dated 5th March, 1970 and MEB/8/Steel dated 6th October, 1970.....The total requirement of steel excluding spring steel and billets for the manufacture of 3600 wagons was originally estimated at about 55,000 tonnes. Subsequently, it was revised to 57,500 tonnes, excluding spring steel.

With a view to ascertaining how much of this could be supplied indigenously, a series of meetings were held with the Iron & Steel Controller, Calcutta, where representatives of Steel Plants

and Engineering Export Promotion Council were also present. The Iron & Steel controller assessed the capacity of the Indian Plants *vis-a-vis* the requirements of this contract for each individual items of steel. It was on the basis of this report that the decision to import bulk of the steel requirements was made. Initially it was estimated that 9000 tonnes of steel would be available from indigenous sources. This was later on revised to 2,000 to 3,000 tonnes. Eventually, however, almost the entire quantity of steel had to be imported."

2.21 Explaining the circumstances under which availability of steel in country was subsequently revised from 9000 tonnes to 2000-3000 tonnes and ultimately no indigenous steel could be made available, the Ministry of Commerce have stated\* as follows :

"In a meeting of contract Implementation Committee on 8.7.1971 it was advised that due to non-availability of weldable quality steel and steel with copper content for the next two years, greater quantity of imports will have to be resorted to. During this meeting the Committee was satisfied about the reduction of indigenous availability. This was also confirmed by the Ministry of Steel & Mines vide their letter No. EC-21(10)/70-Vol. II dated 28th July, 1971."

2.22 As ultimately the whole quantity of steel required for the manufacture of wagons had to be imported, the Committee enquired as to why the STC did not ensure supply of steel needed for manufacture of wagons before concluding the contract. The Ministry of Commerce have replied\* as follows :—

"Actual tying up of purchase of steel prior to signing of the contract was not practicable. Immediately after signing of the contract the material schedules were drawn up and formal indents placed on the Iron & Steel Controller. It may be appreciated that prior to actual signing of the contract, formal procurement action is not practicable."

2.23 It is seen that the contract was to be executed through the following five wagon builders :

- (i) Jessop & Company Ltd., Calcutta.
- (ii) Braithwaite & Co. Ltd., Calcutta.

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\*Not vetted in Audit.



(iii) Textile Machinery Corporation (Texmaco) Ltd., Calcutta.

(iv) Burn and Company Ltd., Calcutta.

(v) Indian Standard Wagon, Calcutta.

2.24 The Ministry of Commerce have stated that the capacity of the wagon builders to manufacture of the wagons was assessed by the STC/PEC before entering into the contract and in fact the contract was entered into in consultation with, and with the concurrence of, all the wagon builders.

2.25 In a subsequent note,\* the Ministry have further stated as under :

“The total manufacturing capacity of the major wagon builders was approximately 12000 wagons (in term of 8 wheelers) and normally 25000 wagons (in terms of 4 wheelers) per annum. These wagon builders were facing severe problems of under utilisation of capacity.

The export contract was negotiated on the basis of firm offers made by the various wagon builders and was signed with full concurrence of the wagon builders. It may be pointed out that the basic reasons for the contract running into problems was not that of inadequate capacity.”

2.26 The shipment of wagons was to Commence from August 1972 and completed by July 1973. Asked whether the adequacy of time allowed for delivery of wagons was gone through by the STC/PEC before entering into the contract, the Ministry of Commerce have replied in affirmative.

2.27 In June, 1971, the main committee of the Marketing Development Fund (MDF) approved the proposal for import/supply of steel actually required for the contract to the fabricators at Joint Plant Committee (JPC) Column-I price and also agreed that the cost differential as well as the import duty would be reimbursed from the MDF. The net value added in foreign exchange was then estimated at Rs. 15 crores as against Rs. 7.52 crores being the total subsidy payable. In August, 1971, the Ministry of Commerce sanctioned the reimbursement of full import duty and Rs. 158.89 lakhs representing the cost differential. The cost differential to the reimbursed had the following elements :

(i) “Basic customs duty on the basis of actuals.

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\*Not vetted in Audit.

- (ii) Differences between c.i.f. price of imported steel and JPC Col. I price.
- (iii) The charges for importing, financing, handling, transport costs, clearing and Agent's commission etc. subject to actuals provided they are reasonable."

2.28 The Ministry of Commerce have furnished the following break-up of cost differential to be reimbursed, estimated on 46000 tonnes *vis-a-vis* actuals on 57541 tonnes :—

<i>Elements of Cost differential</i>	<i>Estimates for 46000 Mts of steel</i>	<i>Actual claimed for 57541 Mts steel</i>
(i) Difference between imported steel and JPC Col. 1 Price	65.74	(—) 41,98,389.23
(ii) Financing Cost		9,59,255.19
(iii) <b>Importing Costs</b>		
Handling, Transport, Port charges, L/C charges and 2% margin of importing agency	51.48	54,74,448.26
(iv) Custom Duty on actuals	179.00	2,35,42,898.20
Total	337.89	2,57,78,212.42

Note :—

(i) **Price Differential**

(a) Purchase price (C&F)	7,06,96,987.54
(b) Insurance	3,43,782.91
	7,10,40,770.45

**Less recoveries from wagon buldeas :**

Price of steel	7,52,28,195.34	
Insurance	10,964.34	7,52,39,159.68
		(—) 41,98,389.23

**(ii) Financing costs**

(a) Financing cost	7,17,624.14
(b) Bank charges	2,41,631.05
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	9,59,255.19
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**(iii) Importing costs**

—L/C opening charges	1,84,517.74
—Transportation	16,90,705.04
—Port charges	35,99,131.51
—Clearing charges	5,76,292.86
—Octroi	2,21,172.00
—Misc.	2,290.18
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	62,74,109.33

**Less recoveries from wagon builders :—**

—Transportation	5,31,928.79	
—Siding charges	64,052.28	
—Octroi	2,03,680.00	7,99,661.07
	<hr/>	<hr/>
		Total 54,74,448.26
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2.29 In May 1972, the Ministry of Finance released Rs. 7.21 crores of foreign exchange for the import of wheel sets, ring springs and brake equipment required for executing the export of wagons. The PEC actually imported 57,691.710 tonnes of steel (11,000 tonnes in 1971-72 and 46,691.710 tonnes in 1972-73 including 622.372 tonnes of steel short landed) against original estimate of 46,000 tonnes at a cost of Rs. 1099 lakhs. Asked as to how the PEC imported 57691.710 tonnes of steel when Marketing Development Fund had permitted import of 46,000 tonnes only, the Ministry of Commerce have replied as follows :—

“The MDF Committee had at its meeting held on 29.6.1971 considered the aspect that in the event of lesser quantities of indigenous steel being made available, import may have to be increased accordingly and agreed in principle that the import of steel actually required for this contract should be permitted.

Due to reduction in the anticipated availability of steel from indigenous sources, the Implementation Committee for the Yugoslav Wagon Contract had in July, 1971, recognised the necessity of importing almost the entire quantity of steel required for the manufacture of these wagons due to shortage of indigenous steel."

2.30 To a question as to how the contract implementation Committee satisfied itself about the reduction in the anticipated availability of steel from indigenous sources, the Ministry have stated :\*

"Ministry of Steel clarified that steel in weldable quality and with copper content would not become available for the next two years. Based on this, the Committee satisfied itself about the reduction in the availability of steel from indigenous sources."

2.31 The Committee desired to know whether it was verified that all the stock of 11000 tonnes steel of first consignment was fully utilised before placing orders for importing second consignment of 46691.710 tonnes of steel. The Ministry have replied :

"The entire quantity of steel required to be imported was ordered in two lots and was based on estimation made by technical officers of the wagon builders. It was not, therefore, considered necessary to examine the utilisation of steel of first consignment before placing order for importing the second lot."

2.32 Asked whether any officers from STC/PEC was included in the team of technical officers who estimated the steel imports required for the manufacture of wagons, the Ministry of Commerce have replied in affirmative.

2.33 According to the Audit para the PEC lodged claims amounting to Rs. 258.05 lakhs (including subsidy of Rs. 2.78 lakhs on 622.372 tonnes short landed and Rs. 80.56 lakhs on account of countervailing duty). The Ministry of Commerce made 'on account' payments of Rs. 239.28 lakhs during May 1972 to February 1974. While scrutinising the claims, the Ministry of Commerce observed (September 1974) that countervailing duty (Rs. 80.56 lakhs) was in admissible. The resulted in an overpayment of Rs. 61.79 lakhs. Asked as to how the countervailing

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\*Not vetted in Audit.

duty was reimbursed to the PEC when it was not admissible, the Ministry have stated :

“On making further queries from the PEC and going through the details obtained from them, it appears that no countervailing duty has been reimbursed by Ministry to PEC.”

2.34 To a question whether the Ministry had worked out the amount overpaid if any, to the Projects and Equipment Corporation of India on account of cost differential of imported steel, the Ministry have clarified :

“No over-payment has been made by the Ministry to PEC. In fact, according to PEC’s final claim, as lodged, an amount of Rs. 18.49 lakhs is still due from the Ministry. Against the final claim of PEC amounting to Rs. 257.78 lakhs, ‘on account’ payment totalling Rs. 239.29 lakhs have been made. In order to settle the claim of PEC, certain clarifications were asked which have been obtained on 25.6.1982. The claim of PEC will now be scrutinised in the light of the clarifications so furnished.”

2.35 The following are the details\* of the final claim as lodged by the Projects and Equipment Corporation amounting to Rs. 257.78 lakhs :

*“Total Costs.*

1. L/C Opening Charges	1,84,517.74
2. Purchase Price	7,06,96,987.54
3. Bank Charges	2,41,631.05
4. Insurance	3,43,782.91
5. Custom Duty	2,35,42,898.20
6. Port Charges	35,99,131.51
7. Miscellaneous	2,290.18
8. Clearing Charges	5,76,292.86
9. Transport Charges	16,90,705.04
10. Financing Cost	7,17,624.14
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Total Cost	10,15,95,861.17
(Excluding Counter Vailing Duty)	
Realisation from Builders	7,58,17,648.75
	2,57,78,212.42
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\*Not vetted in Audit.

2.36 It has been pointed out by audit that although Government were aware of the steel becoming surplus in May, 1974, no action was taken for its alternative use or disposal. In April 1975, the PEC approached Government for the disposal of 30,069 tonnes of steel (value Rs. 4.48 crores) against 34,844 tonnes of actual surplus steel and estimates the Government subsidy on it to Rs. 123.28 lakhs. In January 1978, the Ministry of Finance (Commerce Division) observed that "if a decision had been taken much earlier within the present span of 3 years between January 1975 and January 1978 for the disposal of surplus steel, interest and storage charges worked out by the PEC (Rs. 247.87 lakhs and Rs. 62.77 lakhs) would have been much less.

2.37 Asked about the reasons for taking 4 years in deciding the manner of disposal of steel, the Ministry of Commerce have replied :

"The fact that steel would become surplus was known only after the contract was truncated in January, 1975. At a meeting held by the Ministry of Commerce in August, 1975, the fact that the PEC had made efforts to find customers for the surplus steel amongst export manufacturers, Government Department and Zonal Railways and did not find encouraging response was noted and it was decided that wagon builders may be allowed to use surplus steel for any export or domestic order or sell it to actual user. PEC had been requested to apply to CCI & E for approval. The approval was obtained by PEC in July, 1976 and thereafter, action for disposal of the surplus quantity of steel was initiated as per procedure."

2.38 Against the surplus of 34,844 tonnes of steel, the wagon builders had only 27,560 tonnes on 1st January, 1975 which indicated that they had been utilising the steel for other purposes even before the amendment of the original contract in January 1975. By January 1980, the wagon builders had 3,910 tonnes of surplus steel. Enquired whether the Ministry of Commerce had satisfied themselves about the correctness of surplus of steel available with each of the wagon builders, the Ministry have stated :

"The import of steel was allowed through PEC, a public sector undertaking and PEC was to monitor the correctness of surplus of steel available with each of the wagon builders, based on the Chartered Accountant's certificates. However, based on the statement furnished by the PEC indicating the position of surplus steel and copies of the certificates authenticated by the

Chartered Accountants, Ministry is satisfied about the correctness of surplus steel. According to these documents the surplus steel available with each of the wagon builders was as follows :

1. Texmaco	9062-806 Mts.
2. Braithwaite	4046-000 Mts.
3. Jessop	3405-007 Mts.
4. Burn, Howrah	8272-461 Mts.
5. ISW, Burnpur	5482-461 Mts.
Total	30,268-509 Mts.

2.39 When the committee desired to know the manner in which the balance quantity of 4575.491 tonnes of steel was utilised by the wagon builders, the Ministry of Commerce have stated\* :

“The figure of 34844 MTs of surplus steel as indicated by Audit was based on the estimates made at the time of truncation of the contract. It needs to be appreciated that some quantity of steel was under process for manufacture of components for the full contract. The total estimated quantity of 34844 MTs included 30268.509 MTs which was rendered surplus as raw-steel and the balance quantity was the steel utilised for manufacture of components which were rendered surplus as a result of truncation of contract.”

2.40 In reply to an Audit query, the PEC stated in October 1980 that the surplus steel had been utilised/disposed of by wagon builders either against their own domestic and export orders or by sale to actual users and some quantity of steel rusted. Asked as to how the Ministry of Commerce had satisfied themselves that the wagon builders were disposing of surplus steel quickly and in the best interest of Government, the Ministry have stated :

“The wagon builders were required to submit, every six months a certificate by a Chartered Accountant, giving details of disposal of surplus steel. The PEC was responsible for monitoring and satisfying itself that the certificates so furnished are in accordance with the conditions laid down in the sanction letter conveying approval of waiver of subsidy. Based on the statement prepared by PEC and copies of certificates duly authenticated

\*Not vetted in Audit.

by Chartered Accountants, the Ministry is satisfied about the disposal of surplus steel.”

2.41 The Ministry of Commerce have indicated the following position of the examination of certificates of surplus steel available/sold by the wagon builders :

“Utilisation by way of	MTs.
1. Export orders	1956.007
2. Domestic orders/self use	24487.162
3. Used in fabrication	110.821
4. Sold to actual users	3081.925
	Total
	29635.915
Balance as on 1.7.1982*	632.594
	G. Total
	30268.509

\* Balance as on 1.7.1982

Braithwaite	471.00
Burn, Howrah	138.616
ISW, Burnpur	22.978
	632.594

Where the steel has been soled to actual users by the wagon builders, the sale price is less than the cost price. Only in two transactions M/s. Braithwaite & Co. Ltd. have made some profit (i.e. Rs. 235.60 & Rs. 3761.81). These amounts have been collected by PEC from the wagon builders and deposited in the Government treasury.”

2.42 According to Audit, the delivery of the wagons was to be completed by December 1975. Since these wagons were actually delivered by August 1976, the buyer asked the State Bank of India in March 1977 to invoke the bank guarantee and realised Rs. 39.10 lakhs in August 1977 as damages for the delay in delivery. Asked about the reasons for not delivering the wagons by the due date i.e. December 1975, the Ministry of Commerce have stated :

“It may be pointed out that, according to the contract, wagons sub-assemblies were to be supplied by the Indian wagon builders to assembly workshop in Yugoslavia. The assembly of the wagons was to be done by the Yugoslavian assemblers and completed wagons were to be delivered to various units of Yugoslavian



Railways. The delivery of the wagons was completed in August 1976. Main reasons for the delay in delivery are as under :

- (i) Technical difficulties by the Assembly factories in Yugoslavia.
- (ii) Unjustified stoppage of assembly in Yugoslavia on account of non-settlement of norms for additional work.
- (iii) Wrong utilisation of wheel-sets supplied by the Indian wagon builders by assembly factories of Yugoslavia against orders of third parties.
- (iv) Delay by the assemblers in Yugoslavia for movement of assemblies from Yugoslavian port."

2.43 According to Audit the contract ran into difficulties from the very beginning and a number of delegations (consisting of representatives of the wagon builders, the PEC and Government) had to visit the foreign country for negotiations and settlement of terms at various stages and assembly of wagons involving outgo of foreign exchange. Asked about the total amount of foreign exchange incurred on the various visits of delegations or of officials of the wagon builders, etc., the Ministry of Commerce have submitted the following details :

"According to available information, the amounts of foreign exchange incurred are shown below :

1. *Amount spent by wagon builders*

US \$	23,313
£ Stg.	24,478.67

2. *Amount spent by PEC*

US \$	9,057.83
£ Stg.	195.37
RTC	1,200.00
DH	930

3. *Amount spent by Govt. of India*

Rs. 7,402.16 (Foreign exchange)

2.44. The Committee enquired about the amount received from wagon

builders as damages for delay in the delivery of wagons. In reply, the Ministry of Commerce have stated :

“The following amounts have been recovered from the wagon builders on account of the alleged lapses in the execution of the contract :

(i) Texmaco	Rs. 19,79,725.00
(ii) Jessops	Rs. 10,95,500.00
(iii) Burns/ISW	Rs. 7,84,325.00
(iv) Braithwaites	Rs. 40,050 00

The alleged lapses on the part of the wagon builders were delayed deliveries and defects in the wagon assemblies/wagon suppliers.”

2.45 The Audit paragraph points out that in all, 1300 wagons were exported to the foreign country against the contract of 3600 wagons. The Committee, therefore, desired to know the circumstances under which the export order for railway wagons was reduced from 3600 wagons to 1300 wagons and whether the delayed supply of wagons was responsible for this reduction in order. In reply, the Ministry of Commerce have stated :\*

“The contract was signed in October 1970. The delivery of wagons was to commence in September 1972 and was to be completed in August 1973. The contract was given due importance by all concerned Ministries and all-out efforts were made to fulfil the contractual deliveries. However, the contract ran into a series of problems which were regularly brought to the notice of the buyer and extension of deliveries obtained from time to time. Briefly, delivery extensions were sought in the following stages and for the reasons stated therein :—

- (i) The Indo-Pak war of December 1971 and its repercussion on various facets of the economy and certain delays on the part of Yugoslav Railways to issue technical approvals was the basis of a 5 months extension of delivery schedule.
- (ii) In March 1972 two of the wagon builders had signed the assembly contracts (the wagons were to be delivered in kit form and assembled at an assembly plant in Yugoslavia under several assembly contracts) while three others did not sign on account of certain restrictive clauses suggested by the Yugoslavs in the assembly contract. In December 1972 a composite delegation visited Yugoslavia and renegotiated the assembly contracts. During this visit a further 8½ months delivery extension was granted by the Yugoslavs.

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\*Not vetted by Audit.

- (iii) When the manufacture of wagons started, the Yugoslavs inspectors (who arrived in India for the inspection) imposed inspection norms outside the scope of the contract. This problem coincided with the severe power shortage during 1972, shortage of shipping space and unprecedented management orises in Burn and ISW. This later resulted in takeover of these companies by the Government. The work in these two factories was practically at stand still pending formal take over by the Government. Owing to force majeure conditions (invoked by STC/PEC on account of power shortage and work-stoppage) the Yugoslavs granted a further extension of delivery schedule of upto 17<sup>1</sup>/<sub>2</sub> months. As per the final extensions granted vide (iii) above, deliveries were to extend upto June 1975.
- (iv) Meanwhile the first oil-crisis of 1973 overtook events in every sphere of economic activity. This affected the prices of practically every input, more so in case of imported inputs. This very adversely affected the profitability of the contract and the wagon builders served notice on PEC for renegotiation of the contract. This renegotiation became necessary because there was no escalation clause in the contract as this was not acceptable to the Yugoslavs. This renegotiation was carried out with complete involvement of the concerned Ministries and resulted in truncation of the contract.
- (v) The complexities involved in renegotiation of this contract were considerable. The important ones were :—
- (a) Orders had been placed for imported items for the full quantity of 3600 wagons and in some cases supplies had been received for a considerable quantity.
  - (b) The execution of the order with different associates was at different stages and a commonality had to be found in arriving at a mutually agreed figure.
  - (c) The contract involved sub-assembly contracts with Yugoslavs and these had to be simultaneously renegotiated and finally settled.

To arrive at a mutually acceptable number of wagons for which revised contract was to be signed, due care had to be taken of all the aspects outlined above and overall financial interests of the associates protected to the extent possible.

- (vi) It was possible to terminate the contract at the level executed at the time of renegotiations. The final number of wagons also depended on the Yugoslav buyers and to what extent they were willing to accept escalation of prices and for what number of wagons. The complex negotiations finally led to a mutually acceptable figure of 1300 wagons for which contract was subsequently executed and completed.
- (vii) During the period this contract ran into problems, there was considerable uncertainty. This was heightened by the fact that three of the wagon builders were nationalised during this period. There was also a period of prolonged disruption of production at the works of Burn and ISW. Since the liabilities of these companies because the liabilities of the Government, due assessment had to be made of the losses which might be incurred in case the entire contract was carried out to completion. All these aspects affected the deliveries to some extent. However, it was not delayed deliveries which led to the truncation of the contract. It was basically the effect on the over all costing of the contract due to the aspects highlighted in para (i), (ii), (v) and (vi) above."

2.46 It is seen from the Audit Paragraph that 1300 wagons were exported to the foreign country at c.i.f. value of Rs. 18.39 crores. The wagon builders were paid a total subsidy of Rs. 5.37 crores. The net foreign exchange earnings (net value added) originally estimated at Rs. 15 crores actually amounted to Rs. 34 lakhs and that too, without taking into account the expenditure incurred on the visit of various delegations abroad. The Committee therefore wanted to know whether the payment of Rs. 5.37 crores of cash assistance was commensurate with the net foreign exchange earned. The Ministry of Commerce have stated :

"There are three components of subsidies authorised by Government in this deal :

- (1) Case Assistance on the export of 1,300 wagons upto a maximum of 25% of the normal value added (Rs. 2.522 crores).
- (2) Freight subsidy limited to a maximum of 5% of the FOB value on the export of 1,300 wagons (Rs. 0.475 crores).
- (3) Special Assistance for compensating higher cost of imported steel (Rs. 1.52 crores claimed by PEC).

As can be seen, components (1) and (2) are directly related to the foreign exchange earning. Component (3) was meant to

neutralize (i) basic customs duty (ii) difference between CIF price of imported steel and JPC col. 1 price and (iii) importing, financing, handling, transport costs etc. in the import of steel. This import was necessitated by non-availability of indigenous steel and was not to be treated as import content for the purpose of calculating cash assistance according to a decision of the Cabinet Committee on Exports. In the original calculations placed before MDF Main Committee in June 1971, the percentage of total subsidy to net value added was estimated at 50% if the alternative of import of steel by the wagon builders were to be accepted, in which event they would have claimed the customs duty on way of duty drawback. In the other alternative of PEC importing the steel, which was actually approved by the MDF Main Committee (June 1971), the customs duty has also envisaged to be met from MDF. If the customs duty is excluded from the claim preferred by PEC for purposes of comparison, the claim for a subsidy on import of steel is tantamount to Rs. 0.23 crores approximately, subject to scrutiny of the claim.

The other factor to be kept in view is that some of the imported steel became surplus as a result of truncation of the contract in January 1975 from export of 3,6000 wagons to 1,300 wagons. Accordingly only that fraction of the subsidy on import of steel should be taken into account for estimating its relationship to the net foreign exchange earnings as is in proportion to the steel actually utilised for 1,300 wagons exported to Yugoslavia. On this basis, the subsidy payable on account of component (3) above is not very significant."

2.47 Asked about the break up of total foreign exchange earned on the export of wagons, foreign exchange spent and the net gain, if any, Ministry of Commerce have replied :\*

"The foreign exchange earned on the export of wagons is Rs. 18.39 crores and foreign exchange spent is Rs. 18.05 crores. Net foreign exchange earned is Rs. 34 lakhs."

2.48 In a subsequent note submitted to the Committee the Ministry have stated as under :

“According to the latest information received from PEC, the export earnings in this contract are as follows :

	<i>(Amount in Rs. Cr.)</i>
1. CIF Price of wagons	18.390
2. Deduct freight & Insurance	3.280
3. Deduct Import content (other than steel)	5.536
4. Value Added Normal	9.574
5. Deduct CIF Cost of imported steel	2.578*
6. Deduct foreign exchange expenditure on Bank Guarantee invocation	0.390
7. Net value added	6.606

Calculated on the basis of average CIF cost of Rs. 1235/- per M.T. on 20875.47 M.T. of the steel actually utilized in 1300 wagons.

2.49. A contract was secured in October, 1970 by the State Trading Corporation for the supply of 3600 wagons to a foreign country at a contract price of Rs. 37.45 crores. The contract was, implemented by M/s. Projects and Equipment Corporation of India, a subsidiary company of the STC. The Committee are surprised to note that before finalising the contract, no efforts were made by the STC to verify or ensure the availability of indigenous steel nor the position about the same ascertained from the Ministry of Steel. As the contract included about 30% import content and the costing of wagons was based on the price of indigenous steel and in view of the wide gap in the prices of indigenous and imported steel, the Committee feel that it was imperative that the State Trading Corporation should have got confirmation regarding the availability of indigenous steel from the Ministry of Steel before concluding the contract.

2.50 After the contract was signed in October, 1970 regular meetings are stated to have been held in February-March, 1971 with Iron and Steel Controlling where representatives of Steel Plants and Engineering Export Promotion Council were also present. As a result of these discussions, the steel plants indicated total quantity of steel which could be possibly made available indigenously. On the basis of this information STC estimated that only about 9,000 tonnes of indigenous steel would be available. Again in a meeting of Contract Implementation Committee held on 8 July 1971 it was advised that due to non-availability of weldable quality steel and steel with copper content for the next two years, greater quantity of imports will have to be resorted to. The anticipated availability of indigenous steel

was later on reduced to 2,000 to 3,000 tonnes and eventually however almost the entire quantity of steel had to be imported. The reply of the Ministry of Commerce that prior to actual signing of the contract formal procurement action was not practicable evades the issue. The question that needs a satisfactory reply is how the estimates of indigenous availability of steel were initially assessed, how these got reduced so drastically and how these finally turned out to be nil. The Committee consider that the STC clearly failed in projecting a clear picture to Government and must be held accountable for this lapse. This resulted in the entire steel having to be imported at a high price for supply to wagon builders involving heavy payment of countervailing duty. Consequently, the *raison detre* of the contract itself was lost. The Committee desire that the responsibility for this lapse must be fixed.

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

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

2.53 The above claim of Rs. 258.05 lakhs also included Rs. 80.56 lakhs on account of countervailing duty. The Ministry of Commerce who had made "on account" payments of Rs. 239.28 lakhs during May 1972 to February 1974 had observed in September 1974 that the countervailing duty (Rs. 80.56 lakhs) was inadmissible. This resulted in over payment of Rs. 61.79 lakhs. Later on, the Ministry of Commerce informed the Committee that 'on making further queries from the PFC and going through the details obtained from them, it appears that no countervailing duty has been

reimbursed by the Ministry to PEC'. This is a very vague reply. The Committee would like to be apprised of the correct position in this regard. The Committee are dismayed at the reply of the Ministry of Commerce that "on account" payments of Rs. 239.28 lakhs were not made head-wise. The Committee would like to know as to how the "on account" payments to the Projects and Equipment Corporation were calculated without apportioning the items under separate heads. Necessary recoveries should be made in case any payment has been made to PEC which was inadmissible.

2.54 The Committee note that while the final claim was made by the Projects and Equipment Corporation during May 1972 to February 1974 the detailed bill was submitted in September 1980 only and that the same is still under examination of the Ministry and the accounts have not yet been settled. The Committee fail to understand why the PEC took more than six years in submitting its detailed bill. The Committee would like to be informed of the reasons of the inordinate delay in submission of the final claim by the PEC and why the accounts have not been settled even by now.

2.55 The Committee note that as many as three extensions given by the foreign country to complete the delivery. Due to the failure of the Indian wagon builders to effect the supplies in time, the order was reduced by the importing country from 3,600 to 1300. The contract value was correspondingly reduce from Rs. 37.45 crores to Rs. 18.39 crores. This resulted in 34,844 tonnes of imported steel supplied to the wagon builders becoming surplus. The Committee are perturbed at this failure of wagon builders to supply the wagons as per the contract particularly when they were constantly complaining of under-utilisation of their capacity and when special arrangements were made by Government to supply to them the requisite quantities of imported steel at a very high cost. As a result of this failure to adhere to the schedule of supply, the country has not only lost the expected foreign exchange earnings but the deal has adversely affected the prestige of the country and given a bad name to Indian exporters in International markets. The Committee cannot but express their deep unhappiness at this failure of Government to ensure the supply of wagons as per schedule. The Committee consider that Government should have explored the possibility of diverting the order to other wagon manufacturers in this situation so as to fulfil the deal. The Committee would like to know if any such efforts were made.

2.56 Although Government were aware of the steel becoming surplus in May 1974, no action was taken for its alternative use or disposal and it was only in April 1975 that the PEC approached Government for disposal



of 30,069 tonnes of steel valuing Rs. 4.48 crores against 34,844 tonnes of surplus steel actually available. In spite of the fact that the PEC had obtained approval of the CCI&E to dispose of the surplus steel in July 1976, it took another three years to take a decision for disposal of the surplus quantity of steel available with the various wagon builders. In January, 1978 the Ministry of Finance (Commerce Division) also observed that "If a decision had been taken much earlier within the present span of 3 years between January, 1975 and January 1978 for the disposal of surplus steel, interest and storage charges worked lay out the PEC (Rs. 247.87 lakhs and Rs. 62.77 lakhs) would have been much less". In fact, had a decision in this regard been taken in January, 1975 itself, the wagon builders could not have taken the plea of having incurred the interest (Rs. 247.87 lakhs) and storage charges (Rs. 62.77 lakhs) as, till then, they were liable to bear these charges for fulfilment of the original contract. Delay in decision resulted in non-recovery of Rs. 155.75 lakhs of overpaid subsidy on 34,844 tonnes of imported steel. The Committee recommend that the reasons for delay in taking a decision be gone into in depth and responsibility for such costly lapse be fixed.

2.57 The Committee find that in March 1978 the Main Committee of the Marketing Development Fund agreed to waive the recovery of subsidy estimated at Rs. 123.28 lakhs provided there was no negligence on the part of PEC in disposing of or otherwise utilising the surplus steel held by them. It is not clear as to how the sanction for the waiver of refund of the subsidy was issued by the Government without settling the accounts with the PEC. This needs to be explained.

2.58 The Committee note that the Chief Controller of Imports and Exports had issued the import licence for steel to the PEC in August, 1971 on certain conditions *inter-alia* stipulated that the PEC would export 3600 wagons within six months of the import of the first consignment of steel into India and in the event of PEC's failure to fulfil the required obligations, the shortfall in obligation would be adjusted against its future entitlement to import licences under any categories and that it would also be liable to penal action for de-registration, debarment etc. under the import trade control rules. As is evidence from the Audit paragraph and the facts placed before the Committee, PEC miserably failed to fulfil its obligation as it could supply 1300 wagons only and that too very belatedly. The Committee would like to know the action taken by the office of the CCI&E against PEC for non-fulfilment of the conditions of the import licence.

2.59. The Committee note that at the time of truncation of the contract, the wagon builders had with them 34,844 tonnes of surplus steel out of

which 30,268.509 metric tonnes was with the wagon builders as raw steel and the balance quantity was in the shape of components. From the reply furnished by the Ministry of Commerce, the Committee find that raw steel was utilised by the wagon builders for their export orders, domestic orders etc. and 632.594 tonnes of steel was still available with the three wagon builders as on 1 July 1982. As there is considerable shortage of wagons in the country itself, the Committee would like to know whether the Indian Railways were approached for utilising the surplus steel for manufacture of wagons. Moreover, since the steel was imported at a high cost in foreign exchange at a time when there was acute shortage of indigenous steel the Committee would like to know why the stocks were not taken over by Government itself for its own use.

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

NEW DELHI ;

April 28, 1983  
Vaisakha 8, 1905 (Saka)

SATISH AGARWAL

*Chairman*  
*Public Accounts Committee.*

**PART II**

**MINUTES OF 68TH SITTING OF THE PUBLIC  
ACCOUNTS COMMITTEE HELD ON 24 MARCH, 1983.**

The Committee sat from 1500 to 1545 hours.

**PRESENT**

Shri Satish Agarwal—CHAIRMAN

**MEMBERS**

*Lok Sabha*

Smt. Vidyavati Chaturvedi

Shri G.L. Dogra

Shri Bhiku Ram Jain

Shri Mahavir Prasad

Shri Dhanik Lal Mandal

Shri Harish Rawat

Shri K. Lakkappa

*Rajya Sabha*

Dr. Sankata Prasad

Shri Nirmal Chatterjee

**SECRETARIAT**

Shri K.C. Rastogi—*Chief Financial Committee Officer.*

Shri K.K. Sharma—*Senior Financial Committee Officer.*

**REPRESENTATIVES OF AUDIT**

Shri L.P. Khanna—*ADAT (R)*

Shri R.S. Agarwal—*Deputy Director, Commerce,  
Works, Misc, N. Delhi.*

The Committee considered and adopted the draft Report on "Cash Assistance for export of Ossein" with the following modifications :

<i>Page</i>	<i>Para</i>	<i>Line(s)</i>	<i>Amendment/modification</i>
40	1.60	11-12	For "an amount of ...year" Read "a substantial amount is being paid every year (e.g. Rs. 500 crores in 1981-82)"

• • • • •  
*The Committee then adjourned.*

**MINUTES OF THE 75TH SITTING OF THE PUBLIC  
ACCOUNTS COMMITTEE HELD ON 26 APRIL 1983 (AN)**

The Committee sat from 1500 to 1915 hours in Committee Room No. 50, Parliament House, New Delhi.

**PRESENT**

Shri Satish Agarwal—**CHAIRMAN**

**MEMBERS**

*Lok Sabha*

2. Shri Chitta Basu
3. Shri G.L. Dogra
4. Shri Bhiku Ram Jain
5. Shri Sunil Maitra
6. Shri Uttam Rathod
7. Shri Ram Singh Yadav

*Rajya Sabha*

8. Shri B. Satyanaryan Reddy
9. Shri Nirmal Chatterjee

**SECRETARIAT**

Shri K.C. Rastogi—*Chief Financial Committee Officer*  
Shri Ram Kishore—*Senior Financial Committee Officer*  
Shri K.K. Sharma—*Senior Financial Committee Officer*

**OFFICE OF THE C&AG OF INDIA**

Shri B. Maithreyan—*D.A.I.*  
Shri R.K. Chandrasekharan—*ADAT (R)*  
Shri N. Shivasubramanian—*D.R.A.*  
Shri A.N. Mukhopadhyay—*Joint Director*  
Shri K. H. Chayya—*Joint Director*  
Shri S. Rayalu—*Joint Director*  
Shri S.K. Gupta—*Dy. Director*

The Committee considered and adopted the following draft Reports subject to amendments/modifications as shown in Annexure—IV.



## APPENDIX 1

(Vide Para 1.1)

*Audit Paragraph 2 of the Advance Report of the C & AG of India for the year 1980-81, Union Government (Civil) on Cash assistance for export of ossein*

### *Audit Pparagraph*

Ossein is an intermediate product used in the manufacture of gelatine which is used in medicines, photography, desserts, icecreams, confectionery and other food products. Ossein is obtained by demineralisation of crushed bones with hydrochloric acid and lime. Out of 4 tonnes of crushed bones, 1 tonne of ossein and 2 tonnes of dicalcium phosphate are obtained. Production of ossein in India is of recent origin, though crushed bones, a basic raw material for its production is one of India's traditional export items.

In 1980, there were 10 units producing ossein (of which 2 were State public sector undertakings) with a licensed capacity of 22,300 tonnes per annum. Four of these units were also manufacturing gelatine (licensed capacity 7,500 tonnes). The ossein manufacturers had formed an association called Ossein and Gelatine Manufacturers Association of India (OGMAI).

The principal countries importing ossein from India are USA and Japan. Exports of ossein during 1975-76 to 1980-81 were as follows :—

<i>Year</i>	<i>Quantity (tonnes)</i>	<i>F.o.b. value (Rs. in lakhs)</i>	<i>F.o.b. unit value (Rs. per tonne)</i>
1975-76	3,004	311	10,353
1976-77	5,353	425	7,939
1977-78	7,363	783	10,634
1978-79	8,943	872	9,751
1979-80	13,199	1,373	10,402
1980-81 (upto December 1980)	9,653	1,155	11,965

Source : Chemicals and Allied Products Export Promotion Council.

2. *Cash Assistance*—Cash assistance for export of ossein was sanctioned in 1975-76 at 10 per cent of f.o.b. realisation and has been continuing at the same rate.

2.1. *Cash Assistance Decision*—In September 1971, the Chemicals and Allied Products Export Promotion Council recommended to Government sanction of cash assistance on the export of ossein. There were only 2 units 'P' and 'S' manufacturing ossein at that time. The cost data furnished by one of the units were examined by the Director General, Technical Development (DGTD), who held (April 1972) that the cost data were not reasonable as the yield of ossein and price of chemicals had not been taken correctly. In October 1974 and February 1975, the cost data furnished by 2 units 'P' and 'S' and held that on the basis of total cost, there was loss in the exports.

In August 1975, the Ministry of Commerce made out a case for the grant of cash assistance for export of ossein on the basis of cost analysis made by the cost accounts branch. Since the Cabinet Committee had decided (August 1975) that marginal cost be adopted as the basis of cash assistance, the Ministry of Finance held (August 1975) that there was no justification for the grant of cash assistance for export of ossein.

In September 1975, the main committee of the Marketing Development Fund (hereafter referred to as MDF committee) considered the case and directed that it be studied further with reference to the exact nature of the product and by-products, its usage and the relevant economics. However, without complying with the aforesaid requirement and without referring the case to the MDF committee, the Ministry of Commerce sanctioned (October 1975) cash assistance at the rate of 10 per cent f.o.b. realisation of export of ossein from October 1975 to March 1976. The Ministry of Commerce stated (November 1981) that "the decision to grant cash compensatory support on ossein was taken by a high level Inter-Ministerial Committee which had a mandate derived from the Cabinet Committee on Exports".

In February 1976, the OGMAI requested Government to extend cash assistance beyond March 1976 and sought its enhancement to 25 per cent of f.o.b. value. In October 1976, the Ministry of Commerce extended cash assistance at the same rate of 10 per cent of f.o.b. realisation for 3 years from 1st April 1976 to 31st March 1979. Thus, the cash assistance introduced on an ad hoc basis in October 1975 was extended for 3 years at a stretch without any cost study as advised by the MDF committee.

The Ministry stated (November 1981) that this was done as frequent changes in the rates of cash assistance created uncertainty in the minds of the exporters and affected adversely the export effort. During the period 1st October 1975 to 31st March 1979, 23,755 tonnes of ossein (value Rs. 2,269 lakhs) were exported which attracted payment of Rs. 226.9 lakhs as cash assistance, which was not justified in the absence of any cost study.

The Alexander Committee set up by the Ministry of Commerce in November 1977 recommended (January 1978) the following basic principles of cash assistance for exports :—

- (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 purchased 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. in order 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 Chemicals and Allied Products Export Promotion Council was asked (October 1978) to furnish certain information so as to formulate the policy of cash assistance on this item in the light of the above principles. The Council, while recommending cash assistance at 20 per cent of f.o.b. value, forwarded the requisite data (February 1979) in respect of 5 ossein units. There were wide differences in the cost data furnished by these units. These indicated incidence of non-refundable taxes ranging from 5.35 to 8.37 per cent, cost of raw material from 67 to 79 per cent, processing cost from 36 to 52 per cent and economic recovery of by-products from 4 to 21 per cent of the f.o.b. cost. The shortfalls in the f.o.b. realisations, as indicated, ranged from 15 to 30 per cent (Rs.1,416 to Rs. 3,008 per tonne). Considering the wide variations in the data, the Ministry of Commerce adopted ad hoc percentages of different incidences, and worked out a total loss of 17.45 per cent on the f.o.b. realisation. The Ministry recommended (March 1979) cash assistance at 15 per cent for 3 years from 1st April 1979 on the ground that Government had



already conceded to the demand of the ossein industry to place restrictions on the export of crushed bones, the basic raw material for manufacturing ossein. However in March 1979, the Cash Assistance Review Committee (CARC) decided to grant cash assistance at 10 per cent for a period of 3 years from 1st April 1979; sanction was accordingly issued in March 1979 by the Ministry of Commerce.

Presuming the cost data as correct, an independent scrutiny of the same with reference to information collected in audit revealed that there were profits of Rs. 107 to Rs. 1,529 per tonne in 4 cases and loss of Rs. 819 per tonne in 1 case, whereas all the 5 units had shown losses in exports while furnishing the cost data. The Ministry stated (November 1981) that it could not dispute the figures indicated by Audit and that it was true that the cost data sent by the units were not independently verified.

The f.o.b. unit value of ossein continued to increase from Rs. 9.751 in 1978-79 to Rs. 10,402 in 1979-80 and Rs. 11,965 in 1980-81, whereas the price per tonne of crushed bones within the country declined from Rs. 1,750 in 1977-78 to Rs. 1,650 in 1978-80 and Rs. 1,500 in 1980-81. Had the cost of raw materials, recovery from by-products and f.o.b. realisation furnished by the exporters been verified over the years, there would have most probably been no case for cash assistance.

2.2 *Raw material.*—India has been the largest manufacturer and exporter of crushed bones. There are more than 100 bone mills in the country and their annual production is around 1 lakh tonnes. West Europe has been the main importer of Indian crushed bones. Exports of crushed bones during 1974-75 to 1980-81 were as shown below :

<i>Year</i>	<i>Quantity (tonnes)</i>	<i>F.o.b. value (Rs. in lakhs)</i>	<i>F.o.b. unit value (Rs. per tonne)</i>
1974-75	95,407	1802	1889
1975-76	41,056	568	1383
1976-77	64,201	772	1202
1977-78	73,006	1313	1798
1978-79	37,834	633	1673
1979-80	29,980	510	1701
1980-81	17,000	340	2000

Source : Chemicals and Allied Products Export Promotion Council.

The global consumers of crushed bones and ossein being the same, the ossein manufacturers, in order to compel the importers of crushed bones to import ossein, approached Government in January 1977 to restrict the outflow of crushed bones. From 1977-78 export quota was released every year by the Ministry of Commerce after assessing the requirements of the ossein industry, and this came to be reduced from 40,000 tonnes in 1977-78 to 15,000 tonnes in 1980-81. The Ministry of Agriculture was, however, not in favour of exporting crushed bones in any form on the ground that these could be utilised as a fertiliser resulting in lesser import of phosphatic fertilisers. As the total ban on the exports was detrimental to the interest of poor bone collectors, who came from weaker sections of society, the Ministry of Commerce requested (September, 1980) the Ministry of Agriculture to agree to the export of crushed bones found to be surplus to the need of ossein units, but the latter agreed reluctantly (November 1980) to the export of a small quantity. In reply to an audit query as to whether the restriction on exports had resulted in augmenting the production of fertilisers and subsequent reduction in imports, the Ministry of Agriculture stated (May 1981) that an ad hoc committee had been set up to examine the possibility of use of bone meal/crushed bones as manure and that the matter was still under consideration of the committee. Final comments of that Ministry were still awaited (November 1981).

The quota restriction had been very beneficial to the ossein manufacturers as the price of crushed bones had fallen from Rs. 1,900 per tonne (April 1980) to Rs. 1,300 per tonne (February 1981). Thus, the Indian exporters were getting raw material below the international prices at their works.

2.3 *Value addition on ossein.*- The reason assigned for encouraging export of ossein by restricting export of crushed bones was stated to be the value addition of ossein. An analysis of the unit value realisation of ossein and of crushed bones for the period 1975-76 to 1978-79 showed the following position of the 'value added' vis-a-vis cash assistance :-

Year	F.o.b. unit value per tonne of ossein	F.o.b. unit value for 4 tonne of crushed bones	Net value added	Cash assistance per tonnes of ossein	Percentage of cash assistance to net value added
in Rupees					
1975-76	10,363	5,532	4,821	1,035	21
1976-77	7,939	4,808	3,131	794	25
1977-78	10,634	7,192	3,442	1,063	31
1978-79	9,751	6,692	3,059	975	32
1979-80	10,402	6,804	3,598	1,040	29
1980-81	11,965	8,000	3,965	1,197	30

It would be seen that though the cash assistance had been sanctioned at 10 per cent of the f.o.b. realisation, the incidence of cash assistance varied from 21 to 32 per cent of the net value added, as there was no cash assistance on export of crushed bones. The foreign exchange earnings of crushed bones, declined from Rs. 18.02 crores in 1974-75 to Rs. 5.10 crores in 1979-80. The exports of ossein with cash assistance and restricted export of crushed bones could increase from Rs. 2.02 crores in 1974-75 to Rs. 13.73 crores in 1979-80. Thus, there was overall decline in the foreign exchange earnings from Rs. 20.04 crores (1974-75) to Rs. 18.83 crores (1979-80) on these two commodities, even after paying a total cash assistance of Rs. 3.64 crores during 1975-76 to 1979-80 on export of ossein.

The export statistics published by the Director General, Commercial Intelligence and Statistics, Calcutta (DGCIS) indicated that since 1977-78, 90 per cent of ossein produced in the country was exported to USA and Japan, whereas the crushed bones were mainly exported to the East and West Europe, U.K. and Japan. The exports to Japan were due to the collaboration arrangements with two Indian ossein processing units which had been under obligation to offer bulk of their production to Japan at a mutually agreed price. In the case of one firm, it included an element of profit at 10 per cent (1979-80), 20 per cent (1980-81) and 33½ per cent (1981-82 and onwards) of the equity capital. As regards USA, it has been noted that the Indian and Country 'B' share of ossein imports to that country in 1978 were 69 per cent and 30 per cent respectively. The following analysis of countrywise imports in USA would reveal that during 1977 and 1978 the c.i.f. value per tonne of supplies from Country 'B' was higher by about US \$ 500 (Rs. 4,000) than that of the Indian supplies :—

Year	Total value : US \$ 000	
	Unit value : US \$ per tonne	
	1977	1978
<b>Country 'B'</b>		
Total value	6362	4115
Unit value	1641	1717
<b>India</b>		
Total value	2923	7516
Unit value	1120	1253

Source : U.S. Imports-Commodity by country.  
U.S. Department of Commerce.

Country 'B' had been one of the largest importers of Indian crushed bones till 1977-78 when the export restriction was imposed and it had been able to retain the US market by exporting ossein, produced out of imported crushed bones. Thus, it would appear that there was a wide margin for "value addition" and that exporters, instead of exporting ossein at such a lower price to USA, could have safely increased their prices by any amount up to Rs. 4,000 per tonne and thereby obviated the demand for payment of any cash assistance. The Ministry of Commerce stated (November 1981) that in contrast to country 'B', India had only recently entered the field of ossein exports and in order to get a strong footing in the international market, Indian exporters had to market their product at a comparatively cheap rate, at least initially.

3. **Import and export of gelatine.**—Gelatine is a value added commodity, depending on the grade and it fetches 3 to 4 times the price of ossein, which is used as a raw material for the production of gelatine. But the Indian ossein manufacturers did not pay attention to developing gelatine within the country, apparently because they were getting cash assistance for the export of its raw material (ossein).

A part of the gelatine produced in India was exported for which Government had been sanctioning cash assistance at 10 per cent of the f.o.b. value since 1971-72. During 1974-75 to 1979-80, 772 tonnes (value : Rs. 97.83 lakhs) of gelatine was exported attracting cash assistance of Rs. 9.78 lakhs. During the same period, 2,778 tonnes (value : Rs. 387.4 lakhs) of gelatine were imported into the country.

4. **Quantum of cash assistance.**—Out of the 10 ossein units, 4 are under obligation to export bulk quantity of their production for a period of 5 years as per industrial licences ; 37,862 tonnes (value : Rs. 3,764 lakhs) of ossein were exported during the years 1975-76 to 1979-80 on which cash assistance worked out to Rs. 3.64 crores. Despite payment of cash assistance, the exports of ossein did not show any appreciable increase except to USA and Japan. The exports to USA were made at about Rs. 4,000 per tonnes less than that made by Country 'B' ; for Japan, collaborating units were under obligation to export at an agreed price which included a margin of profit. This lends additional support to the view that cash assistance for export of ossein, when its raw material was made available at below the international prices by restricting exports of crushed bones, was hardly justified.

5. **Summing up :—**

—The MDF committee had directed (September 1975) to conduct a detailed study of the commodity with reference to its usage and relevant economics before it could agree to the grant of

cash assistance. Nevertheless, the Ministry of Commerce sanctioned and continued cash assistance from 1st October 1975 to 31st March 1979 without any cost study and without approval of the MLF committee. Export amounting to Rs. 36.42 crores during October 1975 to March 1980 attracted cash assistance of Rs. 3.64 crores which was not justified in the absence of a proper cost study.

- The Ministry of Commerce did not verify independently the cost data furnished by the ossein units in 1979; information collected by Audit revealed that in most cases profits had been earned by exporters whereas losses had been shown in the cost data.
- Even after paying cash assistance on export of ossein from October 1975 to March 1980 (Rs. 3.64 crores), the overall foreign exchange earnings from exports of both crushed bones and ossein decreased from Rs. 20.04 crores (1974-75) to Rs. 18.83 crores (1979-80).
- 90 per cent of ossein exports were made to USA and Japan. Exports to USA were made at about Rs. 4,000 per tonne less than those made by Country 'B'; exports to Japan were made under collaboration arrangements at mutually settled price which included the element of profit.

## APPENDIX II

### *Statement of Observations and Recommendations*

S. No.	Para No.	Ministry/Dept. concerned	Observation/Recommendation
1	2	3	4
1	1.46	Ministry of Commerce	<p>Ossein is an intermediate product used in the <b>manufacture</b> of gelatine which is used in medicines, photography, certain food products etc. Production of ossein in India is of recent origin, though crushed bones, a raw material used for its production, is one of India's traditional export items. The Committee find that the Ministry of Commerce made out a case for the grant of cash assistance for export of ossein in August, 1975. The Ministry of Finance, however, felt that there was no justification for the grant of cash assistance for export of ossein in terms of the criteria adopted at that time for granting cash assistance. The main Committee of the Marketing Development Fund (which lays down the guidelines according to which Cash Compensatory Support is to be sanctioned by the Ministry of Commerce) considered the case and directed in September, 1975 that the case be studied further with reference to the exact nature of the product and by-products, its usage and the relevant economics. However, without complying with the requirement of the Marketing Development Fund Committee, the Ministry of Commerce sanctioned cash assistance in October 1975 at the rate of 10 <i>per cent</i> of f.o.b. realisation of export of ossein from October, 1975 to March, 1976.</p>

1	2	3	4
2	1.47	Ministry of Commerce	<p>The Ministry of Commerce have attempted to justify this lapse on the plea that "cash assistance on ossein was sanctioned based on the criteria approved by the Cabinet Committee on Exports in October, 1975". According to the Ministry, "the criteria laid down by the Cabinet Committee on Exports were not the same as the criteria followed by the Marketing Development Fund Committee". The MDF Committee had considered the proposal in August, 1975 for grant of cash assistance in the light of the earlier criteria which were largely in terms of bridging the gap between the f.o.b. cost and f.o.b. realisation while the criteria laid down by the Cabinet Committee on Exports in October, 1975 were in terms of the experts prospects, production capability in the country, the competitive strength of the export products, vis-a-vis international prices and other relevant factors. The Committee are not convinced with the argument adduced by the Ministry of Commerce seeking to justify their decision. The Committee feel that since the MDF Committee had made certain specific recommendations for compliance, the best course of action open to the Ministry of Commerce would have been to refer the case back to the MDF Committee for reconsideration and independent appraisal in the light of the criteria subsequently outlined by the Cabinet Committee along with adequate data rather than taking an <i>ad hoc</i> and unilateral decision. The Committee regret that by not doing so, Government have deprived the Marketing Development Fund Committee from exercising its legitimate functions in judging the merit of the case for grant of cash compensatory assistance.</p>

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3            1.48            --do--

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

4            1.49            --do--

In October 1978 the Ministry of Commerce directed the Chemicals and Allied Products Exports Promotion Council to furnish certain information so as to formulate the policy of cash assistance for export of ossein in the light of the basic principles outlined by the Alexander Committee in January, 1978 for grant of cash assistance for export. The Council while recommending cash assistance at 20 per cent of f.o.b. value forwarded the requisite data in respect of 5 units showing shortfalls in f.o.b. realisations ranging from 15 to 30 per cent (Rs. 1416 to Rs. 3008 per tonne). However, an independent scrutiny carried out by audit, of the cost data furnished by the trade to the Export Promotion Council had revealed that there were profits ranging from Rs. 107 to Rs. 1529 per tonne of ossein in four cases and loss of Rs. 819 per tonne in

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one case, whereas all the five units had shown losses in exports while furnishing the cost data. In reply to a query of the Committee, the Ministry of Commerce admitted that the cost data sent by the units was not independently verified by the Ministry. The Committee find that the units concerned had furnished the data on the basis of the then price trend and not with reference to the average f.o.b. realisation for the year which was already over on the plea that the data was required for determining the future CCS rate. The Committee cannot accept this as a valid basis for determining the cash compensatory support. It is unfortunate that the Ministry accepted the data without proper verification. The Committee are constrained to point out that inadequacy of the Governmental machinery to evaluate effectively the f.o.b. realisations and other cost data and putting an almost exclusive reliance on the data furnished by the Export Promotion Councils which comprise of interested exporters and industrialists, has been a glaring shortcoming in the management of the scheme of cash compensatory support.

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**Ministry of  
Commerce/Agriculture**

The Committee find that the ossein manufacturers approached Government in January 1977 to restrict the export of crushed bones in order to compel the importers to import ossein (the global consumers of ossein and crushed bones are practically the same). From 1977-78 export quota was released every year by the Ministry of Commerce after assessing the requirements of the ossein industry and this came to be reduced drastically after

1977-78 so much so that the level of exports of crushed bones came down from 73,006 tonnes in 1977-78 to 17,000 tonnes in 1980-81. Significantly, while the f.o.b. unit value of ossein continued to rise during the period 1978-79, 1980-81, the price per tonne of crushed bones came down in the domestic market during the corresponding period. This enabled the manufacturer of ossein to avail of the additional advantage of obtaining raw material at rates much below the international prices. It is distressing that this gain to manufacturers of ossein accrued at the cost of a large number of bone collectors belonging to the economically weaker sections of society. While admitting that Government were aware of the fall in prices of crushed bones in the domestic market, the Ministry of Commerce have contended that the fall in domestic prices of crushed bones could not be attributed to the imposition of export restrictions. Whatever be the reason the Committee strongly feel that ways and means should be found in concert with the State Governments to protect the interests of the poor bone collectors.

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1.51

Ministry of  
Commerce

The Ministry have further stated that "short term fluctuations in the price of raw material though important in determining the difference between f.o.b. cost and realisation at any given point of time, may not alter the balance of factors underlying the fixation of Cash Compensatory Support on any given product". The Committee are not inclined to agree with this contention. Keeping in view the fact that the f.o.b. realisation and other cost data furnished by the exporters were not verified by the Ministry over the years (subsequent scrutiny by audit revealed an

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altogether different picture) and considering that the price of the raw material had come down considerably in the domestic market, the Committee feel that there was no justification whatsoever for extending the period for granting cash assistance for export of ossein beyond March 1976.

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Ministry of  
Commerce

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

Committee therefore desire that Government should review the policy with regard to granting cash assistance in such cases.

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1.53

Ministry of  
Commerce/External  
Affairs/Ministry of  
Finance (Deptt. of  
Revenue)

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

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1.54

Ministry of  
Commerce

The Committee find that an amount of Rs. 3.64 crores was paid as cash assistance for export of ossein during the period 1975-76 to 1979-80. While the value of export of ossein with cash assistance and restricted export of crushed bones increased from Rs. 2.02 crores in 1974-75 to Rs. 13.73 crores in 1979-80, the foreign exchange earnings of crushed bones decreased from Rs. 18.02 crores to Rs. 5.10 crores during this

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period. Thus, there was an overall decline in the foreign exchange earnings from Rs. 20.04 crores in 1974-75 to Rs. 18.83 crores in 1979-80 on these two commodities even after paying a total cash assistance of Rs. 3.64 crores during this period. It is evident that the grant of cash assistance on the export of ossein has failed to achieve the basic objective viz. increase in the foreign exchange earnings.

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1.55

Ministry of  
Commerce

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

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11            1.56            —do—

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

12            1.57            —do—

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

13            1.58            —do—

The Public Accounts Committee have from time to time examined the scheme of cash compensatory support extended to various items for export

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promotion. The Committee have commented adversely upon the indiscriminate grant of cash assistance and other export promotional incentives on the basis of *ad hoc* and inadequate assessments.

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1.59

**Ministry of  
Commerce**

In their 174th Report (1975-76), the Committee had pointed out that the basic defect of the system of determining cash assistance is that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisation and the impact of various kinds of assistance given for export promotion (para 1.49). In their 10th Report (1977-78) on "Export of Engineering Goods", the Committee had recommended that Government should do well to attempt a quantification, in monetary terms of the various concession given in the past to exporters with a view to determining how far these export promotion measures have actually succeeded in achieving the objectives envisaged (para 1.120). In para 1.6 of their 77th Report (1981-82) on "cash assistance on export of deoiled rice bran", the Committee have expressed the view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or reviewing the cash assistance on any commodity, particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying the facility for a number of years. In their 111th Report (1981-82) on the "Working of the Office of Joint Chief Controller of Imports and Exports, New Delhi", the Committee had

expressed the view that Indian export goods should not be heavily subsidised at the cost of the exchequer and for the benefit of exporters who can afford to export goods without asking for cash assistance (para 86).

15            1 60            —do—

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

16            2.49            —do—

A contract was secured in October, 1970 by the State Trading Corporation for the supply of 3600 wagons to a foreign country at contract price of Rs. 37.45 crores. The contract was, implemented by M/s. Projects and Equipment Corporation of India, a subsidiary company of the STC. The Committee are surprised to note that before finalising the contract, no efforts were made by the STC to verify or ensure the availability of indigenous steel nor the position about the same ascertained from the Ministry of Steel. As the contract included about 30% import content



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and the costing of wagons was based on the price of indigenous steel and in view of the wide gap in the prices of indigenous and imported steel, the Committee feel that it was imperative that the State Trading Corporation should have got confirmation regarding the availability of indigenous steel from the Ministry of Steel before concluding the contract.

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Ministry of  
Commerce

After the contract was signed in October, 1970 regular meetings are stated to have been held in February-March, 1971 with Iron and Steel Controller where representatives of Steel Plants and Engineering Export Promotion Council were also present. As a result of these discussions, the steel plants indicated total quantity of steel which should be possibly made available indigenously. On the basis of this information STC estimated that only about 9,000 tonnes of indigenous steel would be available. Again in a meeting of Contract implementation Committee held on 8 July 1971 it was advised that due to non-availability of weldable quality steel and steel with copper content for the next two years, greater quantity of imports will have to be resorted to. The anticipated availability of indigenous steel was later on reduced to 2,000 to 3,000 tonnes and eventually however almost the entire quantity of steel had to be imported. The reply of the Ministry of Commerce that prior to actual signing of the contract formal procurement action was not practicable evades the issue. The question that needs a satisfactory reply is how the estimates of indigenous availability of steel were initially assessed, how these got

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reduced so drastically and how these finally turned out to be nil. The Committee consider that the STC clearly failed in projecting a clear picture to Government and must be held accountable for this lapse. This resulted in the entire steel having to be imported at a high price for supply to wagon builders involving heavy payment of countervailing duty. Consequently, the *raison detre* of the contract itself was lost. The Committee desire that the responsibility for this lapse must be fixed.

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2.51

—do—

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

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2.52

—do—

The Committee note from the audit paragraph that the Projects and Equipments Corporation had lodged claims amounting to Rs. 258.05

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			lakhs including subsidy of Rs. 2.78 lakhs on 622.372 tonnes of steel short-landed. It is not clear as to how the subsidy on short-landed steel could have been claimed. The Committee desire an explanation in this regard.
20	2.53	Ministry of Commerce	<p>The above claim of Rs. 258.05 lakhs also included Rs. 80.56 lakhs on account of countervailing duty. The Ministry of Commerce who had made "on account" payments of Rs. 239.28 lakhs during May 1972 to February 1974 had observed in September 1974 that the countervailing duty (Rs. 80.56 lakhs) was inadmissible. This resulted in over payment of Rs. 61.79 lakhs. Later on, the Ministry of Commerce informed the Committee that 'on making further queries from the PEC and going through the details obtained from them, it appears that no countervailing duty has been reimbursed by the Ministry to PEC'. This is a very vague reply. The Committee would like to be apprised of the correct position in this regard. The Committee are dismayed at the reply of the Ministry of Commerce that "on account" payments of Rs. 239.28 lakhs were not made head-wise. The Committee would like to know as to how the "on account" payments to the Projects and Equipment Corporation were calculated without apportioning the items under separate heads. Necessary recoveries should be made in case any payment has been made to PEC which was inadmissible.</p>
21	2.54	—do—	<p>The Committee note that while the final claim was made by the Projects and Equipment Corporation during May 1972 to February 1974.</p>

the detailed bill was submitted in September 1980 only and that the same is still under examination of the Ministry and the accounts have not yet been settled. The Committee fail to understand why the PEC took more than six years in submitting its detailed bill. The Committee would like to be informed of the reasons of the inordinate delay in submission of the final claim by the PEC and why the accounts have not been settled even by now.

22

2.55

—do—

The Committee note that as many as three extensions were given by the foreign country to complete the delivery. Due to the failure of the Indian wagon builders to effect the supplies in time, the order was reduced by the importing country from 3,600 to 1300. The contract value was correspondingly reduced from Rs. 37.45 crores to Rs. 18.39 crore. This resulted in 34,844 tonnes of imported steel supplied to the wagon builders becoming surplus. The Committee are perturbed at this failure of wagon builders to supply the wagons as per the contract particularly when they were constantly complaining of under-utilisation of their capacity and when special arrangements were made by Government to supply to them the requisite quantities of imported steel at a very high cost. As a result of this failure to adhere to the schedule of supply, the country has not only lost the expected foreign exchange earnings but the deal has adversely affected the prestige of the country and given a bad name to Indian exporters in International markets. The Committee cannot but express their deep unhappiness at this failure of Government to ensure the supply of wagons as per schedule. The Committee consider that Government should have explored the possibility of diverting the

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order to other wagon manufactures in this situation so as to fulfil the deal. The Committee would like to know if any such efforts were made.

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2.56

**Ministry of  
Commerce**

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

24            2.57            —do—

The Committee find that in March 1978 the Main Committee of the Marketing Development Fund agreed to waive the recovery of subsidy estimated at Rs. 123.28 lakhs provided there was no negligence on the part of PEC in disposing of or otherwise utilising the surplus steel held by them. It is not clear as to how the sanction for the waiver of refund of the subsidy was issued by Government without settling the accounts with the accounts with PEC. This needs to be explained.

25            2.58            —do—

The Committee note that the Chief Controller of Imports and Exports had issued the import licence for steel to the PEC in August, 1971 on certain conditions. One of the conditions *inter-alia* stipulated that the PEC would export 3600 wagons within six months of the import of the first consignment of steel into India and in the event of PEC's failure to fulfil the required obligations, the shortfall in obligation would be adjusted against its future entitlement to import licences under and categories and that it would also be liable to penal action for de-registration, debarment etc. under the import trade control rules. As is evident from the Audit paragraph and the facts placed before the Committee, PEC miserably failed to fulfil its obligation as it could supply 1300 wagons only and that too very belatedly. The Committee would like to know the action taken by the office of the CCI & E against PEC for non-fulfilment of the conditions of the import licence.

26            2.59            —do—

The Committee note that at the time of truncation of the contract, the wagon builders had with them 34,844 tonnes of surplus steel out of which 30,268.509 metric tonnes was with the wagon builders as raw steel and the

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balance quantity was in the shape of components. From the reply furnished by the Ministry of Commerce, the Committee find that raw steel was utilised by the wagon builders for their export orders, domestic orders etc. and 632.494 tonnes of steel was still available with the three wagon builders as on 1 July 1982. As there is considerable shortage of wagons in the country itself, the Committee would like to know whether the Indian Railways were approached for utilising the surplus steel for manufacture of wagons. Moreover, since the steel was imported at a high cost in foreign exchange at a time when there was acute shortage of indigenous steel the Committee would like to know why the stocks were not taken over by Government itself for its own use.

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2.60

**Ministry of  
Commerce**

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

