

**HUNDRED AND FIFTY-SIXTH  
REPORT**

**PUBLIC ACCOUNTS COMMITTEE  
(1988-89)**

(EIGHTH LOK SABHA)

**IMPACT OF THE CENTRAL EXCISE DUTY  
CONCESSIONS IN RESPECT OF MAN-MADE  
FIBRES AND YARN IN THE BUDGET 1988 ON  
PRICES**

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



*Presented to Lok Sabha on 25 April, 1989  
Laid in Rajya Sabha on 25 April, 1989*

**LOK SABHA SECRETARIAT  
NEW DELHI**  
*April, 1989/Vaisakha, 1911 (Saka)*  
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CORRIGENDA TO HUNDRED AND FIFTY-SIXTH REPORT  
OF THE PUBLIC ACCOUNTS COMMITTEE (EIGHTH LOK SABHA)

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### PART II \*

Minutes of the sittings of Public Accounts Committee (1988-89) held on

17-11-1988 (AN)  
29-12-1988 (FN)  
29-12-1988 (AN)  
21-4-1989 (AN)

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

## PUBLIC ACCOUNTS COMMITTEE

(1988-89)

### CHAIRMAN

\*Shri Amal Datta

### MEMBERS

#### *Lok Sabha*

2. Shri Abdul Hannan Ansari
3. Shri Chhitubhai Gamit
4. Shri M. Y. Ghorpade
5. Shri Dinesh Goswami
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15. Shri Yogeshwar Prasad Yogesh

#### *Rajya Sabha*

- @16. Shri Jagesh Desai
17. Shri M. S. Gurupadaswamy
  18. Shri Kailash Pati Mishra
  19. Shrimati Manorama Pandey

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\*Appointed as Chairman w.e.f. 5-9-1988 *vice* Shri C. Madhav Reddy resigned from Chairmanship of the Committee.

@ Appointed w.e.f. 7-12-1988 *vice* Shri Kalpnath Rai ceased to be a member of the Committee on his appointment as a Minister of State.

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20. Shri Yalla Sesi Bhushana Rao
21. Shri T. Chandrasekhar Reddy
22. Shri Surender Singh

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
2. Shri B. D. Duggal—*Director (PAC)*
3. Shri A. Subramanian—*Senior Financial Committee Officer*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee do present on their behalf this Hundred and Fifty-Sixth Report on the Impact of the central excise duty concessions in respect of man-made fibres and yarn in the Budget 1988 on prices.

2 The Committee have noted that in the Budget 1988-89, substantial concessions in central excise duty were granted on man-made fibres and yarn. As per the estimation made by the Ministry of Finance at the time of presentation of the Budget, these concessions involved a revenue sacrifice of Rs. 241.26 crores. Significantly, these concessions were granted at a time when the country was facing unprecedented droughts. The underlying idea of this fiscal relief was to enable availability of the end-product to the ultimate consumer at reduced prices. It was expected, and expressly so stated in the budget speech, that the reduction in duty would result in price reduction. The Committee have found that, this did not happen. In fact, the prices of man-made fibres/yarn and fabrics either went up or remained at about the same level as existed prior to the grant of the concession and when the prices did go down slightly for a few initial months, it was not because of the duty concessions, but, as an effect of demand and supply of the product itself. The Committee have expressed their surprise that the concession involving a considerable revenue sacrifice was extended in a manner in which full trust was reposed in the manufacturers and no control over them was prescribed to meet the cases of non-passing on of the duty relief to the ultimate consumers of the goods.

3. The Committee have noted that a Price Monitoring Committee was constituted in May 1988 to monitor the selling prices of man-made fibres/yarn and fabrics with a view to determining whether the duty concessions given in the Budget 1988-89 were passed on down the line to the consumer. The Price Monitoring Committee were required to meet atleast once a month to keep a watch over the price trends and advise the Government regarding the remedial measures, if necessary and the Convener of the Price Monitoring Committee, viz., the Textiles Commissioner was to forward a Status Report regarding the price levels in relation to the duty concessions and recommendations to achieve the objectives. The Committee have

expressed their shock that the Price Monitoring Committee met only thrice, i.e. on 13 June 1988, 29 July 1988 and 30 December 1988 after the announcement of the concessions in the Budget 1988-89. Further, according to the Ministry of Finance, the Price Monitoring Committee did not make any specific recommendation regarding the change of customs/excise duties as a result of the meetings held on 13 June 1988, 29 July 1988 and 30 December 1988. The Public Accounts Committee are also yet to be informed of the Status Report furnished by the Textile Commissioner, if any. The Committee have concluded that the Price Monitoring Committee was a total failure and have highly deplored its functioning. Expressing their view that the officers who have been charged with the responsibility of overseeing the working of the Committee have clearly been remiss in the discharge of the duties entrusted to them, the Committee have recommended that the ineffective and irregular working of the Price Monitoring Committee should be probed and responsibility fixed for the lapses.

4. The Committee were informed during evidence that the upward movement in the prices started from July 1988 onwards. They were further informed that as the Price Monitoring Committee failed to produce the desired results after their two meetings, it was decided to take up the matter at a higher level and the matter was referred to the Bureau of Industrial Costs and Prices (BICP) in November, 1988. The Committee subsequently found that the reference to BICP was, in fact, made on 17 October 1988. According to the Committee, having known the upward trend in prices and the ineffectiveness of the Price Monitoring Committee way back in July 1988 itself there was no justification for the delay on the part of Government in seeking remedial action. In their opinion the reference made to the BICP on 17 October 1988 was more a measure seeking a cover-up of the administrative failure of the executive to enforce price reduction, which was categorically assured in the budget speech. The Committee have expressed their severe displeasure over the casual approach to such a vital issue.

5. The Committee have found that the duty concessions granted to the manufacturers were not passed on by them to the ultimate consumers which defeated the very objective of the fiscal measure. According to them, the manufacturers of man-made fibres, yarn and cloth have enriched themselves by appropriating the duty conces-

sion to themselves and not passing the same on to the consumers at any stage after the concessions became effective. The Committee have recommended that the facts relating to the textile industry should be studied further with a view to ensuring not only the growth of the industry at a satisfactory pace, but also that the consumers are protected from exploitation and receive the benefit of whatever concessions are extended to the industry.

6. The Committee have pointed out that the consumers in this country are the most neglected lot. It is widely known that the duty concessions intended to benefit the common man rarely reach him. According to the Committee, it is, therefore, imperative that the Government addressed themselves to the seriousness of the issue and evolve a standing mechanism with a view to ensuring that the concessions intended for the ultimate consumers are actually passed on and that the immediate beneficiaries and intermediaries are not allowed to manipulate the market forces to their advantage and take away the revenue sacrifice intended for the common people and enrich themselves at their cost.

7. The Public Accounts Committee (1988-89) examined the subject at their sitting held on 17 November 1988 and 29 December 1988 (AN & FN).

8. The Committee considered and finalised this report at their sitting held on 21 April, 1989. The Minutes of the sitting form Part II\* of the Report.

9. 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 to the Report.

10. The Committee would like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) Ministry of Textiles and Department of Chemicals and Petro-Chemicals for the cooperation extended by them in giving information to the Committee.

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



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

NEW DELHI;  
April 21, 1989.  
Vaisakha 1, 1911 (Saka).

AMAL DATTA,  
*Chairman,*  
*Public Accounts Committee.*

## REPORT

### IMPACT OF CENTRAL EXCISE DUTY CONCESSIONS IN RESPECT OF MAN-MADE FIBRES AND YARN IN THE BUDGET 1988 ON PRICES

#### *Introductory*

As part of Government's fiscal measures, concessions of central excise duty are granted from time to time to various segments of industry either through the Annual Budget or otherwise. These concessions are primarily granted with a view to benefitting the ultimate consumers. More often than not, the duty relief does not reach the common man and the very objective of the fiscal operation gets defeated.

2. During the year 1988-89, the Public Accounts Committee had the occasion to examine among others certain matters from the Report of the Comptroller and Auditor General of India for the year ended 31 March 1987, Indirect Taxes relevant to the textile industry. In this context, the Committee's attention was drawn to the central excise duty concessions granted to the textile industry in the Budget 1988. The Committee thought it pertinent to attempt an exercise seeking evaluation of its impact.

3. In the Budget 1988, substantial concessions in central excise duty were given to the textile industry in respect of cotton yarn, man-made fibres and yarn. While presenting Central Government's Budget for 1988-89, the Minister of Finance informed Parliament:—

“My proposals which follow are based on a comprehensive review of the duty structure relating to the various segments of the industry with a view to lowering prices, increasing the demand for fabrics and increasing the base of production”.

4. In order to reduce prices of cotton yarn, it was proposed to reduce excise duty on cotton yarn of counts not exceeding 35 by 10 per cent of the existing rates. The excise duty on cotton yarn about 35 counts was reduced by 3 paise per count. This reduction was estimated upto a maximum of 28.5 per cent, depending on the count of yarn. Considering the fact that viscose staple fibre would

help substituting for cotton, the excise duty on viscose staple fibre cleared for blending with cotton was reduced from Rs. 7 per kg. to Rs. 5 per kg. The duty on polyester staple fibre was reduced from Rs. 25 to Rs. 15 per kg. and on polyester filament yarn from Rs. 83.75 to Rs. 53.75 per kg. The excise duty on nylon filament yarn was reduced from Rs. 70 to Rs. 40 per kg. and on acrylic fibre from Rs. 10 to Rs. 8 per kg.

5. In his Budget speech, the Minister of Finance added:

"I fully expect and shall insist upon the entire relief being passed on in the form of lower prices".

#### *Extent of Budget concessions*

6.7. The total quantum of concession given on account of the exemptions (as stated in S. Nos. 27 to 31 at pages 30 and 31 of the Memorandum explaining the provisions in the Finance Bill, 1988) was Rs. 241.26 crores. The Public Accounts Committee asked for the break up of the figure of Rs. 241.26 crores and the calculation on the basis of which the above mentioned figure was arrived at. The Ministry of Finance (Department of Revenue) in a note stated as follows:—

(A) The revenue implication in respect of concessions in excise duty given to PSF, PFY and NFY in 1988 Budget is as indicated below:

	(Rs in crores)
(i) Polyester Staple Fibre . . . . .	60.77
(ii) Polyester Filament Yarn . . . . .	189.87
(iii) Nylon Filament Yarn . . . . .	76.13

The above revenue implications were calculated on the following basis:

Item	Production estimated during 1987-88 at time of grant of the concessions (in Tonnes)	Revenue at the then existing rates (Rs. crores)	Estimated production in 1988-89 (in Tonnes)	Revenue at the concessional rates (Rs. in crores)	Revenue loss (Rs. in crores)
PSF . . . . .	85000	212.50	101150	151.73	60.77
PFY . . . . .	107000	896.13	131396	706.25	189.87
NFY . . . . .	36000	252.00	43967	175.87	76.13
				<b>TOTAL</b>	<b>326.77</b>

(B) Other concessions for man-made fibres and yarn granted in 1988 Budget are as follows:

Concession	Revenue Implication (Rs. in crores)
1. Reduction in excise duty on acrylic fibre from Rs. 10.00 per kg. to Rs. 8.00 per kg.	No fresh revenue implication assumed taking into consideration increased production.
2. Concessional duty on PFY for handlooms and NTCs	2.50
3. Concessional duty on VFY to handloom sector	6.00
4. Concessional duty on nylon yarn of specified deniers for manufacture or repair of fishnets.	Insignificant
5. Concessional duty on NFY of over 400 D from Rs. 70.00 per kg. to Rs. 8.13 per kg. for industrial purposes.	4.00
6. Reduction of duty on monofilament yarn of 2000 D and above for zip fasteners.	0.42
7. Exemption from excise duty on polyester tow and mother yarn captively consumed.	Insignificant
TOTAL	12.92 crores

(C) While giving the duty concessions to PSF, PFY and NFY, it was assumed that an additional revenue of Rs. 98.43 crores would accrue on account of blended yarn and fabric in the following manner:

- (i) Revenue from additional production of 16 million kgs of blended yarn due to increased production of 16150 tonnes of PSF.
- (ii) Revenue from additional production of 160 million metres PSF blended fabrics at an average yield of 10 metres of fabric per kg. of PSF.
- (iii) Revenue from additional production of 280 million metres of fabrics arising out of additional production of 23380 tonnes of PFY at an average yield of 12.5 metres of fabric per kg. of PFY.
- (iv) Revenue from additional production of 159 million metres of fabrics arising out of additional production of 7967 tonnes of NFY at an average yield of 20 metres of fabric per kg. of NFY.

Total revenue implication on account of (A) and (B) and (C) above works out to Rs. 241.26 crores.

This amount does not include the additional revenue that would have accrued from PSF, PFY and NFY on account of the imposition 5 per cent special excise duty on these items.

8. On being asked about the actual revenue losses in respect of the year 1988-89, the Ministry of Finance (Department of Revenue) in a note dated 11 April 1989 stated that the details are being collected from the field formations.

9. From the Annual Report 1988-89 of the Department of Chemicals & Petrochemicals, it was, however, seen that the estimated production of PSF & PFY was 1,10,000 tonnes and 1,46,000 tonnes respectively. The revenue loss of Rs. 241.26 crores was calculated on the basis of the estimated production of 1,01,150 tonnes for PSF and 131396 tonnes for PFY. Thus, irrespective of its revenue implications on fabrics, it will be seen that the actual losses on account of the duty concession on PSF and PFY would be far more than the estimation. Similar analysis on NFY could not be worked out due to non-availability of the relevant data.

#### *Effect of the concessions*

10. The Committee enquired about the behaviour of the prices consequent upon the grant of the budget concessions. The Secretary, Ministry of Finance (Department of Revenue) stated in evidence that as an effect of the concession, the prices had come down initially. However, the prices showed an upward trend after a few months. According to him, the manufacturers had attributed the price rise was largely to the sharp increase in the international prices of the raw materials. The Joint Secretary, Ministry of Textiles stated in evidence that the upward trend in prices had, in fact, started from July 1988 onwards. In support of his contention that the concessions had an initial impact, the Member, Central Board of Excise and Customs referred to the advertisements by the manufacturers in the newspapers announcing the price reductions. On being enquired whether the duty relief had any impact on the prices of fabric, the end product which reached the ultimate

consumer, the witness replied that when the excise duty was reduced, there was no immediate effect on the prices of fabric. However, a little later, there was some marginal reduction of 50 paise to Rs. 2 per metre in the case of some fabrics.

11. The Ministry of Finance (Department of Revenue) in a note furnished after evidence stated that before reaching the ultimate consumer in the form of finished fabric, yarns and fibres pass through a number of processes carried out by a large number of manufacturers in the centralised and decentralised sector. Concessions in excise duty granted to man-made fibres and yarn in 1988 Budget could have generally resulted in the reduction of prices of fabrics to the extent of 50 paise to Rs. 2.00 per square metre depending upon the composition of fabrics. In his Budget Speech while presenting the 1988 Budget, the Finance Minister had requested the manufacturers of all industries where the excise concessions had been granted, to pass on the excise relief to the consumers in the form of lower prices. Inasmuch as the prices of man-made fibres and yarns in respect of which the excise duty concessions were announced showed a decline in the prices, it could be concluded that the manufacturers of these fibres and yarns had passed on the excise duty concessions to their consumers. At the subsequent stages of fabrics, it was expected that the prices would remain competitive due to the market forces.

12. At the instance of the Committee, the Ministry of Finance (Department of Revenue) furnished the details of the monthly prices in respect of the following items during December 1987 to November 1988:

1. Polyester Staple Fibre (PSF)
2. Polyester Filament Yarn and Partially Oriented Yarn (PFY and POY)
3. Texturised Polyester Filament Yarn
4. Nylon Filament Yarn
5. Blended Yarn
6. Blended cloth (mill cloth—ex-mill prices)
7. Blended cloth (mill cloth—retail prices)
8. Synthetic cloth (mill cloth—ex-mill prices)
9. Synthetic cloth (mill cloth—retail prices)

- 10. Powerloom blended cloth
- 11. Powerloom synthetic cloth

13. From the above data made available to the Committee, it was seen that the prices of man-made fibres and filaments had showed a marginal decline in the initial stages only. The duty concessions, it was further seen, did not lead to a reduction in the prices of the end-products, viz., man-made and synthetic fabrics in all cases. In fact, the prices of blended cloth (mill), synthetic cloth (mill) and blended and synthetic cloth of the powerlooms remained at or after an initial fall increased to the same level, which existed prior to the Budget 1988. Referring to the movement of prices in respect of the end-product to the consumers, the Ministry of Finance (Department of Revenue) in a note stated that the prices of fabrics are determined by a variety of factors including the cost of processing composition of the fabric, market forces etc. and the price trend of a particular variety of fabric cannot be attributed to the duty factor alone.

14. The Committee note that in the Budget 1988 89, substantial concessions in central excise duty were granted on man-made fibres and yarn. As per the estimation made by the Ministry of Finance at the time of presentation of the Budget, these concessions involved a revenue sacrifice of Rs. 242.26 crores. In the opinion of the Committee, the actual revenue loss would be far more. The Committee regret to point out that the Ministry of Finance failed to furnish the exact amount of the duty foregone on this score.

15. Significantly, these concessions were granted at a time when the country was facing unprecedented droughts. The underlying idea of this fiscal relief was to enable availability of the end-product to the ultimate consumer at reduced prices. It was expected and expressly so stated in the budget speech, that the reduction in duty would result in price reduction. Unfortunately, this did not happen. In fact, the prices of man-made fibres/yarn and fabrics either went up or remained at about the same level as existed prior to the grant of the concession and when the prices did go down slightly for a few initial months, it was not because of the duty concessions, but, as an effect of demand and supply of the product itself. The Committee are surprised to note that the concession involving a considerable revenue sacrifice was extended in

a manner in which full trust was reposed in the manufacturers and no control over them was prescribed to meet the cases of non-passing on of the duty relief to the ultimate consumers of the goods.

*Price Monitoring Committee*

16. In his Budget Speech, the Finance Minister had stated (Paragraph 157):—

“At this point, I would also like to ask manufacturer in all industries, where I have granted excise concessions, to pass on the excise relief to consumers in the form of lower prices. Administrative Ministries concerned are being requested to keep a close watch on the price behaviour of these commodities. I shall not hesitate to withdraw the concessions, wherever there is evidence of manufacturers taking undue advantage of these concessions.”

This further assurance, naturally, raises the assumption that the Government will set up an appropriate machinery to oversee that the concessions are indeed passed on to the consumer and in case of recalcitrance on the part of the producers, the Government would withdraw the duty. The Committee, therefore, drew attention of the Ministry of Finance to the above mentioned categorial statement of the Finance Minister and enquired about the mechanism which was available with the Government to ensure that the concession in duty granted to the industry was actually passed on to the ultimate consumer. In a note furnished to the Committee, the Ministry of Finance (Department of Revenue) stated that after the announcement of the duty concessions, a Price Monitoring Committee was formed under the Ministry of Textiles in order to keep a watch on the price behaviour.

17. From the information made available to the Committee, it is seen that the Price Monitoring Committee was initially constituted *vide* Ministry of Industry Resolution No. 43011/1/88-PC II dated 11 March 1988. It was further reconstituted *vide* Ministry of Industry Department of Chemicals and Petrochemicals Resolution of even number dated 5 May 1988. The constitution of the Committee was as follows:

1. Textile Commissioner, Bombay—Convener
2. A representative of Department of Chemicals and Petrochemicals, Ministry of Industry.



3. Commissioner (TRU), Department of Revenue, Ministry of Finance.
4. President of the Association of Synthetic Fibre Industry or his representative.
5. A representative of the Association of Polyester Staple Fibre Manufacturers.
6. A representative of the Association of man-made Fibre Industry in India.
7. A representative of the All India Crimpers Association.
8. A representative of Indian Cotton Mills Federation.
9. A representative of the Federation of the Art Silk Weaving Industry.
10. A representative of Powerloom Industries Association.
11. A representative of the Clothing Manufacturers Association.
12. A representative of the Retailers Federation, Bombay.
13. A representative of the Bombay Piece Goods Merchants Mahajan.

18. As per the Resolution, the duties/responsibilities of the Price Monitoring Committee were as follows:—

- (1) To monitor the selling prices of polyester staple fibre, acrylic staple fibre, polyester filament yarn, nylon filament yarn, blended spun yarn and blended as well as 100 per cent synthetic fabrics, with a view to determining whether the duty concessions given in the Budget 1988-89 are passed on down the line to the consumer.
- (2) To meet atleast once a month to keep a watch over the price trends and advise the Government regarding the remedial measures, if necessary.
- (3) The Textile Commissioner to forward to the Ministry of Textiles and the Department of Chemicals and Petrochemicals a Status Report regarding the price levels in relation to the duty concessions and recommendations to achieve the objectives.

19. The Committee pointed out that while the Price Monitoring Committee was set-up by the Department of Chemicals and Petrochemicals, the Textile Commissioner who is under the administrative control of the Ministry of Textiles was made the Convener. Asked whether it did not adversely affect proper co-ordination and enforcement of accountability, the Joint Secretary, Department of

Chemicals and Petro-Chemicals stated in evidence that the Textile Commissioner was made the Convener since the monitoring was to be done by the Monitoring Committee right upto the level of fabric prices, which was under the Ministry of Textiles.

20. The Secretary, Ministry of Finance (Department of Revenue) stated in evidence that the Monitoring Committee had a limited role to play and that was to see whether the manufacturer was passing on the impact of the reduced duty to the consumer. When enquired about the actual role performed by the Price Monitoring Committee, the Joint Secretary, Ministry of Textiles stated in evidence:

“This Committee has met only twice and when they found that the meetings were not producing any result, they had to give up. Then this matter was referred to the Government and it was taken up at the higher level.”

Elaborating his point, the witness stated that in both the meetings of the Price Monitoring Committee, it was said on behalf of the manufacturers that the price rise was due to the rise in the price of raw materials. Then the question was also discussed in a meeting at the Finance Secretary's level. According to the witness the matter was subsequently referred to the Bureau of Industrial Costs and Prices (BICP) in November, 1988. It was, however, subsequently found that the reference was actually made on 17 October 1988.

21. On being pointed out by the Committee that price rise had, in fact, started in July 1988 and the action even to study the matter was taken so belatedly, the Joint Secretary, Ministry of Textiles stated that for the first two months, the Price Monitoring Committee grappled with the problem and tried to persuade the manufacturers to bring down the prices.

22. The Committee called upon the Ministry to furnish the complete information in respect of the actual performance of the Price Monitoring Committee. From the information made available to the Committee on this score by the Ministry of Finance (Department of Revenue) it was seen that the Price Monitoring Committee had met only thrice, viz., 13 June 1988, 29 July 1988 and 30 December 1988.

23. The minutes of the first meeting of the Price Monitoring Committee held on 13 June 1988, indicated that there was reduction

of about 75 paise per metre in prices of a few sorts but the reduction was not on account of duty relief but because of market forces of demand and supply. The discussion of the meeting was summed up stressing the following:

1. The Committee has to monitor the price regularly every month.
2. Duty concessions must be passed on to the consumers by the industry.
3. Industry should not state that they have no control at the retail levels. If that be so, the industry should not ask for the concession at all.
4. The ultimate consumers of cloth must get the full benefit of the duty reduction announced by the Government.

24. The Price Monitoring Committee in its second meeting held on 29 July 1988 observed that there was some reduction in the prices of synthetic fabrics because of dull season. The prices of the blended yarn and cloth had also come down mainly because of compulsions of demand and supply in the market. It was also seen by the Price Monitoring Committee that the prices of polyester staple fibre increased to the price level of February, 1988 and thereby nullifying the effect of duty reduction given by the Government. The selling prices of blended/synthetic fabrics (covering 139 sorts of about 20 mills and powerloom factories) furnished by the representative of wholesalers indicated that in 60 sorts, there was no variation in prices, while in 27 sorts, the prices had gone up. In the remaining 52 sorts, prices had declined ranging between Rs. 0.30 and Rs. 6 per metre.

25. The Price Monitoring Committee in its third meeting held on 30 December 1988 concluded that as there has been an increase in prices of various raw materials and other inputs there is an urgent need for BICP to furnish report on the reasonable level of prices of N.F.Y., P.F.Y., acrylic fibre etc. According to the PM Committee, in the absence of this information it is not possible to determine whether prevailing market prices of these items are reasonable or not.

26. The Committee enquired about the action taken on the recommendations made by the Price Monitoring Committee as a result of the decisions taken in its meetings held on 13 June 1988, 29 July 1988 and 30 December, 1988. In a note furnished on 11 April, 1989, the Ministry of Finance (Department of Revenue)

stated that the Price Monitoring Committee did not make any specific recommendation regarding the change of customs/excise duties as a result of the three meetings.

27. The Committee note that a Price Monitoring Committee was constituted in May 1988 to monitor the selling prices of man-made fibres/yarn and fabrics with a view to determining whether the duty concessions given in the Budget 1988-89 were passed on down the line to the consumer. The Price Monitoring Committee were required to meet atleast once a month to keep a watch over the price trends and advise the Government regarding the remedial measures, if necessary and the Convener of the Price Monitoring Committee, viz., the Textiles Commissioner, was to forward a Status Report regarding the price levels in relation to the duty concessions and recommendations to achieve the objectives.

28. The Committee are shocked to note that the Price Monitoring Committee met only thrice i.e., on 13 June 1988, 29 July 1988 and 30 December 1988 after the announcement of the concessions in the Budget 1988-89. The third meeting was apparently held after the Public Accounts Committee were seized of the matter. Further, according to the Ministry of Finance, the Price Monitoring Committee did not make any specific recommendation regarding the change of customs/excise duties as a result of the meetings held on 13 June 1988, 29 July 1988 and 30 December 1988. This Committee are also yet to be informed of the Status Report furnished by the Textile Commissioner, if any. The Committee can only conclude that the Price Monitoring Committee was a total failure and the way it functioned is highly deplorable. During evidence, the representative of the Ministry of Textiles admitted that after two meetings the Price Monitoring Committee had to give up because they were not producing any result. In the opinion of the Committee, the officers who have been charged with the responsibility of overseeing the working of the Committee have clearly been remiss in the discharge of the duties entrusted to them. The Committee recommend that the ineffective and irregular working of the Price Monitoring Committee should be probed and responsibility fixed for the lapses.

#### *Reference to the BICP*

29. During evidence, the Committee were informed that the Bureau of Industrial Costs and Prices has been asked to look into the prices of PSF etc. in November, 1988. From the information obtained by the Committee on the subject after evidence, it was,

however, seen that the reference was, in fact, made on 17 October 1988 by the Ministry of Finance (Department of Revenue) vide their D.O.F. No. 357/44/88-TRU from the Additional Secretary of the Ministry to the Chairman, BICP. The communication stated as follows:

"The recent trends in the prices of the PSF in the domestic market has been causing concern to the Government. A meeting with the manufacturers of PSF has been convened by Secretary (Revenue) in this regard on the 18th October, 1988. The plea taken by the manufacturers of PSF for this unprecedented hike in the prices of domestic market is the rise in the cost of main raw materials, viz., DMT/PTA and MEG.

I would solicit your valuable comments on the plea taken by the Association. You may also please indicate as to what should be the fair price of PSF taking into account the rise in the cost of the raw materials".

30. In their Report submitted on 19 January, 1989 the BICP concluded that the ex-factory price of PSF as on October 1988 was only marginally higher than the updated normative price of PSF, while the ex-factory price of PFY (POY 115D) was nearly Rs. 7.00 per kg. more than the normative price. In view of the above, adjustments in import duties were not recommended in the case of PSF for the present. However, there was a need for monitoring the ex-factory prices at regular intervals.

31. In reply to a question of the Committee, the Ministry of Finance (Department of Revenue) in a note furnished on 11 April 1989 stated that in view of the reference made to the BICP, no other separate detailed study was carried out on the subject.

#### *Beneficiaries of the duty concessions*

32. The major units manufacturing the items in respect of which duty concessions, were given, according to the Ministry of Finance (Department of Revenue) are as follows:

#### *Units manufacturing PSF*

1. The Ahmedabad Mfg. and Calico Ptd. Co. Ltd.
2. India Polyfibres Ltd.
3. IEL Ltd.
4. India Organic Chemicals Ltd.

5. J. K. Synthetics Ltd.
6. Orissa Synthetics Ltd.
7. Reliance Industries Ltd.
8. Swadeshi Polytext Ltd.

*Units manufacturing PFY*

1. Baroda Rayon
2. Century Enka
3. Haryana Petrochemicals
4. Hindustan Pipe Udyog
5. IOCL
6. Jagatjit Mills
7. J. K. Synthetics
8. Kanpur Synthetics
9. Modipon
10. Nirlon
11. Orkay
12. Parasrampur
13. Petrofils
14. Reliance

*Units manufacturing nylon yarn*

1. Baroda Rayon
2. J. K. Synthetics
3. Modipon
4. Nirlon
5. Stretch Fibres

*Units manufacturing acrylic fibres*

1. IPCL
2. J.K. Synthetics

33. The exact quantum of concessions availed by each of the manufacturing units will depend upon the installed capacity of the unit and the level of production achieved by it in the financial year.

34. The Committee were informed during evidence that the upward movement in the prices started from July 1988 onwards. They

were further informed that as the Price Monitoring Committee failed to produce the desired results after their two meetings, it was decided to take up the matter at a higher level and the matter was referred to the Bureau of Industrial Costs and Prices (BICP) in November 1988. The Committee subsequently found that the reference to BICP was, in fact, made on 17 October 1988. Having known the upward trend in prices and the ineffectiveness of the Price Monitoring Committee way back in July 1988 itself there was no justification for the delay on the part of Government in seeking remedial action. Evidently, the reference made to the BICP on 17 October 1988 was more a measure seeking a cover-up of the administrative failure of the executive to enforce price reduction, which was categorically assured in the budget speech. The Committee cannot but express their severe displeasure over the casual approach to such a vital issue.

35. From the facts stated in the foregoing paragraphs, the Committee cannot but conclude that the duty concessions granted to the manufacturers were not passed on by them to the ultimate consumers which defeated the very objective of the fiscal measure. They strongly believe that the manufacturers of man made fibres, yarn and cloth have enriched themselves by appropriating the duty concession to themselves and not passing the same on to the consumers at any stage after the concessions became effective. The Committee would like to be informed of the details of the total actual Government revenue sacrificed during the year 1988-89 on this account without any benefit to the consumers. The list of manufacturers who have been benefited by more than Rs. one crore by this duty concession should also be furnished to the Committee alongwith the amount of concession by which they have been benefited during the year 1988-89.

36. The Committee note that the BICP in their report in January 1989 has concluded that the ex-factory price of PSF in October 1988 was only marginally higher than the updated normative price of PSF, while the ex-factory price of PFY was nearly Rs 7.00 per kg. more than the normative price. However, according to BICP there was a need for monitoring the ex-factory prices at regular intervals. The Committees' attention has also been drawn to the views of the Price Monitoring Committee expressed in the meeting held on 30 December 1988 for ascertaining the reasonable level of prices of NFY, PFY, acrylic fibres etc. Due to non-availability of

requisite data from the Ministry, the Committee have not been able to evaluate the impact of the duty concessions in fulfilling the other two objectives of the fiscal relief, viz. increasing the demand for fabrics and increasing the base of production, apart from lowering prices. The Committee are convinced that the facts relating to the textile industry should be studied further with a view to ensuring not only the growth of the industry at a satisfactory pace, but also that the consumers are protected from exploitation and receive the benefit of whatever concessions are extended to the industry

37. The facts emerging from the present case are equally applicable to other cases where similar concessions of indirect taxes are granted. It is common knowledge that the consumers in this country are the most neglected lot. As stated in the outset of this Report, it is also widely known that the duty concessions intended to benefit the common man rarely reach him. It is, therefore, imperative that the Government address themselves to the seriousness of the issue and evolve a standing mechanism with a view to ensuring that the concessions intended for the ultimate consumers are actually passed on and that the immediate beneficiaries and intermediaries are not allowed to manipulate the market forces to their advantage and take away the revenue sacrifice intended for the common people and enrich themselves at their cost. The Committee would like to be informed of the action taken in the matter.

NEW DELHI;  
21 April, 1989  

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1 Vaisakha, 1911 (S)

AMAL DATTA  
Chairman,  
Public Accounts Committee.



## APPENDIX

### Conclusions Recommendations

S. No.	Para No.	Ministry/Department concerned	Conclusion/Recommendation
1	2	3	
1	14	Ministry of Finance (Department of Revenue)	The Committee note that in the Budget 1988-89, substantial concessions in central excise duty were granted on man-made fibres and yarn. As per the estimation made by the Ministry of Finance at the time of presentation of the Budget, these concessions involved a revenue sacrifice of Rs. 241.26 crores. In the opinion of the Committee, the actual revenue loss would be far more. The Committee regret to point out that the Ministry of Finance failed to furnish the exact amount of the duty foregone on this score.
2	15	Ministry of Finance (Department of Revenue) in coordination with Ministry of Textiles and Department of Chemicals & Petrochemicals	Significantly, these concessions were granted at a time when the country was facing unprecedented droughts. The underlying idea of this fiscal relief was to enable availability of the end-product to the ultimate consumer at reduced prices. It was expected, and expressly so stated in the budget speech, that the reduction in duty would result in price reduction. Unfortunately, this did not happen. In fact, the prices of man-made fibres/yarn

and fabrics either went up or remained at about the same level as existed prior to the grant of the concession and when the prices did go down slightly for a few initial months, it was not because of the duty concessions, but, as an effect of demand and supply of the product itself. The Committee are surprised to note that the concession involving a considerable revenue sacrifice was extended in a manner in which full trust was reposed in the manufacturers and no control over them was prescribed to meet the cases of non-passing on of the duty relief to the ultimate consumers of the goods.

3 27 Do.

The Committee note that a Price Monitoring Committee was constituted in May 1988 to monitor the selling prices of man-made fibres/yarn and fabrics with a view to determining whether the duty concessions given in the Budget 1988-89 were passed on down the line to the consumer. The Price Monitoring Committee were required to meet atleast once a month to keep a watch over the price trends and advise the Government regarding the remedial measures, if necessary and the Convener of the Price Monitoring Committee, viz., the Textiles Commissioner, was to forward a Status Report regarding the price levels in relation to the duty concessions and recommendations to achieve the objectives.

4 28 Do.

The Committee are shocked to note that the Price Monitoring Committee met only thrice, i.e., on 13 June 1988, 29 July 1988 and 30 December 1988 after the announcement of the concessions in the Budget 1988-89. The third meeting was apparently held after the Public Accounts Committee were seized of the matter. Further,

according to the Ministry of Finance, the Price Monitoring Committee did not make any specific recommendation regarding the change of customs/excise duties as a result of the meetings held on 13 June 1988, 29 July 1988 and 30 December 1988. This Committee are also yet to be informed of the Status Report furnished by the Textile Commissioner, if any. The Committee can only conclude that the Price Monitoring Committee was a total failure and the way it functioned is highly deplorable. During evidence, the representative of the Ministry of Textiles admitted that after two meetings, the Price Monitoring Committee had to give up because they were not producing any result. In the opinion of the Committee, the officers who have been charged with the responsibility of overseeing the working of the Committee have clearly been remiss in the discharge of the duties entrusted to them. The Committee recommend that the ineffective and irregular working of the Price Monitoring Committee should be probed and responsibility fixed for the lapses.

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Ministry of Finance (Department of Revenue) in Coordination with Ministry of Textiles and Department of Chemicals and Petrochemicals

The Committee were informed during evidence that the upward movement in the prices started from July 1988 onwards. They were further informed that as the Price Monitoring Committee failed to produce the desired results after their two meetings, it was decided to take up the matter at a higher level and the matter was referred to the Bureau of Industrial Costs and Prices (BICP) in November 1988. The Committee subsequently found that the refer-

ence to BICP was, in fact, made on 17 October 1988. Having known the upward trend in prices and the ineffectiveness of the Price Monitoring Committee way back in July 1988 itself there was no justification for the delay on the part of Government in seeking remedial action. Evidently, the reference made to the BICP on 17 October 1988 was more a measure seeking a cover-up of the administrative failure of the executive to enforce price reduction, which was categorically assured in the budget speech. The Committee cannot but express their severe displeasure over the casual approach to such a vital issue.

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From the facts stated in the foregoing paragraphs, the Committee cannot but conclude that the duty concessions granted to the manufacturers were not passed on by them to the ultimate consumers which defeated the very objective of the fiscal measure. They strongly believe that the manufacturers of man-made fibres, yarn and cloth have enriched themselves by appropriating the duty concession to themselves and not passing the same on to the consumers at any stage after the concessions became effective. The Committee would like to be informed of the details of the total actual Government revenue sacrificed during the year 1988-89 on this account without any benefit to the consumers. The list of manufacturers who have been benefitted by more than Rs. one crore by this duty concession should also be furnished to the Committee alongwith the amount of concession by which they have been benefitted during the year 1988-89.

61.

7      36      Ministry of Finance      The Committee note that the BICP in their report in January (Department of Revenue) 1989 has concluded that the ex-factory price of PSF in October 1988 in Coordination with      was only marginally higher than the updated normative price of Ministry of Textiles and PSF, while the ex-factory price of PFY was nearly Rs. 700 per kg. Department of Chemicals and Petrochemicals more than the normative price. However, according to BICP there was a need for monitoring the ex-factory prices at regular intervals. The Committees' attention has also been drawn to the views of the Price Monitoring Committee expressed in the meeting held on 30 December 1988 for ascertaining the reasonable level of prices of NFY, PFY, acrylic fibres etc. Due to non-availability of requisite data from the Ministry, the Committee have not been able to evaluate the impact of the duty concessions in fulfilling the other two objectives of the fiscal relief, viz. increasing the demand for fabrics and increasing the base of production, apart from lowering prices. The Committee are convinced that the facts relating to the textile industry should be studied further with a view to ensuring not only the growth of the industry at a satisfactory pace, but also, that the consumers are protected from exploitation and receive the benefit of whatever concessions are extended to the industry.

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The facts emerging from the present case are equally applicable to other cases where similar concessions of indirect taxes are granted. It is common knowledge that the consumers in this country are the most neglected lot. As stated in the outset of this Report,

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