

**TWENTY THIRD REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1985-86)**

(EIGHTH LOK SABHA)

**UNION EXCISE DUTIES**

**MINISTRY OF FINANCE**

**(DEPARTMENT OF REVENUE)**



*Presented in Lok Sabha on 19 Dec., 1985*  
*Laid in Rajya Sabha on 19 Dec., 1985*

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*December, 1985/Agrahayana, 1907 (S)*

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CORRIGENDA TO 23RD REPORT OF THE PUBLIC  
ACCOUNTS COMMITTEE (8TH LOK SABHA)

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### \*PART II

Minutes of the sitting of Public Accounts Committee held on—

5-10-1983 (AN)

6-12-1985 (AN)

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

## PUBLIC ACCOUNTS COMMITTEE

(1985-86)

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Shri E. Ayyapu Reddy

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20. Shri Chaturanan Mishra
21. Shri K. L. N. Prasad
22. Shri Ramanand Yadav

### SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri Brahmanand—*Senior Financial Committee Officer*

## INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this 23rd Report of the PAC on Para 2.28 of the Report of the C&AG of India for the year 1981-82, Union Government (Civil) Revenue Receipts Vol. I—Indirect Taxes relating to Union Excise Duties.

2. The Report of the Comptroller and Auditor General of India for the year 1981-82, Union Government (Civil) Revenue Receipts, Vol. I—Indirect Taxes was laid on the Table of the House on 3 April, 1983.

3. In this Report the Committee have found that Modi Rubber Ltd. with a certified licensed and installed capacity of four lakh number of tyres and tubes per year had started production of tyres and tubes in November, 1974. The factory, however, exceeded the certified licensed and installed capacity and produced 7,64,947 tyres and 7,98,891 tubes during the year 1979-80. Even then they were allowed to clear 3,75,000 each of tyres and tubes at the concessional rate of 48.125 per cent *ad valorem* (being 37.5 per cent. of the effective rate of duty of 55 per cent *ad valorem*) though the permissible limit was only three lakh number of tyres and tubes each being 75 per cent of the licensed/installed capacity of 4 lakh tyres and 4 lakh tubes. The Company reaped the benefit of concessional duty amounting to Rs. 3.92 crores on the total clearances. Out of this amount the allowance of the concession in duty on clearances beyond the limit of 75 per cent of licensed capacity, itself amounted to Rs. 81.26 lakhs (Rs. 77.30 lakhs basic and Rs. 3.87 lakhs special). The excise authorities failed to take appropriate action against Modi Rubber Limited even though the facts are not and were never in dispute and the orders of the Government were also clear and no ambiguity existed. The Committee have found it difficult to see as to why action to rectify matters was not taken as soon as the error was brought to the notice of senior officers. They have therefore recommended for the fixation of responsibility after appropriate enquiry for the failures that have occurred in the case in the levy of excise duty and for appropriate disciplinary action against the delinquent officials.

4. The Committee have also found that in accordance with the certificate given by the DGTd, the licensed capacity/installed capacity of Modi Rubber Ltd. was 4 lakh tyres and 4 lakh tubes per annum. However, during the year 1979-80 the firm could produce 7,64,947 tyres and 7,98,891 tubes, which was almost double the certified licensed capacity. Evidently the certified licensed/installed capacity was thus grossly understated as the firm's production was double the licensed capacity. In the opinion of the Committee such a situation can arise either when the licensed/installed capacity is fixed without going into various factors or the Company deliberately concealed from the Government some vital information. Assuming that additional capacity had been created by the Company after licensed/installed capacity was fixed, the Committee cannot believe that there would be no obligation on the part of the Company to inform the Government and have the licensed capacity re-fixed. The Committee have desired that the DGTd should examine whether the certified licensed capacity was grossly understated at the time of issuing the certificate and fix the responsibility for the lapse in this regard, if any. They have also recommended that the Government should review whether there is any lacunae in the procedures in vogue which enable the manufacturers to produce in excess of licensed capacity without informing the Government or taking their prior approval and take prompt action to streamline the procedures and plug the loopholes, if any.

5. For reference facility 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 as Appendix to the Report.

6. The Committee 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.

7. The Committee would like to express their thanks to the Officers of the Ministry of Finance (Deptt. of Revenue) and Ministry of Industry for the cooperation extended by them in giving information to the Committee.

NEW DELHI;  
December 18, 1985

Agrahayana 27, 1907 (S)

E. AYYAPU REDDY,  
Chairman

Public Accounts Committee.

## REPORT

### Audit Paragraph

#### *Tyres and tubes*

1.1 Under a notification dated 14 July 1978, amended on 30 March 1979 levy of duty on clearances of tyres and tubes excluding flaps (tariff 16) was exempt from so much of the duty of excise leviable thereon as was in excess of 87.5 per cent of such duty provided the clearances did not exceed 75 per cent of the licensed capacity of the factory. This was further subject to the proviso that the factory commenced production of the said goods for the first time, earlier than the first day of April 1976 and the licensed and installed capacity as certified by the Director General of Technical Development did not exceed five lakh numbers of tyres and five lakh numbers of tubes per year.

1.2 In a factory with a certified licensed and installed capacity of four lakh numbers of tyres and four lakh numbers of tubes per year (as in May 1980) production of tyres and tubes during 1979-80 exceeded the certified licensed and installed capacity and, in fact, 7,64,947 tyres and 7,98,891 tubes were produced. Further the factory cleared 3,75,000 each of tyres and tubes at the concessional rate of 48.125 per cent *ad valorem* (being 87.5 per cent of the effective rate of duty of 55 per cent *ad valorem* though the permissible limit was only three lakh numbers tyres and tubes each (75 per cent of the licensed installed capacity). No information was on record whether consequent to production of tyres and tubes going up during the year 1979-80 to almost twice the licensed installed capacity certified, the Director General Technical Development (DGTD) was moved by the Department of Revenue to review his certificate, the factory was allowed the benefit of concessional rate of duty foregoing thereby, revenue amounting to Rs. 3,91,79,988 on the total clearance. Out of this amount the allowance of the concession on clearance beyond the limit of 75 per cent of certified capacity, which was in no way justified, resulted in duty amounting to Rs. 81,25,596 (Rs. 77,38,663 basic and Rs. 3,86,933 special) being not realised.

1.3 On the omission being pointed out in audit (May 1980), the department issued a show cause notice for recovery of duty amounting to Rs. 77,38,663 (special duty was not demanded in view of stay

granted by a High Court in September 1980). The department also stated (June 1981) that the case was under adjudication by the Collector, keeping in view the decision of Government permitting the factory to increase its production upto 25 per cent above the licensed capacity. Report on recovery of demand is awaited (November 1981).

1.4 The Ministry of Finance have stated (November 1982) that DGTD and Department of Industrial Development have confirmed (August 1980) that establishing production in excess of licensed capacity was in violation of Industrial Development and Regulation Act, 1957 and show cause notice under that Act was issued to the Company but no decision was taken thereon. Demand for Rs. 81.26 lakhs in respect of duty concession incorrectly availed of on excess clearance, had been confirmed.

[Para 2.28 of the Report of C&AG of India for the year 1981-82—  
Union Government (Civil) Vol. I Indirect Taxes]

1.5 In the 1976 scheme of excise duty relief to encourage Higher production which applied to certain specified goods including tyres, excise duty was exempt on the clearances of the specified goods in excess of the base clearances from so much of the duty of excise leviable thereon as was in excess of 75 per cent of such duty. The base period and base clearances in relation to a factory were determined as under:—

- (a) where the specified goods were cleared from a factory for the first time on or after the 1st day of April 1976, the base period was to be the year 1975-76, and the base clearance was to be nil;
- (b) where the specified goods were cleared from a factory for the first time on or after the 1st day of April, 1973, but not later than the 31st day of March, 1976, the base period was to be the three financial years, namely, 1973-74, 1974-75 and 1975-76 and the base clearance was to be one-third of the aggregate of the clearances of such goods during such base period;
- (c) where the specified goods were cleared from the factory for the first time earlier than the 1st day of April, 1973, the base period was to be the year in which the aggregate of the clearances of such goods during any of the



financial years 1973-74, 1974-75 and 1975-76 was the highest and the clearances during such base period was to be the base clearance.

1.6 The notification contained suitable provisions in respect of goods cleared by or on behalf of a manufacturer from more than one factory. Elaborating the above provisions in the notification, the Ministry of Finance have stated that the scheme basically envisaged reduction in excise duty in respect of excess production cleared over and above base clearances during a particular base period. The determination of base clearance figures was required to have close co-relation with the capability of the industrial unit. Accordingly, it was decided that the base year in respect of each manufacturing unit would be that financial year, during the period 1-4-1973 to 31-3-1976 in which the manufacturing unit had cleared the maximum quantity/value of excisable goods. However, in respect of units who had their first clearances after 1-4-1973 but before 31-3-1976 the base clearance was taken as 1/3rd of the aggregate of clearances during the years 1973-74, 1974-75 and 1975-76, as these units suffered with regard to increased capital cost and other overheads as compared to old and established units. In the case of units which commenced production after 31-3-1976, the base year production was taken as zero and relief made available on all their clearances with a view to providing higher level of relief.

1.7 Another Notification 142/78-CE, dated 14th July, 1978 allowed certain concessions to tyre units depending upon the installed and licensed capacity of such units. This notification was issued after a review of the working of an erstwhile notification No. 198/76-CE, dated 16-6-1976, which allowed certain fiscal reliefs to encourage higher production. Notification No. 142/78-CE dated 14th July, 1978 is reproduced below:—

“In exercise of the powers conferred by sub-rule (1) of rule 8 of the Central Excise Rules, 1944, the Central Govt. hereby exempts tyres and tubes, excluding flaps falling under Item numbers 16(1) and 16(3) of the First Schedule to the Central Excises and Salt Act, 1944 (1 of 1944) hereinafter referred to as the specified goods, from so much of the duty of excise leviable thereon (read with any relevant notification issued under the said sub-rule (1) of rule 8 and in force for the time being), as is in excess of—  
(a) Eighty-seven and a half per cent of such duty, if pro-

duced in any factory which commenced production of the specified goods for the first time earlier than the 1st day of April, 1976; and

- (b) seventy-five per cent of such duty, if produced in any factory which commenced production of the specified goods for the first time on after the 1st day of April, 1976.

Subject to the conditions that—

- (a) (i) where the specified goods are produced in a factory whose annual licensed capacity is the same, such licensed capacity or installed capacity, as certified by the Development Office of the Directorate General of Technical Development does not exceed 5 lakhs numbers of tyres and five lakhs number of tubes; or
- (ii) where the specified goods are produced in a factory whose annual licensed capacity is different from the annual installed capacity, such licensed capacity or installed capacity, whichever is lower, as certified by the development office of the Directorate General of Technical Development, does not exceed 5 lakhs number of tyres and five lakhs number of tubes;
- (b) Clearances of the specified goods for home consumption not exceeding 75 per cent of the licensed capacity for the financial year 1978-79 shall only be entitled for exemption under this notification.

*Explanation.*—In calculating clearances of the specified goods for home consumption to the extent of 75 per cent of the licensed capacity for the financial year 1978-79, quantities of the specified goods, if any, in respect of which concessional rate of duty had been charged under the notification of the Govt. of India, Deptt. of Revenue and Banking No. 198/76, Central Excises dated 16-6-1976 during the period commencing on the 1st day of April, 1978 and ending with the day of preceding the date of publication of this notification in Official Gazette shall also be taken into account.

2. This notification shall remain in force upto and inclusive of the 31st Day of March, 1979."

1.8 The Committee desired to know the rationale behind allowing the exemption on the basis of installed or licensed capacity and not on the basis of actual production and what Socio economic benefit was expected or public interest served by issue of exemption notification. In a written note the Ministry of Finance (Department of Revenue) have stated as under:—

“It was noticed that the scheme of excise duty relief as provided under that notification had resulted in certain distortions in production among the different units of the tyre industry. Accordingly, based on the recommendations of the concerned administrative Ministry, namely, Ministry of Industry (Deptt. of Industrial Development), and in order to afford a measure of fiscal relief to the tyre industry, particularly the weaker units, and the capital intensive units, a revised scheme as available under notification 142/78-CE, dated 14-7-1978 was devised. The relief was granted with a view to prevent the spread of sickness in this industry. The said administrative Ministry had also recommended that in order to achieve this objective and to prevent the multi-national companies from availing the exemption, it could be restricted to those units whose installed/licensed capacity (whichever was less) did not exceed 5 lakh tyres and 5 lakh tubes. The desired objective of helping the newly established capital intensive units and among the older units which were weak, could be achieved through a distinction based on installed or licensed capacity. The exemption notification was thus expected to draw a reasonable classification between the weak and the then newly established units on the one hand and multinational (MRTP/FERA) units with licensed installed capacity in excess of the stipulated limits, on the other. The notification was not expected to cover small scale units.”

1.9 The Committee wanted to know whether the notification issued on 14 July, 1978 granted exemption from duty only to Modi Rubbers or other manufacturers also. In reply to Secretary, Ministry of Finance (Department of Revenue) stated during evidence:

“The 1978 notification relates to the entire tyre industry. It lays down certain criteria on the basis of which the duty concession will be available. This concession was availed

of besides Modis by certain other tyre factories as well like Premier Tyres, Appollo Tyres, J&K Industries, Incheck Tyres, MRF."

1.10 Elaborating the criteria for the grant of exemption from duty under this notification the witness stated during evidence—

"There are two things. One is the rate of duty. I will read the notification:

....the duty of excise leviable thereon as is in excess of:

- (a) 87½ per cent of such duty if produced in any factory which commenced production of the specified goods for the first time earlier than first day of April, 1976.

So, first category is those units which started producing before the first day of April, 1976. This means, in the case of such units the duty relief is 12½ per cent. The second category is those for which the notification says:

"75 per cent of such duty if produced in any factory which commenced production of the specified goods for the first time on or after the 1st day of April, 1976."

That means, for the units coming into production on or after 1st April, 1976, the duty concession will be 25 per cent of the total duty payable. But the total duty relief is to be given on 75 per cent of the licensed capacity or the installed capacity whichever is lower."

1.11 Elaborating further the witness stated:—

"There are three factors—licensed capacity, installed capacity and production. Notification lays down the level of relief related to the installed capacity and the licensed capacity whichever is lower. Then there is a third element, namely, the production. Relief becomes available only if there is production. That is how the production also becomes relevant. But the extent of relief is limited to the installed capacity or the licensed capacity whichever is lower."

1.12 When asked if the measures in fact led to the growth of other units by keeping down growth of some units by means of negative

fiscal policy of linking duty concessions to lower production, the Ministry of Finance (Department of Revenue) have stated in a written note as under:—

“The exemption was not intended to promote the growth of other units by keeping down the growth of some units by means of granting the concession to the latter units. Nor the duty concession was intended to keep down capacity so that these units stay eligible for the duty concession. Whenever a cut off limit is prescribed as a criterion to demarcate for the purpose of determining the eligibility to an exemption, the object of doing so is not to keep the manufacturers pegged down to the particular level. Such demarcation is made to identify the units who need the relief and also to prevent granting of any excess relief to any segment of the industry. It will be up to a particular unit to decide whether to remain within the limits. These considerations would continue to apply in any such scheme as available under notification No. 142/78-CE dated the 14th July, 1978.

In view of what is stated above the aforesaid duty relief scheme was not against growth of any unit nor did it arise out of a negative fiscal policy linking duty concession to lower production.”

1.13 Enquired if the concessions granted in July 1978 were not a discrimination between one manufacturer and the other—the witness explained during the evidence:

“Certainly there is a distinction but this distinction is based on some specific considerations. The first consideration is that the new factories which have come into operation recently, their cost of production will be higher, and the capital investment will be higher. They will therefore, not be able to compete with the older establishment unless some duty concession is given. Secondly, in the industry there are certain units which have become sick though established earlier and this might be for variety of reasons.”

1.14 The witness added that there were certain units in the industry which had gone sick and the notification covered such units also.

1.15 Asked as to what considerations led the Government to grant this concession, the witness explained:—

“Variety of considerations are there—what has been the growth, what are the requirements, what are the projects and products, how the industry is coming up, whether investment is being attracted or not—taking into consideration all these things they came to the conclusion that certain concession in the form of duty relief be given to new units.”

1.16 On enquiry as to why similar concession was not extended to other industries which came up after 1976, the witness stated:—

“Certain selected industries were taken up for this treatment which was given to tyre and paper industries. I do not know on what date the paper industry was covered. But they also got this relief.

The circumstances of each industry are different—the composition, the character, the age of various units, the possibility of additional production coming out of expansion rather than new units being set up. There are a host of considerations which are to be taken into account while deciding whether to a particular industry special concession has to be given or not.

The whole thing arose out of the review of an earlier notification which you referred to—Notification of 1976. The 1976 Notification related to certain duty concessions in respect of increased production in a number of industries.

Tyre Industry was one of the them. While that Notification had some effect, Government felt that in the case of Tyre Industry some special treatment will have to be given because the progress was not being made according to the expectation. Therefore, in 1978 special Notification in respect of Tyre Industry alone was issued. The Tyre Industry was deleted from Notification of 1976 and was covered by this Special Notification.”

1.17 The Committee pointed out that even though the capital invested is higher for new industry or new unit it also has the advantage of new machinery upto date modern and it can produce more

than that by the older machinery. They desired to know if these factors were taken into consideration while granting the concession in duty. In reply the witness stated:

"What you say is perfectly valid. While the capital cost of the new unit is higher, there is also benefit in the form of better and latest technology and higher productivity. But what we have to take into consideration is the final unit price of the new investment as compared to the unit price of the old investment."

1.18 When pointed out that the concession allowed amounted to discrimination since the cost of the expanded factory was as high as of the new unit set up after 1-4-76, the witness replied:—

"If you are expanding in the same premises, then you are making use of certain infrastructure and other facilities which are available to you at a lower cost. You make use of your overheads more intensively for the expansion than would be the case otherwise. It is true that you incur extra cost on expansion. But as against that, you also have certain advantages. That is why, there is a decision for allowing a smaller duty concession in the case of the existing factories as against a larger duty concession for the altogether new factories."

1.19 On the Committee pointing out that in the scheme of expansion the only advantage to a factory was of land and excepting that other expenses had to be incurred equally the witness explained:—

"They have certain advantages in the form of land. The advantage could be land, utilities, the Company Head Office and the administrative set up. It has a marketing set up, the branch network already established all over the country. Their brand name is established. Their arrangements with the suppliers and the bank credits and all sorts of things are already established on which they do not have to incur fresh and additional expenditure, at least not commensurate or proportionate to the expansion and business that they are going to have. Therefore, there is a very substantial advantage that an existing Unit has over an altogether new-comer.

I am not saying that in all cases the advantage of the existing Unit will completely off-set the disadvantage that is likely to arise out of extra or higher cost of the expansion.

But this is a matter on which you have to make a judgement and see what is the extent of concession which will be considered reasonable to off-set any disadvantage that he has.

The very fact that a certain concession has been given to the existing Units also shows that Government was conscious of the fact that even the existing Units had certain disadvantages. That is why, the concession was given to increase their production. But the fact remains that the newer Unit has a considerably greater or higher disadvantage than the existing establishment."

1.20 The Committee desired to know why it was considered necessary to grant relief only to tyre industry when lot of capital expenditure had to be incurred in respect of other new industries also. The witness stated in reply:—

"It is an admitted fact that the cost of setting up new factories has gone up and is going up. This has been the trend. The prices of the new investments were substantially higher than the prices of the older investments. For comparison purposes, we have divided the tyre industry into three periods: one, before 1959, two post 50 and upto 70, and three 70 onwards. To illustrate the point, in the first period, a tyre unit with 3 lakh production per annum had a capital cost of 3 crores; it went upto 5 crores in the second period, and in the third period, the cost went upto 32-35 crores. The latest estimate which one of the factories has submitted for this size is Rs. 42 crores. This is the order of increase. Therefore, the Government felt that if the industry had to be developed, and new units established, certain concessions would be necessary. Now, in the case of each and every industry, we would have to go into its every industry, we would have to go into its circumstances, and see whether such a concession was justified or not. Further, if the rate of duty applicable to a group of industries is high, naturally, the tax element in the price would be high and a reduction in the tax element can be expected to



have its effect, depending upon how the affairs of that industry are organised. It is not an absolute rule, but partly and in some circumstances, the reduction in duty could lead to reduction in prices. In certain others, it could be utilised to reduce the cost of the capital investment. There are varying circumstances."

1.21 Asked if the industry suffered a lot during 1970—78 in so far as capital investment was concerned, the witness stated:

"It is precisely because adequate capacity was not forthcoming due to various inhibiting factors, that the question of granting some assistance was taken up."

1.22 On enquiry as to what concessions in duty were given from 1970 onwards, the witness stated:

"These concessions perhaps could have come earlier, but better late than never."

1.23 The Committee were informed during evidence that there were eleven large scale units engaged in tyre manufacturing in country. The dates from which these 11 tyre companies had started production were stated to be as follows:—

"Dunlop, Shaganj--1936; Dunlop, Amberpur—21st January, 1959; Ceat—February 1960; Good Year—August 1961; Premier Goa—May 1962; Incheck—July 1963; M.R.F. Madras Factory—March 1962; M.R.F. Goa Factory—November 1972; Modi—November 1974; J.K.—December 1976; Apollo—January 1977 and Vikrant—1979. That is under the State Government of Karnataka management."

1.24 The Committee desired to know if the M.R.F. Goa and Modi which came into being in 1972 and 1974 respectively got the same benefit of capital cost as of these tyre companies which were set up in 1976, since the capital investment in both was of the same order. During evidence the witness explained:—

"You would notice that in the 1970s only M.R.F. Goa, Modi, J.K. and Apollo were set up and J.K., Apollo and Vikrant were set up after 1-4-1976. It is during this period that the capital cost has increased to the extent that I have indicated earlier. Investments earlier were relatively lower."

Both the Dunlop factories were set up at a time when the cost was around Rs. 2 crores. The second group of factories was set up at a time when the cost was around Rs. 5 crores. But according to the classification that is where the line is drawn."

1.25 The Committee enquired as to whether it was a fact that as a result of the two notifications issued in 1976 and 1978 factories which came between 1974 and 1976 got the benefit of 12½% and those between 1976—79 the benefit of 25 per cent. In reply the witness stated:—

"As I mentioned, the line has been drawn on 1-4-1976. You would see that even though these factories had been set up in 1970's for the purpose of illustration, I have clubbed these into certain groups. But the fact remains that in individual cases there are differences. Therefore, the earlier the factory was set up, the lower will be its capital cost."

1.26 Elaborating further in this connection the Member, Central Board of Excise and Customs stated in evidence:—

"The scheme of excise duty concession for the tyre factories, was in continuation of an earlier exemption scheme which was available for 43 specified industries, out of which tyres were taken out. The factories were classified into 3 types. These are factories which were established prior to 1-4-73, factories which were established between 1-4-73 and 1-4-76 and those which were established after 1-4-1976."

1.27 Asked if there was any system to monitor the grant of such concessions, the witness stated:—

"It is through the Government, we work in unison with each other. No Ministry can work and does work entirely on its own. We have a system and it is not necessary and possible for us to set up a mechanism for each and everything in our own set up."

1.28 Explaining as to how far the grant of concessions had helped the industry and affected the price factor, the witness replied:

"It is precisely because of these concessions during the last few years that this industry has developed to a stage today

that it is meeting all the requirement of the country and the capacity utilisation is good. The price line has been held. This is one of the examples where in spite of increasing trend of prices every where, there is no increase in the price of these products."

1.29 Asked since when the prices have not risen, the witness stated:—

"Since August, 1981. So much of competition has been generated in the industry, so much new capacity has come up, that today we are in a happy situation so far as this industry is concerned, it is no longer a sellers' market, it is a buyers' market. Today, I think, the tyre dealers have to offer discount in order to sell their tyres."

1.30 The Committee wanted to know whether in the context of In reply the witness stated:—

"This is a temporary feature. The fact that the prices today have come down does not mean that the target in regard to development of this industry has been achieved. We have projections with regard to the future. The demand is expected to rise and the capacity is not adequate to meet that demand. When we want to achieve these targets to fulfil the demand, we will have to instal more capacity and we will have to see what is the best way of installing that capacity. In that context, whether the continuance of the concession is necessary or not, I am not in a position to say 'Yes' or 'no', just now. But I would certainly like to say that the question whether for the purpose of achieving the plan target, etc., the continuance of the concession is necessary or not will have to be examined."

1.31 The Committee wanted to know the concessions in duty available to the new tyre industry units and the names of units enjoying

such concessions. In a written note the Ministry of Finance (Department of Revenue) have furnished the following information:—

“The scheme which was announced on 24-4-81 vide notification No. 107/81, made available certain excise duty concessions for tyres manufactured by units from which clearance of tyres was effected for the first time during the period 1-4-76 to 31-3-81. The scheme was modified by exemption notification 268/82 dated 13-11-82, runs for a period of seven years from the date of first clearance of tyres from the respective units. The tyres cleared by such units will be eligible for assessment at a concessional rate of 75 per cent of the rate of excise duty otherwise applicable to such tyres. This concessional rate will be available for clearance upto a level of 75 per cent of the initial annual licensed capacity during each financial year. The total duty concession under this scheme, including relief, if any, earned under the exemption notifications No. 198/75 dated 16-6-76 and 142/78 dated 14-7-78 would, however, be subject to a ceiling of 50 per cent of the initial investment on plant and machinery installed in the respective units. The names of the units who are enjoying the concession under the scheme are given below:—

Sl. No.	Name of the Unit	Date of which unit was set up	Date of first clearance of tyres
1.	M/S Vikrant	October, 1979	24.10.1979
2.	M/S Apollo Tyres Ltd. Perambur	17.1.1977*	17.1.1977
3.	M/S J.K. Industries Ltd. Kankroli	7.11.1976*	20-12.1976

\*Date of trial production.”

1.32 The Committee wanted to know if the manufacturer who had a licensed capacity to produce 3 lakhs of tyres could be permitted to produce 4 lakhs. In reply the witness stated:

“From time to time, Government has been issuing general orders or general notifications permitting at least some specified industries to produce more than their licensed capacities also, in order to relieve general shortage.”

1.33 Asked if it was an offence when a manufacturer produced in excess of licensed capacity, the witness replied:

“It would be considered so, if permission is not obtained. And

if it is not subsequently regularized, because a different situation can arise. As soon as you are about to exceed your licensed capacity, you apply to Government for expansion, or permission to produce more; and before that permission was granted you should not have done it."

1.34 On enquiry about the figures of cases launched for excess production, the representative of the Ministry of Industry stated in evidence:

"Not a single case, probably. We don't have any record to show that anybody has been prosecuted, for exceeding the capacity."

1.35 The Committee wanted to know as to why the Government put the limit on production if it did not have the mechanism to monitor production. In reply the witness stated:

"With regard to this utilization of capacity in excess of the licensed capacity, there is a general permission. Anybody can produce upto 125 per cent since 1970. Beyond that, one has to take permission in order to increase the capacity. We have a record of cases where actual utilization has been in excess of the licensed capacity. We will be able to give you details of the cases after 1951 in respect of all the commodities. No prosecution has been launched."

1.36 Subsequently in a written note the Ministry of Industry has reiterated as under:

"As far as Automobile tyre tubes industry is concerned, no case for violation of production in excess of licensed capacity was booked."

1.37 Asked as to why no prosecution was launched, the representative of the Ministry of Industry stated in evidence:

"The Law Ministry's view has been that prosecution will depend upon the fact whether there is any additional machinery in order to produce more. In most cases, we find that either balancing equipment has been installed or some better method has been used or some modification of the raw-material is there. This has led to increase in production. In Modi's case, some enquiry was held. Explanation

was called; a show-cause notice was issued to the company. It was found that some technological improvement had taken place which led to the increase in production."

1.38 According to Audit M/s Modi Rubber had a certified licensed and installed capacity of 4 lakh number of tyres and 4 lakh number of tubes per year in May 1980 but their production of tyres and tubes exceeded the certified licensed and installed capacity as they produced 7,64,947 tyres and 7,98,897 tubes during 1979-80. Further the factory was allowed to clear 3,75,000 each of tyres and tubes at the concessional rate of 12-1/2 per cent of the effective rate of duty though the permissible limit was only three lakh numbers.

1.39 The Committee wanted to know when were the two certificates of installed and licensed capacity issued to Modi Rubber Ltd. by the DGTD. In a written reply the Ministry of Finance (Department of Revenue) have stated as under:—

"M/s Modi Rubber were issued licence No. L-30(1) 28/N4/22-LI(ii) dated 4.3.1972 for production of four lakh number of tyres and four lakhs number of tubes per annum. On a reference made, the DGTD confirmed—*vide* their letter No. RC/11(4)-78/327 dated 10.10.1979, that the licensed capacity of M/s Modi Rubber continued to be four lakh number of tyres and tubes each per annum."

1.40 The Committee desired to know as to how the concerned firm had been allowed to avail of the concession in duty when its production had exceeded the prescribed capacity, the Ministry of Finance (Department of Revenue) have in a written note intimated as under:—

"Before the issue of notification No. 142/78-CE, dated 14.7.78 (as amended) the actual production *vis-a-vis* licensed capacity was not relevant. It was only in notification No. 142/78-CE dated 14.7.1978 that a condition was inserted that clearances of the specified goods for home consumption not exceeding 75 per cent of the licensed capacity for the financial year 1978-79 shall only be entitled for exemption under that notification. Thus it was only

after issue of notification No. 142/78-CE, dated 14.7.78 that the licensed capacity became relevant for excise duty purposes.

Further, although the notification No. 142/78 was issued in July, 1978, during the year 1978-79 M/s Modi Rubber did not avail of exemption under that notification and continued to enjoy the benefit available under earlier notification No. 198/76 under Court's orders.

Notification No. 198/76-CE, dated 16.6.76 was applicable to a number of commodities including tyres and tubes. The notification was valid upto 31.3.79. With effect from 14.7.78 however tyres and tubes were omitted from the purview of notification No. 198/76-CE and a new notification No. 142/78-CE was issued in respect of tyres and tubes. M/s Modi Rubber filed a Writ in Delhi High Court and obtained a direction from the Court that till 31.3.1979 they would continue to avail of the benefit under notification No. 198/76-CE, notwithstanding the omission of tyres and tubes from the purview of that notification.

It was only on the expiry of notification No. 198/76 CE on 31.3.79 that the said factory started availing exemption under notification No. 142/78 which was valid upto 31.3.1980."

1.41 Asked as to when it was noticed that the firm had exceeded its production beyond certified capacity, the Ministry of Finance (Department of Revenue) have stated in a written note as under—

"The fact that the production of M/s Modi Rubber has exceeded the certified capacity was noticed by the Range Superintendent on 4.4.79 while scrutinising the details of the declaration filed by the party in this connection."

1.42 On enquiry in regard to the action taken thereafter, the Ministry of Finance (Department of Revenue) have informed that the Assistant Collector made a reference to Collector in this regard on 24.5.1979.

1.43 Supplementing the information the Secretary, Ministry of Finance (Department of Revenue) informed during evidence that

the Collector wrote back to the Assistant Collector after having written and obtained the comments of the Ministry and DGTD.

1.44 In regard to the action taken by the Assistant Collector the witness stated:—

“In the meanwhile he has allowed only provisional clearance. He has not accepted the fact that Modi is finally entitled to this concession which means that if later on the authorities hold that Modi is not entitled to this concession, he would not be given.”

1.45 On enquiry as to why the Collector took one year to send a reply to the reference made by the Assistant Collector, the Ministry of Finance (Deptt. of Revenue) have in a written note stated as under:—

“It is not correct that the Collector took a year to reply to the Assistant Collector. The Assistant Collector had sought a clarification whether in view of their excess production above the licensed capacity M/s Modi Rubber were at all eligible for exemption under Notification No. 142/78. With reference to this letter from the Assistant Collector the then Collector of Central Excise, Kanpur had made a reference to the Ministry under C.No. V-16(17)/41-VC/79/11562-64, dated 24.5.79, a copy of which was endorsed to the DGTD and in response to which the DGTD informed under their letter No. RC/ (1194)-78/323, dated 10.10.79 confirming that M/s. Modi Rubber's annual licensed capacity was 4 lacs number of tyres and tubes each. A copy of the said letter dated 10.10.79 was directly sent by the DGTD to the Assistant Collector, Central Excise, Meerut under their letter No. RC/11(4)78/474, dated 16.11.79. Thus the matter resting with the Assistant Collector's letter dated 4.4.79 stood disposed of. A further clarification was sought by the Assistant Collector under his letter C. No. V-16(17)CL-164/79/297, dated 15.2.80 after the factory had started availing of the excise exemption taking their licensed capacity as 5 lac number of tyres and 5 lac number of tubes



and on the assumption that the permissible excess of 25 per cent of goods over the licensed capacity should be added to their licensed capacity of 4 lac numbers of tyres and tubes each. Earlier they have availed of exemption on 3 lac tyres and tubes each which was 75 per cent of their licensed capacity of 4 lac number of tyres and tubes each. A clarification was issued by the Collector under this office letter C. No. 16(30)49/Tech|70|10103, dated 18.4.80".

The Ministry of Finance have added:

"According to the aforesaid clarification, exemption was to be given if at all the factory was entitled to it, on the basis of annual installed capacity or annual licensed capacity of the factory which was 4 lakh tyres and 4 lakh tubes per year as certified by the DGTD and not on the basis of 5 lakh tyres and 5 lakh tubes as opined by the advocate."

1.46 In reply to a question as to how the Excise authorities accepted the certificates of installed capacity or the licensed capacity even when the evidence to the contrary was available from the fact of actual production figures, the Ministry have stated:

"However, where the evidence to the contrary is available from the actual production, it is open to the Excise authorities to make further enquiries in order to ascertain the correctness of the certificate produced."

1.47 The excess installed capacity of M/s Modi Rubber Ltd. has since been regularised and re-fixed at 7.64 lakh number per annum each for automobile tyres and tubes vide Ministry of Industry, Department of Industrial Development office memorandum dated 8 February, 1982.

1.48 In reply to Committee's further query in regard to the position of recovery from the firm after the aforesaid clarification, the Chairman CBE & C stated in evidence:—

"They went to the Court and our recovery has been stayed"

**1.49 The Committee find that the Government issued notification No. 198/76-CE on 16-6-76 to give relief in excise duty to certain**

specified goods including tyres and tubes to encourage higher production. The relief provided for exemption of excise duty on the clearances in excess of the basic clearance from so much of the duty of excise leviable thereon as was in excess of 75% of such duty. This scheme basically envisaged reduction in excise duty in respect of excess production cleared over and above base clearance during a specified base period. The determination of base clearance figures was required to have close correlation with the capacity of the industrial unit. The base year in respect of each manufacturing unit was the financial year during the period 1-4-1973 to 31-3-1976 in which the manufacturing unit had cleared the maximum quantity/value of exercisable goods. However, in respect of units which had their first clearances after 1-4-73 but before 31-3-1976, the base clearance was taken as 1/3rd of the aggregate of clearances during the years 1973-74, 1974-75 and 1975-76, as these units had incurred increased capital cost and other overheads as compared to old and established units. In the case of units which commenced production after 31-3-1976, the base year production was taken as zero and relief made available on all their clearances with a view to providing higher level of relief.

1.50 As the aforesaid scheme led to some distortions in production among the different units of the tyre industry, the tyres and tubes were taken out of the purview of notification of 16-6-76 and a fresh notification No. 142/78-CE was issued on 14-7-78 in respect of tyres and tubes. According to this notification a relief of 12½% in excise duty was allowed to units which commenced production of the specified goods for the first time earlier than the first day of April 1976. A relief of 25% of duty was given to such factories which commenced production of specified goods for the first time on or after the 1st day of April 1976. The exemption or relief was subject to the condition that the licensed and installed capacity as certified by the Director General of Technical Development did not exceed five lakh number of tyres and five lakh numbers of tubes per year. Only clearances upto 75 per cent of the licensed or installed capacity, whichever was lower, qualified for exemption under this notification.

1.51 M/s Modi Rubber Ltd. with a certified licensed and installed capacity of four lakh number of tyres and tubes per year had started production before 1-4-1976. The Committee were informed during evidence that M/s Modi Rubber had started production of

tyres and tubes in November, 1974. The factory, however, exceeded the certified licensed and installed capacity and in fact produced 7,64,947 tyres and 7,98,891 tubes during the year 1979-80. Even then they were allowed to clear 3,75,000 each of tyres and tubes at the concessional rate of 48.125 per cent ad valorem (being 87.5 per cent of the effective rate of duty of 55 per cent ad valorem) though the premissible limit was only three lakh number of tyres and tubes each being 75 per cent of the licensed/installed capacity of 4 lakh tyres and 4 lakh tubes. The Company reaped the benefit of concessional duty amounting to Rs. 3.92 crores on the total clearances. Out of this amount the allowance of the concession in duty on clearance beyond the limit of 75 per cent of licensed capacity, itself amounted to Rs. 81.26 lakhs (Rs. 77.30 lakhs basic and Rs. 3.87 lakhs special).

1.52 It is clear that excise authorities failed to take appropriate action in regard to M/s Modi Rubber Limited. The facts are not and were never in dispute. The orders of Government are also clear and no ambiguity existed. It is difficult, therefore, to see why action to rectify matters was not taken as soon as the error was brought to the notice of senior officers. The Assistant Collector instead of taking action on his own referred the matter to the Collector who in turn referred to the Department. It is difficult to understand why any reference was necessary. In these circumstances, it seems desirable that responsibility for the failures that have occurred in the case of M/s Modi Rubber Limited in the levy of excise duty should be fixed after an appropriate enquiry and disciplinary action as may be called for as a result of this enquiry should be taken.

1.53 At the same time, the Committee would like the reappraisal of mechanism of monitoring of production and assessment of the accrual of revenue with a view to tie up loose ends for achieving better results.

1.54 In accordance with the certificate given by the DGTD, the licensed capacity/installed capacity of the firm was 4 lakh tyres and 4 lakh tubes per annum. However, during the year 1979-80 the firm could produce 7,64,947 tyres and 7,98,891 tubes which was almost double the certified licensed capacity. Evidently the certified licensed/installed capacity was thus grossly understated as the firm's production was double the licensed capacity. In the opinion

of the Committee such a situation can arise either when the licensed installed capacity is fixed without going into various factors or the Company deliberately concealed from the Government some vital information. Assuming that additional capacity had been created by the Company after licensed/install capacity was fixed, the Committee cannot believe that there would be no obligation on the part of the Company to inform the Govt. and have the licensed capacity re-fixed. The Committee would like the DGTD to examine whether the certified licensed capacity was grossly understated at the time of issuing the certificate and fix the responsibility for the lapse in this regard, if any. While cent per cent utilisation of the licensed capacity is to be appreciated and encouraged, the Committee find it necessary to sound a note of caution in cases where the excess production exceeds 50% of the licensed capacity. The Minister should therefore review whether there is any lacunae in the procedures in vogue which enable the Companies to produce in excess of licensed capacity without informing the Government or taking their prior approval. The Committee desire that prompt action should be taken to streamline the procedures and plug any loopholes.

1.55 The Committee note that the DGTD and Department of Industrial Development confirmed in August, 1980 that establishing production in excess of licensed capacity was in violation of Industrial Development and Regulation Act and demand for Rs. 81.26 lakhs in respect of duty concession incorrectly availed of on excess clearnace was confirmed. However, Modi Rubber Ltd. obtained a stay order from the Delhi High Court against the demand issued to them with the result that the recovery of Government dues to the tune of 81 lakhs of rupees is hanging in balance. The stay order issued by the High Court continues to be in operation even after the expiry of a period of about 5 years. The Committee disapprove of the lackadaisical manner in which the Ministry of Finance have proceeded in the matter. They would like the Government at least now, to move in the matter swiftly and make concerted efforts to get the stay order vacated as early as possible so that the recovery of the due amount is effected without further delay. The Committee desire that suitable action should be taken against those responsible for allowing the case to pend for so long. In this connection, the attention of Government is also drawn to the Committee's recommendations in Para 1.9 of its Ninth Report (8th Lok Sabha) stressing the need to get the stay orders vacated in all the cases pending before the courts of law in terms of Sup-

reme Court Judgement in the case of Assistant Collector of Central Excise West Bengal Vs. Dunlop India and others.

[1985 (19) ELT22 (SC)]

The Committee would also like to be informed of the action taken by Government against the Company for violation of the Industrial Development and Regulation Act.

1.56 The Committee note that the concession in excise duty @12½% on tyres was granted in the year 1978 to units in production before 1-4-1976 because of the fact that the cost of setting up such units was lower than that of the units which went into production after 1-4-1979 and which were granted a concession of 25% in excise duty. The rate of concession in the latter case was kept at a higher level to off set the resultant effects of the increased capital cost of new units with a view to encourage the development of the industry and reduction in the prices of tyres. The Committee have been informed that a tyre unit with a production capacity of 3 lakh tyres and tubes per annum needed a capital investment of about Rs. 5 crores during the period from 1959 to 1970 while the units set up after 1970 involved a cost upto Rs. 32—35 crores. The latest estimate for one of the factories in October, 1983 was stated to be of the order of Rs. 42 crores. The Committee thus find that even though the capital cost had increased about six to seven times after 1970 compared to that of earlier period, the Government came forward for grant of concession only in the year 1978. The Secretary, Ministry of Finance (Department of Revenue) admitted during evidence that these concessions perhaps could have come earlier. As excise concessions are expected to engage constant attention by Government, the Committee, would like Government to be more vigilant in future to such developments and take timely measures to safeguard the health of the vital sectors of the economy.

NEW DELHI:

December 18, 1985

*Agrahayana 27. 1907 (S)*

E. AYYAPU REDDY.

*Chairman.*

*Public Accounts Committee.*

**APPENDIX**

**CONCLUSION|RECOMMENDATIONS**

S.No.	Para No.	Ministry/ Deptt. Concerned	Conclusions/Recommendations
1	2	3	4
1	1.49	M O. Finance (Department of Revenue)	<p>The Committee find that the Government issued notification No. 198/76-CE on 16-6-76 to give relief in excise duty to certain specified goods including tyres and tubes to encourage higher production. The relief provided for exemption of excise duty on the clearances in excess of the basic clearance from so much of the duty of excise leviable thereon as was in excess of 75% of such duty. This scheme basically envisaged reduction in excise duty in respect of excess production cleared over and above base clearance during a specified base period. The determination of base clearance figures was required to have close correlation with the capacity of the industrial unit. The base year in respect of each manufacturing unit was the financial year during the period 1-4-1973 to 31-3-1976 in which the manufacturing unit had cleared the maximum quantity/value of excisable goods. However, in respect of units which had their first clearances after 1-4-73 but before 31-3-1976, the base clearance was taken as 1/3rd of the aggregate of clearances during the years 1973-74, 1974-75 and 1975-76, as these</p>

units had incurred increased capital cost and other overheads as compared to old and established units. In the case of units which commenced production after 31-3-1976, the base year production was taken as zero and relief made available on all their clearances with a view to providing higher level of relief.

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As the aforesaid scheme led to some distortions in production among the different units of the tyre industry, the tyres and tubes were taken out of the purview of notification of 16-6-76 and a fresh notification No. 142/78-CE was issued on 14-7-78 in respect of tyres and tubes. According to this notification a relief of 12½% in excise duty was allowed to units which commenced production of the specified goods for the first time earlier than the first day of April 1976. A relief of 25% of duty was given to such factories which commenced production of specified goods for the first time on or after the 1st day of April 1976. The exemption or relief was subject to the condition that the licensed and installed capacity as certified by the Director General of Technical Development did not exceed five lakh number of tyres and five lakh numbers of tubes per year. Only clearances upto 75 per cent of the licensed or installed capacity, whichever was lower, qualified for exemption under this notification.

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M/s Modi Rubber Ltd. with a certified licensed and installed capacity of four lakh number of tyres and tubes per year had started production before 1-4-1976. The Committee were informed

during evidence that M/s Modi Rubber had started production of tyres and tubes in November, 1974. The factory, however, exceeded the certified licensed and installed capacity and in fact produced 7,64,947 tyres and 7,98,891 tubes during the year 1979-80. Even then they were allowed to clear 3,75,000 each of tyres and tubes at the concessional rate of 48.125 per cent *ad valorem* (being 87.5 per cent of the effective rate of duty of 55 per cent *ad valorem*) though the permissible limit was only three lakh number of tyres and tubes each being 75 per cent of the licensed/installed capacity of 4 lakh tyres and 4 lakh tubes. The Company reaped the benefit of concessional duty amounting to Rs. 3.92 crores on the total clearances. Out of this amount the allowance of the concession in duty on clearance beyond the limit of 75 per cent of licensed capacity, itself amounted to Rs. 81.26 lakhs (Rs. 77.30 lakhs basic and Rs. 3.87 lakhs special).

4 1.52

Ministry of Finance  
(Deptt. of Revenue)

It is clear that excise authorities failed to take appropriate action in regard to M/s Modi Rubber Limited. The facts are not and were never in dispute. The orders of Government are also clear and no ambiguity existed. It is difficult, therefore, to see why action to rectify matters was not taken as soon as the error was brought to the notice of senior officers. The Assistant Collector instead of taking action on his own referred the matter to the collector who in turn referred to the Department. It is difficult to un-



derstand why any reference was necessary. In these circumstances, it seems desirable that responsibility for the failures that have occurred in the case of M/s Modi Rubber Limited in the levy of excise duty should be fixed after an appropriate enquiry and disciplinary action as may be called for as a result of this enquiry should be taken.

5. 1.53 M/o Finance  
(Deptt. of Revenue)

At the same time, the Committee would like the reappraisal of mechanism of monitoring of production and assessment of the accrual of revenue with a view to tie up loose ends for achieving better results.

6. 1.54 Ministry of Industry  
(Deptt. of Industrial Development)

In accordance with the certificate given by the DGTD, the licensed capacity/installed capacity of the firm was 4 lakh tyres and 4 lakh tubes per annum. However, during the year 1979-80 the firm could produce 7,64,947 tyres and 7,98,891 tubes, which was almost double the certified licensed capacity. Evidently the certified licensed/installed capacity was thus grossly understated as the firm's production was double the licensed capacity. In the opinion of the Committee such a situation can arise either when the licensed installed capacity is fixed without going into various factors or the Company deliberately concealed from the Government some vital information. Assuming that additional capacity had been created by the Company after licensed/installed capacity was fixed, the Committee cannot believe that there would be no obligation on the part of the Company to inform the Government and have the licensed

capacity re-fixed. The Committee would like the DGTD to examine whether the certified licensed capacity was grossly understated at the time of issuing the certificate and fix the responsibility for the lapse in this regard, if any. While cent per cent utilisation of the licensed capacity is to be appreciated and encouraged, the Committee find it necessary to sound a note of caution in cases where the excess production exceeds 50 per cent of the licensed capacity. The Ministry should therefore review whether there is any lacunae in the procedures in vogue which enable the Companies to produce in excess of licensed capacity without informing the Government or taking their prior approval. The Committee desire that prompt action should be taken to streamline the procedures and plug any loopholes.

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7. 1.55 (i) M/o Finance  
(Deptt. of Revenue)  
(ii) M/o Industry  
(Deptt. of Industrial Development)

The Committee note that the DGTD and Department of Industrial Development confirmed in August, 1980 that establishing production in excess of licensed capacity was in violation of Industrial Development and Regulation Act and demand for Rs. 81.26 lakhs in respect of duty concession incorrectly availed of on excess clearance was confirmed. However, Modi Rubber Ltd. obtained a stay order from the Delhi High Court against the demand issued to them with the result that the recovery of Government dues to the tune of 81 lakhs of rupees is hanging in balance. The stay order issued by the High Court continues to be in operation even after the expiry of a period of about 5 years. The Committee disapprove

of the lackadaisical manner in which the Ministry of Finance have proceeded in the matter. They would like the Government at least now, to move in the matter swiftly and make concerted efforts to get the stay order vacated as early as possible so that the recovery of the due amount is effected without further delay. The Committee desire that suitable action should be taken against those responsible for allowing the case to pend for so long. In this connection, the attention of Government is also drawn to the Committee's recommendations in Para 1.9 of its Ninth Report (8th Lok Sabha) stressing the need to get the stay orders vacated in all the cases pending before the courts of law in terms of Supreme Court Judgement in the case of Assistant Collector of Central Excise West Bengal Vs. Dunlop India and others.

[(1985) (19) ELT 22 (SC)]

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The Committee would also like to be informed of the action taken by Government against the Company for violation of the Industrial Development and Regulation Act.

18. 1.56 M/o Finance  
Deptt. of Revenue

The Committee note that the concession in excise duty @12½ per cent on tyres was granted in the year 1978 to units in production before 1-4-1976 because of the fact that the cost of setting up such units was lower than that of the units which went into production after 1-4-1979 and which were granted a concession of 25 per cent in excise duty. The rate of concession in the latter case was kept at a higher level to off set the resultant effects of the increased

capital cost of new units with a view to encourage the development of the industry and reduction in the prices of tyres. The Committee have been informed that a tyre unit with a production capacity of 3 lakh tyres and tubes per annum needed a capital investment of about Rs. 5 crores during the period from 1959 to 1970 while the units set up after 1970 involved a cost upto Rs. 32—35 crores. The latest estimate for one of the factories in October, 1983 was stated to be of the order of Rs. 42 crores. The Committee thus find that even though the capital cost had increased about six to seven times after 1970 compared to that of earlier period, the Government came forward for grant of concession only in the year 1978. The Secretary, Ministry of Finance (Department of Revenue) admitted during evidence that these concessions perhaps could have come earlier. As excise concessions are expected to engage constant attention by Government, the Committee, would like Government to be more vigilant in future to such developments and take timely measures to safeguard the health of the vital sectors of the economy.

