

**COMMITTEE ON PUBLIC
UNDERTAKINGS,
1972-73,**

(FIFTH LOK SABHA)

TWENTY-FIFTH REPORT

**Action taken by Government on the recommenda-
tions contained in the Third Report of the
Committee on Public Undertakings (Fifth Lok
Sabha)**

BHARAT ELECTRONICS LIMITED

(Ministry of Defence)



**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1973/Phalguna, 1894 (S)

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CORRIGENDA

Twenty Fifth Report of the Committee on Public Undertakings (1972-73) on Action Taken by Government on the recommendations contained in the Third Report of the Committee on Public Undertakings (Fifth Lok Sabha) on Bharat Electronics Ltd.

<u>Page</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
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18	9 (from bottom)	progressive	progressively
18	4	lager	larger
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32	10 (from bottom)	form	firm
32	4 (from bottom)	depreciate	deprecate
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43	8 (from bottom)	be	been
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50	10	cased	ceased
54	5	their	there
93	21	recommendation	recommendations

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1972-73)

CHAIRMAN

Shrimati Subhadra Joshi.

MEMBERS

2. Shri Dinen Bhattacharya
3. Shri G. Bhuvarahan
4. Dr. Kailas
5. Shri Murasoli Maran
6. Dr. Mahipatray Mehta
7. Shri S. N. Misra
8. Shri Amrit Nahata
9. Shri P. Parthasarathy
10. Shri Ranen Sen
11. Shri Lal K. Advani
12. Shri M. Kamalanathan
13. Shri U. N. Mahida
- *14. Chaudhary A. Mohammad
15. Shri D. P. Singh.

SECRETARIAT

Shri M. A. Soundararajan—*Deputy Secretary.*

Shri M. N. Kaul—*Under Secretary.*

* Died on the 7th February, 1973.

**COMPOSITION OF THE STUDY GROUP ON ACTION TAKEN
REPORTS AND MISCELLANEOUS MATTERS**

1. Shrimati Subhadra Joshi—*Chairman*.
2. Shri Amrit Nahata—*Alternate Convener*.
3. Dr Kailas
4. Shri S. N. Misra
5. Shri P. Parthasarathy
6. Shri G. Bhuvarahan
7. Shri D. P. Singh
8. Shri Lal K. Advani
9. Shri U. N. Mahida
10. Shri Ranen Sen.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Twenty-fifth Report on Action Taken by Government on the recommendations contained in the Third Report of the Committee on Public Undertakings (Fifth Lok Sabha) on Bharat Electronics Limited.

2. The Third Report of the Committee on Public Undertakings (Fifth Lok Sabha) on Bharat Electronics Limited was presented to the Lok Sabha on the 9th December, 1971. The replies of Government to all the 30 recommendations contained in the Report were received in batches on the 12th December, 1972, 19th December, 1972 and on the 11th January, 1973.

3. The replies of Government to the recommendations contained in the aforesaid Report were considered by the Committee on Public Undertakings on the 2nd March, 1973 and the Chairman was authorised to finalise the Report on the basis of the decisions of the Committee and present it to Parliament.

4. The Report has been divided into the following five Chapters:—

(i) Report.

(ii) Recommendations that have been accepted by Government.

(iii) Recommendations which the Committee do not desire to pursue in view of Government's replies.

(iv) Recommendations in respect of which replies of Government have not been accepted by the Committee.

(v) Recommendations in respect of which final replies of Government are still awaited.

5. An analysis of the Action Taken by Government on the recommendations contained in the Third Report of the Committee is given in Appendix V. It would be observed therefrom that out of

the total number of recommendations made in the Report 56.7 per cent have been accepted by Government. The Committee do not desire to pursue 36.7 per cent of the recommendations in view of Government's replies. Replies of Government in respect of 6.6 per cent of the recommendations have not been accepted by the Committee.

NEW DELHI;
March 20, 1973

Phalguna 29, 1894 (S).

SUBHADRA JOSHI,
Chairman,
Committee on Public Undertakings.

CHAPTER I REPORT

A. Rated Capacity—Overall utilisation of productive machines 'Recommendation (Serial No. 13)

In their recommendation in paragraphs Nos. 4.12 and 4.13 of the Third Report (Fifth Lok Sabha) the Committee noted that the overall utilisation of productive machines in the Equipment Division had been 72 per cent of the available capacity in 1969-70 on the basis of two eight hour shifts and therefore felt that all the units of the plant were not working to their rated capacity.

2. The Committee recommended that the rated capacity of the plant should be fixed in terms of physical output as the value of production was liable to change. It was suggested that if the rated capacity of the plant was not indicated to them by the supplier of the plant or the collaborator, BEL, should undertake an assessment of the ultimate and rated capacity on their own and then keep a watch over the progress made to achieve that capacity.

3. In reply the Government have stated that Bharat Electronics Limited have been carefully watching the utilisation of machines and labour in various parts of the factory, and a continuous check on efficiency is maintained. However, because of the nature of diversified equipment production and the continuously changing product-mix, it would be virtually impracticable to define the rated capacity in terms of physical outputs. If a fixed product-mix can be pre-determined and specified, the rated capacity for such product-mix, based on the available machines, could be indicated in physical terms. However, things being as they are, the capacity can only be specified broadly in terms of value. The Company sets physical targets each year against which the actuals are assessed. Physical targets are quantified into financial terms at current selling prices. Thus, the achievements of financial targets will amount to achievement of physical targets, which factor is also examined by the Board of Directors of the Company.

4. On the above basis the actual utilisation of machines during the last three years is as under:—

1969-70	72	per cent
1970-71	69	„
1971-72	73	„

5. It may be added that a cent percent utilisation of the machinery and equipment is not feasible specially when the product-mix is so

varied and the operations involved are of different types on the various products.

6. The Committee are not convinced with the Government reply. They are still of the view that the rated capacity should be fixed in terms of physical output and not in terms of value of production as the latter is liable to change. The Committee, therefore, reiterate their earlier recommendation and stress that BEL should undertake an assessment of the rated capacity on their own and keep a watch over the progress made to achieve that capacity.

B. Pricing Policy—Comparison of BEL's selling prices with imported selling prices

Recommendation (Serial No. 25)

7. In their recommendation in paragraph 8.13 of the Third Report (Fifth Lok Sabha) the Committee observed that BEL's selling prices (including excise duty) effective from 1st March, 1969 in respect of certain types of Germanium Semi-Conductors, Silicon Semi-Conductors and transmitting valves were higher than their corresponding landed cost and recommended that BEL should not relent in their efforts to reduce their cost of production so that it might be possible to bring their selling prices at par with the landed cost of Germanium Semi-Conductors, Silicon Semi-Conductors and transmitting valves etc. etc.

8. In their reply the Government stated that the higher cost of certain components produced by BEL as compared to the prices of similar items produced abroad was attributable to the low volume of production resulting from low demand, a lesser degree of automation than prevalent abroad, high prices of certain imported as well as indigenous primary materials and high prices of fine chemicals. In spite of these BEL had been trying to reduce their production costs and as a result of these efforts the selling prices of some of the Semi-Conductors had been reduced.

9. The Committee find that the prices of some of the products of BEL are still higher than their landed cost. In this connection they would invite attention to the following guidelines issued by the Bureau of Public Enterprises:—

“PRICING POLICIES:

The guidelines regarding the pricing policy of the Public Sector enterprises, inter alia envisaged the following:—

- (i) For enterprises which produce goods and services in competition with other domestic producers the normal market forces of demand and supply will operate and their products will be governed by the prevailing market prices.**
- (ii) For enterprises which operate under monopolistic or semi-monopolistic conditions, the landed cost of comparable imported goods would be the normal ceiling. Within this ceiling it would be open to the enterprises to have price negotiations and fix prices at suitable levels. If the landed cost is found/believed to be artificially low or in other exceptional circumstances it is considered necessary to have higher prices then the matter should be referred to the Administrative Ministry for an examination in depth in consultation with the Ministry of Finance and the Bureau of Public Enterprises (Vide O.M. No. BPE/46/ADV.Fin./68/25, dated 27-12-68)”.**

10. The Committee, therefore, reiterate their earlier recommendation and stress that effective steps should be taken by the Company to bring down the selling prices of all their products and ensure that at no time the prices exceed the landed cost.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

The Committee note that at the National Conference on Electronics held in Bombay in March 1970 some of the leading authorities on Electronics including the ex-Chairman of the Electronics Committee and leading scientist, who was formerly a member of the Planning Commission and is now Scientific Adviser to Defence Minister were frankly critical of the excessive reliance placed on foreign collaboration and observed that the achievements in the field of attaining self-reliance in defence and tele-communications electronics throughout the sixties were disappointing. The Committee feel that the perspective plan for electronics industry having been prepared under the eminent Chairmanship of late Dr. Bhabha, there was not adequate follow-up action with the result that even in 1970-71 the value of equipment produced with indigenous know-how in BEL was no more than Rs. 6 crores out of a total production of Rs. 21.40 crores. The Committee would like the Government to give the highest priority to the intensification of research and development programme in Electronics in the country so that we are able to attain self-reliance in this crucial industry. In particular, the Committee would commend the suggestions made at the Conference that requests for foreign inputs for electronics industry should be most critically examined with a view to develop self-reliance and to do away with, as far as possible, foreign collaboration. The Committee in particular suggest that the methods followed in Japan in achieving a break through in electronics, by purchasing out-right know-how (where necessary) intensifying research and development in close collaboration with industry and production of quality goods at most competitive prices, should be closely examined by Electronics Commission and adopted as necessary in the interest of stepping up our production of electronics to meet the demand of home market and avail of its export potential.

(Paragraph 1.16)

Reply of Government

Government have already decided to accord highest priority to the development of an integrated and self-reliant electronics industry

in the country as rapidly as possible. The need for intensive promotional effort relating both to production as well as research and development is fully realised. This would be evident from the Government resolution setting up the Electronics Commission, reproduced below:

“Government attaches the highest importance to the development of an integrated and self-reliant electronics industry in the country, as rapidly as possible. Electronics occupies a key position in modern science and technology. It has a vital role to play in the fields of atomic energy, communications, defence, education, entertainment and space technology. It is assuming increasing importance in the monitoring and control of production processes in the engineering, chemical and metallurgical industries. Because of its dynamic character, its pervasive nature and its significant impact on science, industry and society, electronics is today in the vanguard of technological progress. Technological progress and obsolescence are both very rapid in this field. An intensive promotional effort relating to both production and research and development is, therefore, essential to ensure a rapid growth of self-confidence and of indigenous capabilities”.

2. The Electronics Commission is now engaged in the following immediate tasks:—

- (a) To make an assessment of the present requirements and those over the future (during the next 5—10 years) in all sectors of electronics including equipment, components and materials;
- (b) To make an assessment of the imports of all types in the field of electronics;
- (c) To make an assessment of the installed capacities, letters of intent issued and intrinsic manufacturing capabilities in the public and private sector and the future plans thereof over the next few years;
- (d) To determine the manner in which additional manufacturing capability should be generated in the public sector and the private sector;
- (e) To determine the extent of existing activity in the small scale sector, their future plans and the action necessary to promote faster growth in that sector;

- (f) To make an assessment of the present R&D capabilities in the country and the manner in which these should be coordinated, directed, developed, and funded; and to determine the manner in which new R&D programmes could be developed in identified areas with the help of scientists in India and those who could be brought back from abroad;
- (g) To make an assessment of the existing available manpower and training facilities at various levels (skilled workers and technicians, supervisory staff and engineers and scientists for R&D, management etc.) and to assess the future manpower requirements needed for the planned growth of the industry and determine the manner in which necessary skills could be imparted and manpower made available as required;
- (h) To assess the present export efforts and the steps necessary to promote exports such as incentives, simplification of procedures, and the setting up of wholly export-oriented industries including operations such as free trade zones;
- (i) To make an assessment of the plans of each State for development of the electronics industry and determine the manner in which support, advisory, technical and financial, could be provided for full growth of the potential of each State in this field, with a view to ensuring wide dispersal of this industry throughout the country;
- (j) To determine the manner in which support, financial and advisory, could be provided to engineers and technicians in India and those willing to return from abroad to set up technology oriented and economically viable industrial projects in electronics; and
- (k) To coordinate efforts for the rapid development of electronics in vital and strategic areas such as defence and communications.

3. As would be seen from these tasks, the Electronics Commission is already seized with the various problems which have been outlined in the recommendations of the Committee on Public Undertakings. The Electronics Commission has decided to take necessary action to step up production of all electronics items to meet the demands in the country and to fully exploit the export potential.

4. Regarding Research & Development, para 8, Chapter II, pages 26-27 of the Annual Report of the Department of Electronics for the

year 1971-72, already placed on the Table of the House, describes the efforts made in 1971-72 and the plans for the current financial year. It will be seen that the major effort is directed towards areas of strategic importance.

5. The Department of Electronics has been carrying out a strict and critical examination of all proposals for import of electronic equipment or for foreign collaboration in this field to ensure that efforts directed at self-reliance are not undermined. The Department of Electronics proposes to increase its controls on these aspects to ensure the growth of self-reliance and to reduce the tendency to base Indian industry on foreign collaboration.

6. Bharat Electronics Ltd. are also fully conscious of the need to do without reliance on foreign technology as far as possible. Such reliance in the case of professional electronic equipment for Defence or other sophisticated items was in the past dictated by the very tight time-frame or stringent specifications. Nevertheless, indigenous research and development efforts have also been stepped up by the Company and all out efforts are now being made to become less and less reliant on foreign technology. Out of a total number of 40 foreign technical collaboration agreements concluded by BEL, 20 have already expired and they have not been renewed. The remaining agreements also, with the exception of two or three, will expire within the course of the next five years. An idea of the progress made as a result of indigenous design and development efforts of BEL could be had from the fact that during the year 1970-71 the Company was able to develop 32 new equipments or modifications/improvements to existing equipments with the efforts of the R&D Division. During the year 1971-72, the development work on 18 more items of equipment or improvements to existing equipments was successfully completed. Several of these equipments, including a whole family of equipments intended for the use of the police forces, have already gone into production. As against the value of indigenously designed and developed production of equipment and spares in BEL amounting to Rs. 1.3 crores during 1968-69, the value of production of such items during 1971-72 is estimated to be about Rs. 7 crores. The future development programme of BEL aims at indigenous development of a complete range of HF, VHF and UHF communication equipments, using modern techniques. Other areas of future development activities relate to micro-miniaturised X-Band Radar, which will be the heart of many radar systems in the future; desk calculators; and mini-computers.

The Components Division of BEL has also been able to develop a number of new types of electron tubes, germanium and silicon

transistors, capacitors and crystals, etc. Further development work in the Components Division will relate to new types of Indicator Tubes, TV and X-Ray Tubes apart from Switching transistors, and Hybrid micro-circuits etc. The following table gives at a glance an idea of "licenced" production vis-a-vis the BEL designed production, in regard to electronic equipments in BEL.

	1972-73	1975-76
Licensed Production	52%	33%
BEL Design	35%	59%
Partly BEL and Partly Licensed	13%	8%

With continued R&D efforts, the position is expected to improve still further after 1975-76.

An idea of the growth of the R&D effort in BEL could also be had from the fact that as against an expenditure amounting to Rs. 17.00 lakhs on the R&D work in BEL during 1965-66, the expenditure on R&D efforts during 1971-72 at BEL amounted to Rs. 95.50 lakhs. It may also be mentioned that R&D activities at BEL are mainly production-oriented.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL), dated the 10th January, 1973.]

Recommendation (Serial No. 2)

The Electronics Commission should draw up a perspective plan for the electronics industry in the light of all relevant developments since the Bhabha Committee Report was submitted and have a system of continuously reviewing the trends in demand and production so as to extend in concrete terms every help to the development of electronics industry within the country. A yearly report on the achievements in the electronics industry should be presented in time, to Parliament so that the matter receives continuous attention at the highest level. (Paragraph 1.17).

Reply of Government

The recommendation was forwarded to the Department of Electronics for their comments and their reply is reproduced below:

"One of the important tasks on which the Electronics Commission is at present engaged is the preparation of a total perspective plan

cover the next 5—10 years. This plan would be continuously reviewed and based on it the additional manufacturing capability established in the Public and the Private Sectors. It is proposed to produce such a perspective plan which will be an important sequel to the Bhabha Report on Electronics, within the financial year 1972-73. The Information Planning and Analysis Group of the Electronics Commission at Bombay has been specifically entrusted with this responsibility.

2. The progress achieved in the various fields of Electronics during the year 1971-72 is given in the Annual Report for 1971-72 of the Department of Electronics. Chapter II of the same, pages 9 to 20, lists the achievements for 1971-72.

3. The actual production in Electronics had been indicated in Chapter III of the Annual Report of Deptt. of Electronics for 1971-72 (Appendix I).

4. Further progress on all these aspects and the annual production achieved will be brought before the House in the Annual reports for each year."

[Ministry of Defence O.M. No. F. 22(2)/72/D(BEL), dated the 19th December, 1972.]

Recommendation (Serial No. 5)

The Committee note that the BEL entered into 40 agreements with 20 collaborators. In some of the agreements extension of time had been granted by the undertaking. It is not quite clear from the note furnished by the Ministry the number of cases where deviations have taken place from the guidelines laid down by the Ministry of Finance/Economic Affairs for entering into collaboration agreements.

The Committee recommend that:

- (i) reliance on foreign collaboration agreements for import of technical know-how for the production of various equipments and components should be brought to the minimum and the BEL and other undertakings should strive to attain self-reliance;
- (ii) extension of tenure of agreements with foreign collaborators should be granted on very rare occasions and deviation from the norms/guidelines laid down by the Ministry of Finance/Economic Affairs should be avoided.
- (iii) all undertakings in public sector should endeavour without any further loss of time to attain indigenisation in the technical know-how and in the production of equipments

and components and should in no case approach a foreign agency unless a clear certificate is given by the concerned Ministry about their inability to meet their requirements from indigenous sources. (Paragraphs 2.19 & 2.20)

Reply of Government

General Instructions to the various administrative Ministries laying down standard norms or guidelines for foreign collaboration agreements were first issued by the Ministry of Finance, EAD, in January, 1964. These were subsequently amplified from time to time until comprehensive instructions in regard to the guidelines for foreign collaborations were circulated to all Ministries in January 1969 with the setting up of the Foreign Investment Board.

All cases of foreign collaboration agreements in the case of BEL prior to January 1964, were finalised with the approval of the Ministry of Finance. Out of 21 collaboration agreements concluded after January 1964, deviations from the standard norms or guidelines as subsequently defined had to be agreed in the case of ten collaboration agreements, mainly in relation to the period of the agreement or the payment terms. In each such case, approval of the *competent authority* was obtained before concluding the collaboration agreements. Out of the total 40 cases about 32 cases were reviewed and the balance 8 cases could not be reviewed because the relevant files were not available being old.

The Committee's recommendation that all under takings in the public sector should endeavour, without any further loss of time, to attain indigenisation in the technical know-how and in the production of equipments and components, and that they should in no case approach a foreign agency unless a clear certificate is given by the concerned Ministry about the inability to meet their requirements from indigenous sources, has been brought to the notice of the other administrative Ministries concerned with the Government of India Public Sector Undertakings and also the Defence Public Sector Undertakings for appropriate action *vide* copies of the Ministry of Defence letters No. F.22(2)/71(D(BEL)|PC.5 dated 29th April, 1972 and No. F.17(107)/72/D(PS) dated 1st June, 1972, respectively (Appendix I). All proposals for extension of existing foreign technical collaboration agreements or conclusion of fresh foreign collaboration agreements from the Defence Public Sector Undertakings will be closely examined in consultation with the other concerned Ministries/Organisations and such proposals will be agreed to only if absolutely unavoidable. The standard norms or guidelines for foreign collaboration agreements will also be adhered to, as far as

practicable, and deviations, if found unavoidable, will be agreed to only with the approval of the competent authority.

The Department of Electronics, who are specifically concerned with the development of the Electronics industry, have also stated that one of the important tasks before the Electronics Commission is to make an assessment of the present R&D capabilities in the country and the manner in which these should be coordinated, directed, developed and funded; and to determine the manner in which R&D programme should be further developed in identified areas with a view to achieve maximum self-reliance as early as possible. In this context, the Commission is also reviewing the need for foreign collaboration if any and import of technology in various areas. Already it has been decided that no foreign know-how will be permitted for the manufacture of items like radios, and more recently for Television sets and Electronic Desk Calculators. In the field of components also, it has been decided that no know-how will be permitted for the manufacture of number of components like Ceramic Capacitors, Loudspeakers, etc. In the important and strategic area of computers, several steps have been taken to reduce the dependence on foreign parties. The existing agreements wherever they exist would be constantly reviewed in this context, to see that no extension is normally allowed.

With regard to the efforts in this direction by the public sector, the Electronics Commission is presently engaged in a detailed analysis of all Public Sector Undertakings in the field of electronics, from the point of view of their current production plants, full utilisation of installed capacity, reasons for unutilised capacity, if any, rational development, organisational and management aspects, production based on foreign collaboration and reasons for this, reasearch & development efforts, important areas not covered by the current and planned production programmes of existing units and for which additional manufacturing capacity will have to be set up and investments needed. Foreign know-how will be permitted only in specific areas where the Electronics Commission has come to the conclusion, after detailed investigation, that there is considerable urgency in production a particular item and for this there is no indigenous know-how available within the time frame of requirements. The Electronics Commission will further attempt to ensure that when foreign know-how is brought in, a competent Indian R&D group is fully associated with it so that this group can make the necessary further development from this base.

[Ministry of Defence O.M. No. 22(2)|71|D(VEL) dated the 10th January, 1973].

Recommendation (Serial No. 8)

The Committee note that with the introduction of indigenously designed equipment and components, the undertaking has made progressive efforts towards saving of foreign exchange. However, as pointed out in the report elsewhere, a lack of rapport was visible between BEL and NPL, resulting in limited utilisation of know-how developed by NPL, for ceramic capacitors etc. The Committee would urge that there is need for close coordination and cooperation between national laboratories (National Physical Laboratory and Central Electronics and Engineering Institute, etc.) under CSIR and BEL in the matter of research and development of know-how in specified fields so that the country is able to attain self-reliance at the earliest and thereby conserve foreign exchange. The BEL has a vital role to play in building up the electronic industry in our country to meet the internal demand and capture an increasing share of export market. [Paragraph 2.28].

Reply of Government

BEL has noted the necessity of close coordination with National Laboratories and the Defence Science Organisation; and has taken action to achieve the required coordination. For this purpose, BEL have appointed research Liaison Officer who is a Scientist from CSIR on deputation to the Company. As part of this coordination effort, the design and development of microwave tubes is proposed to be taken up under the auspices of the Defence Research and Development Organisation and BEL, as well as at the national laboratories, etc. The programme envisages the development of futuristic microwave tubes like Klystrons, Magnetrons, TWT, etc. in the next five years. It may be of interest to mention that in the case of BEL's new factory at Ghaziabad; one of the equipments to be manufactured is a Secondary Surveillance Radar designed by the Defence Electronic Research Laboratory, Hyderabad. BEL have also applied for an industrial licence to manufacture the electronic Desk Calculator which has been designed in association with the Jadhavpur University. The Company has also placed many development projects on the National Aeronautical Laboratory for Fibre glass antennae, etc.

2. Besides, the Electronics Commission which has been set up recently is also specially responsible for coordination of the entire R&D activity in the country in the field of Electronics with a view to attain self-reliance at the earliest. The Deptt. of Electronics is setting up Expert Technical Panels in several areas for examination of know-how available in the national laboratories and else-

where, and the best manner in which this can be translated into production.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 9)

The Committee recommend that organisational set up of Bharat Electronics Ltd. should be kept under constant review so that improvements can be effected. It will indeed to a useful exercise if the organisational set up of enterprises engaged in electronics industry in leading foreign countries, e.g., Japan, USA etc. are studied to keep abreast of the latest developments in the electronic industry and the organisational efficiency with a view to their adaption in the undertaking. [Paragraph 3.16]

Reply of Government

The recommendation of the Committee in this regard has been taken note of. The Board of Directors have constituted a standing Staff Committee of Directors to continuous review the organisational set up to effect improvements whenever required. BEL keep track of developments abroad in regard to organisational and managerial techniques through study of available literature as well as by visits of BEL's officers whenever they have occasion to go abroad. BEL have also been advised by Government to keep in touch with developments abroad in regard to organisational and management techniques so that any improvements that can be adopted by BEL with advantage are taken note of and can be considered for adoption with such modifications as may be necessary to suit the conditions in B.E.L.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 10)

The Committee are of the view that progress in the electronics field depends upon how far various agencies engaged in design, development or research in electronic field are able to pool their resources and forge a common integrated programme of work. But this is possible only if a close coordination between three public section undertakings viz. Bharat Electronics Ltd. Hindustan Aeronautics Ltd., and Electronics Corporation of India on the one hand and various Research Organisations universities etc. working in the direction of development of electronics industry in the country on the other is maintained. [Paragraph 3.17].

Reply of Government

Bharat Electronics Ltd. have taken note of the necessity for close coordination in the field of Research & Development and have for this purpose appointed a Research Liaison Officer who is a Scientist from the CSIR on deputation to the Company. Some of the proposals under consideration as a result of this coordination are the design and development of microwave tubes under the auspices of the Defence Research & Development Organisation and BEL including the development of microwave tubes like Klystrons magnetrons, Travelling Wave Tubes etc. utilising the existing facilities at BEL as well as the National Laboratories. It may also be mentioned that one of the equipment to be manufactured in BEL's Ghaziabad factory a Secondary Surveillance Radar which has been designed by the Defence Electronic Research Laboratory, Hyderabad. BEL have also taken the help of National Aeronautics Laboratory for the development projects like fibre glass antenna. BEL have also applied for an industrial licence to manufacture an electronic desk calculator designed in association with the Jadavpur University.

2. This recommendation was also brought to the notice of Deptt. of Electronics who have indicated that coordination between the activities of various agencies in the field of Electronics like production units and R&D Establishments including those in the private sector is one of the major tasks of the Electronics Commission. The Department of Electronics have stated that they have already achieved some degree of success in coordinating these efforts.

3. The recommendation has also been brought to the notice of Department of Science and Technology, M/s. Hindustan Aeronautics Ltd. and the Electronics Corporation of India for necessary action.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 11)

The Committee note that needs of Atomic Energy Commission and public undertakings on the Defence side vary considerably. The Commission needs highly sophisticated electronic control instruments required for research and atomic power stations. Similarly Public Undertakings on Defence side manufacture equipment which primarily serves the needs of Defence and may have no direct connection with what the Atomic Energy Commission on the

Civil side might stand in need of. In view of the above reasons, it does not appear to be advisable to bring these organisations under one umbrella. The Committee however, suggest to wait for the report of the Electronics Commission but in the meantime survey should be conducted to see what simple items of equipment can be coordinated and manufactured at one place with a view to standardisation and to economise cost of large scale production. [Paragraph 3.18].

Reply of Government

This recommendation has been brought to the notice of Deptt. of Electronics and their reply is reproduced below:

“One of the tasks of the Electronics Commission is to examine the various public sector Electronics units. This is with a view to coordinate the activities of all the Public Sector Undertakings as also to ensure that highest possible production returns are obtained from each Undertaking commensurate with the investments that had been made there. It is also the intention to analyse production in each of the Public Sector Units with a view to ensure that items of production not involving very sophisticated technology are framed out to ancillary units, particularly in the small scale sector), accompany with transfer of know-how. Greater standardisation and coordination is aimed at to ensure that items of equipment which could be made in one place, and which might be used, in more than one area of Governmental endeavour are supply to the other Public Sector Undertakings and institution to achieve economies of mass scale production”.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 14)

The Committee note that the first coordinated efforts to assess the country's requirements in respect of electronics equipments and components was made by the Bhabha Committee. But they note with regret that it would have been better if a systematic effort would have been made to see how far the projections of demand made by that Committee have stood the test of time and proved realistic. The present system whereby each undertaking conducted a review of demand of its own items of manufactured products is perhaps not the correct way to give an overall assessment. As electronics industry is a highly sophisticated and specialised branch of engineering, the Committee feel that there is need to subject the long term projection to a periodical review by a

Standing Expert Committee. Such a Committee would naturally consist of renowned Electronics Engineers, eminent Economists and representatives of trade, industry etc. so that reviews submitted to Government were realistic and could be reliable basis for advance planning. [Paragraph 5.10].

Reply of Government

This recommendation has been brought to the notice of Deptt. of Electronics and their reply is reproduced below:

“One of the tasks before the Electronics Commission is to make an overall assessment of the immediate and future requirement over the next 5—10 years in all the sectors of Electronics including equipments, components and materials. The Electronic Commission has already set up an Information Planning & Analysis Group which is wholly a body of technical personnel (in the areas of statistical systems analysis, operations, research and specialised areas of electronics) and which periodically obtains the assistance of important electronics engineers, economists and representatives of Trade and Industry, to review the perspective plan. Additionally, the Department of Electronics has been setting up expert Technical Panels which also provide inputs for such perspective planning. It is, therefore, intended to set up a National Advisory Body for Electronics consisting of representatives of different Government organisations, Institutions and Professional Bodies, Universities and IITs and industry to advise on the development of Electronics as a whole”.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 15)

The Committee have noted with satisfaction the fact that the value of production in BEL has increased from year to year and from Rs. 926.74 lakhs in 1965-66 to Rs. 2,411.26 lakhs in 1969-70, an increase of 160 per cent in the period of five years. The Committee, however, hope that this record of achievement will be maintained and improved in future so as to attain self-reliance and self sufficiency at an early date in the crucial field of electronics for Defence and Industry. [Paragraph 5.18].

Reply of Government

The Committee's exhortation for maintaining and improving the Company's record of achievements has been noted by Bharat Electronics Limited. During the year 1971-72, the production of

Bharat Electronics Ltd. is estimated as about Rs. 32 crores and the Company's programme for 1972-73 envisages a production target of the order of Rs. 44 crores.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 17)

The Committee are also surprised at the way the production of tubulars was taken up by the undertaking. The Company produced 6,33,833 tubulars upto 1966-67 at a cost of Rs. 3,26,757/-. Out of these 6,27,980 tubulars had been sold for Rs. 0.50 lakhs and the balance 5853 numbers were utilised by the Company. BEL thus incurred a loss of Rs. 2.75 lakhs on this venture. The BEL characterised the entire expenditure as developmental in nature, a view point which the Committee is not in a position to accept. This is not all. When BEL changed the process of disc type of capacitors for mass production items like Plant and Machinery, tools, raw materials etc. of the value of Rs. 1.47 lakhs became surplus. This amount had to be written off. The Committee are not able to appreciate why the research on tubulars, capacitors was not continued in a coordinated manner by NPL/BEL so as to achieve a break-through at the earliest and also reduce developmental expenditure. The Committee hope that BEL would make a thorough analysis of demand and cost of production before undertaking manufacture of any new items to avoid recurrence of such losses in future. (Paragraph 5.34).

Reply of Government

BEL decided to give up to further development and production of tubulars since it was found that some of the Company's competitors like Messrs. Philips had superior technology and that the products that could be turned out by employing the technology that was available with BEL would find it difficult to compete with the superior products in the market. There was, therefore, no point in continuing with an investment that was not likely to yield optimum results but on the contrary would have resulted in products which would not be sold and hence would have only contributed to greater loss. On the other hand, in regard to disc and plaquette types, BEL had an advantage over other units. In the field of competitive production, the Management should have the freedom of changing decisions so as to maintain leadership in the chosen field.

2. As regards write-off of the investment to the extent of Rs. 1.47 lakhs on plant and machinery, tools and raw materials, etc., on account of the changeover respect of the disc types from the NPL.

technology to CSF know-how, the technology of Messrs. CSF was adopted with a view to facilitate mass production for achieving economic production. Wherever new processes or technologies are adopted in the larger interests of economic production, the contingency of some plant and machinery and other items used under the old processes or technology becoming surplus has to be recognised. Government, however, accept the Committee's recommendation that BEL should make a thorough assessment of the demand and cost of production before undertaking manufacture of new items to minimise such losses in future and the Company has been advised accordingly vide the enclosed copy of the Ministry of Defence letter No. F. 22(2)/71/D(BEL)/PC, 17 dated 16-5-1972. (Appendix II).

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 18)

The Committee recommend that the present product-mix of Bharat Electronics Limited should be kept under constant watch and changes made as and when variations of demand and consumers preferences arise or are likely to arise. Special care should be taken by BEL to meet the requirements of components of small scale manufacturers of electronic equipments meant for entertainment purposes. BEL should also develop capacity and keep pace with expending requirements of components for TV, Computers etc. [Paragraph 5.37.]

Reply of Government

The recommendation of the Committee has been noted by BEL. The Company keeps a constant watch over the product-mix and appropriate changes are considered, as and when necessary, in the light of consumer preference and changes in technology, consistently with the need meet the requirements of Defence Services and other Government departments in respect of professional equipments, the Company is taking action to progressively expand its production base in respect of production of components to meet the needs of the industry. Certain special measures for the benefit of the small scale manufacturers have also been taken by BEL. These are:—

- (i) Establishment of a Regional Sales Depot in Delhi for the supply of components required by the small scale manufacturers in the Delhi region and introduction of a "direct indenting system" to cover the other areas.

- (ii) appointment of 11 Distributors all over India to supply the requirements of component to small scale industry as also the large scale manufacturers.
- (iii) provision of facilities for giving advice to the Small Scale manufacturers on the use of BEL components through the Application Laboratories established at Delhi and Bangalore.

2. All out efforts are also being made by the Company to keep pace with the expanding requirements of components for TV and Computers, etc.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 19).

Consultation with users can go a long way to undertaking perspective long term planning. Every effort should be made by BEL to obtain from users firm orders on a long-term basis to avoid the possibility of unplanned and uneconomic production. The Committee, therefore, recommends that Bharat Electronics Ltd. should develop closer liaison with users. BEL should also arrange to carry out demand survey from time to time so as to gear up their manufacturing programme to meet anticipated requirements. [Paragraph 5.39].

Reply of Government

The need for keeping close liaison with the users with a view to ensure long term planning has been accepted by BEL. BEL keeps close liaison with the users with a view to ascertain their requirements well in advance. As far as the Defence Indentors are concerned, a system of five years' projection has been evolved to indicate long-term requirements of Defence users and these projections are reviewed every year. Besides, instructions have also been issued to Defence indentors vide the copy (reproduced below) of Ministry of Defence u.o. No. 7(38)/69/D(FA&P) dated 8-1-1970, to place their firm orders on Public Sector Undertakings for a three year period, the indents being made available to the public sector undertakings 9 to 12 months ahead of this period. With regard to other users like A.I.R. Ministry of Home Affairs, etc. BEL tries to secure their requirements also in advance.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

MINISTRY OF DEFENCE
D(BEL)

SUBJECT:—*Procedure for placing orders on Public Sector Undertakings by the Defence Services.*

In supersession of Ministry of Defence U.O. No. F. 7 (38)-69/D (FA&P), dated 7-1-1970, the following is issued—

Under the present procedure demands on DGOF are allowed to be placed by the Services 9 to 12 months ahead of the commencement of a three year period. This provides DGOF with a total indication of requirements of the Defence Services for an overall period of four years. It has been found necessary to adopt this procedure in order to enable proper production planning being undertaken and to derive the best advantages from such planning.

2. Wither to this procedure was not fully applicable to indents being placed by the Defence Services directly on the Public Sector Undertakings. In the absence of long terms orders, the Public Sector Undertakings are unable to undertake proper long term planning. Taking into account the fact that a number of components and raw materials etc. have to be imported by them for manufacture of the major items and the lead time for these had been increased, the need for placing firm orders on Public Sector Undertakings, on the same basis as on the Ordnance Factories, has been accepted and it has been decided, in consultation with the Ministry of Finance (Defence), that with immediate effect, Defence Services should place firm orders for items required by them on public sector undertakings for a three year period, the indents being made available to the Public Sector Undertakings 9 to 12 months ahead of this period. As an example, firm orders should be placed by 31st March, 1970 for the three year period 1971-72, 1972-73 and 1973-74 by the Defence Services on all Public Sector Undertakings. Orders for the year 1970-71 would have been placed earlier.

3. It is requested that action may please be taken in accordance with this decision. It is also requested that a confirmation may be provided in the first week of April, 1970 to the Director of Planning.

that demands of the Defence Services for the Defence Plan period have been placed on these Undertakings.

Sd/-S. Krishnaswami

Joint Secretary (P&C)

JS(Q) JS(A) (JS(N)
M. of D. u.o. No. 7(38)-69/D(FA&P) dated 8-1-70.

Copy to:—

SO to Defence Secretary,

PS to Secretary (DP).

FA(DS)

Addl. Secretary.

MGO/AOM/COM.

Recommendation (Serial No. 22).

Research and Development is an activity which is vital for healthy growth of Electronics Industry in India. The Committee are of the view that success of any reserach project does not depend on how much expenditure is incurred on it but the performance of specific tasks related to production and solution of practical problems posed by the industry. The Committee, therefore recommend that there should be close coordination between the production and research wings of the industry so that problems of crucial importance are tackled in a concerted manners.

The Committee wish to stress that Research and Development of BEL should work in close co-ordination with CSIR and other related research laboratories in the country so that a coordinated approach can hasten the achievement of self-reliance in technology, obviate unwitting duplication of research effort, reduce cost of production and above all, lay a sound technological base for the electronic industry in India. (Paragraph 7.14 & 7.15).

Reply of Government

One of the important tasks on which the Electronics Commission are engaged related to co-ordination of Research and Development activities in the field of electronics. In this context it is recognised that, in general, every large industrial undertaking must have its own R&D group which on the one hand closely relates itself to the production activities of the undertaking and on the other closely liaises with other R&D activities in the country. It can thus act as an effective interface. In the absence of such interface, there are often problems for productionising in an undertaking the R&D done outside.

As far as BEL is concerned, close co-ordination already exists between its Production and Research & Development Divisions. The Company has also taken steps to ensure co-ordination of the activities of BEL's R&D wing with the R&D effort in the Defence Research & Development Organisation and the National Laboratories under the CSIR, etc. The Company has for this purpose appointed a Scientist from the CSIR as Research Liason Officer on deputation basis. As part of these coordination efforts, development of micro-wave tubes like Klystrons, Magnetrons, Travelling Wave Tubes, etc. is proposed to be taken up under the joint auspices of BEL and the Electronic Research and Development Establishment of the Defence Research and Development Organisation, utilising the facilities at BEL as well as at the National Laboratories etc. BEL's new factory at Ghaziabad proposes to manufacture equipment known as Secondary Surveillance Radar designed by the Defence Electronic Research Laboratory, Hyderabad. BEL have also applied for an Industrial Licence to manufacture the electronic desk calculator which has been designed in association with the Jadhavpur University. The Company has also placed many development projects on the National Aeronautical Laboratory for fibre glass antennae, etc.

[Ministry of Defence O.M. No. F. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 23)

The Committee understand that an Electronics Commission has recently been created by the Government. The Committee feel that in an industry like electronics, where the pace of obsolescence is faster than the pace for acceptance, time is the essence of the matter. With the creation of the Electronics Commission by the Government, the Committee hope that a well coordinated and integrated programme for research and development would be evolved and implemented. The Committee would suggest that a perspective plan for research and development be drawn up for next 10—15 years. This plan should be reviewed every year in the light of performance and demand projection. In particular concerted efforts should be made to achieve break-through in know-how and manufacture of electronic components of vital importance in achieving self-reliance in Defence Supplies and of meeting indigenously, as far as possible, the requirements of industry. (Paragraph 7.17).

Reply of Government

The recommendation was forwarded to the Department of Electronics for their comments and their reply is reproduced below:

“One of the most important tasks the Electronics Commission is engaged on is to make a total assessment of the present R&D capability and the manner in which these should be coordinated, promoted, developed and funded. The Commission intends to prepare a perspective plan for R&D which will be reviewed on a continuing basis. Another important task the Commission is engaged on is the coordination of all efforts in R&D and production for the rapid development of electronics in vital and strategic areas such as Defence and Communications. The Commission would also ensure that sophisticated components and equipments for professional use are developed and made in India so that the entire requirements as far as possible are met out of indigenous production.”

[Min. of Def. OM No. F. 22(2)/71/D(BEL) dated the 12th December, 1972.]

Recommendation (Paragraph 27)

As far as the components were concerned it has been stated that in the view of the trend in the receiver industry, the demand for receiving valves was expected to decline. However, on an overall basis components sales of the order of Rs. 6 crores to Rs. 7 crores per year for the next 2 to 3 years could be produced, which figure was expected to increase as soon as production of the other component items now in planning stage was progressively taken up.

The Committee are concerned to note that demand for Receiving Valves was expected to decline in the next 3 to 4 years. The Committee recommend that BEL should take aggressive sales efforts and if necessary, by reorganisation of the sales departments, with a view to secure advance orders and should determine the future pattern of production in BEL after a realistic demand survey. (Paragraph 8.28 & 8.29).

Reply of Government

BEL have noted the recommendation of the Committee in regard to the necessity for increasing their sales efforts. The demand for Radio Valves, in particular, will depend mainly on the demand for Radio Receivers using Valves instead of transistors. However, the

Company is investigating the prospects of increasing the export of Valves.

[Min. of Def. OM No. F. 22 (2) | 71 | D (BEL) dated the 12th December, 1972.]

Recommendation (Serial No. 28)

The Committee cannot but view with concern the outstandings of BEL. The Committee hope that the question of acceptance of prices in advance on the basis of quotations would be sorted out soon with the Ministry of Defence so as to facilitate settlement of future bills. The Committee would like BEL to systematically follow up the question of recovery of amount for equipment already supplied to Government departments so as to recover all the outstanding amounts due. (Paragraph 8.38).

Reply of Government

The Company has reported that it is making all-out efforts to collect the payments so as to bring down the outstandings. The questions of pricing basis and a modified scheme of advance payments in respect of the equipment required to be supplied by BEL to the Defence Services have also been finalised in consultation with BEL and the Ministry of Finance (Defence). It is expected that the issue of these orders (Appendix III) will considerably help in reducing the outstanding dues of the Company.

[Min. of Def. OM No. F. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 29).

The Committee regret to note about the fraud perpetrated by the employees of BEL in the sale of Canteen coupons and recommend that the management of BEL should strengthen the existing measures to prevent the recurrence of such events and may adopt further measures in this regard, if necessary. (Paragraph 8.53).

Reply of Government

Bharat Electronics Limited have taken note of the Recommendation. The Company has already taken remedial measures to prevent recurrence of such irregularities in future. These measures are as under:

- (i) An Officer of the Welfare Deptt. has been put incharge of the canteen.

- (ii) Fascimile signature of Personnel Manager (which is affixed on the coupon) has been withdrawn from the canteen and is now held and used by the Welfare Section itself by a responsible officer.
- (iii) Details of daily sales of canteen coupons and closing stock is being shown in the daily cash receivable order and those figures are tallied daily. Serial Nos. of the coupons are also being periodically changed.
- (iv) Daily statements are prepared to reconcile sales and redemption of coupons. Periodically checks of records in respect of preparation of food stuffs and sales are also being conducted.
- (v) In order to avoid recirculation of redeemed canteen coupons, an additional punch has been introduced at the tallying stage.
- (vi) Daily canteen coupons redeemed are being separated denomination wise and the same are being checked numerically. The check of serial numbers of canteen coupons is also being conducted.
- (vii) After the check and reconciliation, the used coupons are burnt daily in the presence of a representative from Internal Audit and the Security Deptt.
- (viii) Printing of coupons is now being done in the BEL Industrial Estate itself. As a further precaution the basic paper with BEL tint is also furnished by BEL instead of leaving to the printer. This is to safeguard against printing of spurious coupons.

2. After the introduction of the steps mentioned above, no further discrepancy has so far come to notice.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 19th December, 1972].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Serial No. 3)

Realistic assessment of the demand of products, in the opinion of the Committee, is vital for every undertaking. In the case of BEL, which bases its demand survey on the anticipated demands of the user departments as advised by them (those departments) in their agreements assessment of demand of products may not prove to be completely realistic. Rapid development is taking place in the electronic industry. Actual requirements of the user departments may undergo a change in the future. The Committee, therefore, recommend that the undertaking should exercise, recommend that the undertaking should exercise utmost caution in making their demand survey of products and instead of depending exclusively on the assessment made by the user departments, should evolve its own machinery for making demand survey, bearing in mind the likely developments in the electronic field in the future. [Paragraph 2.7].

Reply of Government

The recommendation of the Committee regarding the need for careful independent market survey is accepted so far as the items which would be consumed by the industry in general are concerned, i.e. electronic components or general purpose equipments or instruments. However, in regard to professional electronic equipments used by the Defence Services or other Government Departments, e.g. All India Radio, Police Forces, Railways and Communications, the Company would necessarily have to depend on the assessment of the particular user departments as it would be in no position to conduct any independent survey. The estimates of the user departments, in turn, are dependent on the approved Plan programmes and the yearly budgets in relation to their Departments, apart from special futuristic qualitative requirement. However, the Company is maintaining close contact and liaison with the various user departments for ascertaining their long-term requirements. The future designs of equipment are also discussed with the users and their

qualitative requirements taken into account in connection with design and development activities of the Company.

[Min. of Def. OM No. F. 22(2)/71/D(BEL) dated the 12th Dec. 1972].

Recommendation (Serial No. 4).

The Committee note that no individual manufacturer abroad is capable of manufacturing and supplying the entire range of electronic equipments with facilities to user departments in India. In this background, the undertaking|Government had provided in the CSF Agreement that the Government should have the liberty to collaborate with other firms. They recommend that BEL should take steps to obviate such a contingency in India in regard to the production of electronic equipments. BEL should, the Committee feel, equip itself in such a way that the products are not restricted in their manufacture to limited type of equipments as in foreign countries. They hope that in this connection, the undertaking will make full use of the "liberty to collaborate" with other foreign firms. They note that the BEL has entered into non-CSF collaborations agreements, which is a step in the right direction. (Paragraph 2.8.)

Reply of Government

The Department of Electronics whose views were invited in the matter have observed as under:

"The Department of Electronics feels concerned about the already large sizes of the public sector electronic industries set up in India. The sizes of such units in foreign countries are much smaller. It should be the endeavour to set up in future larger number of smaller units each to deal with a particular area and more equitably distributed throughout the country instead of manufacturing a wide variety of items under one administration in one factory. The Department of Electronics is further of the view that all collaboration agreements entered into should be subject to scrutiny by the Department of Electronics."

The Department of Defence Production does not share the concern of the Department of Electronics that the sizes of public sector electronic industries set up in India are already large, as compared to electronic industrial undertakings abroad, particularly if the comparison is done with such advanced countries as the United

States of America, Germany, and Japan. At the same time, it may be impracticable to undertake the manufacture of the entire range of electronic equipment required by the country in a single undertaking. This is because the electronic industry covers a vast field and in the interest of specialisation as also ensuring rapid advances in technology and research and development, separate units may have to be set up for undertaking the manufacture of equipments pertaining to a particular field. Another factor which may necessitate separate units is that of special secrecy requirements or strategic considerations. However, within these constraints, BEL are endeavouring to meet the requirements of Defence Services as well as other users Departments to the maximum extent possible.

As regards the Committee's recommendation that BEL should make full use of the 'liberty to collaborate' with other foreign firms, this will be done whenever the indigenous design and development capability cannot meet particular requirements and foreign collaboration is found inescapable.

The Department of Defence Production agree with the Department of Electronics that all future foreign collaboration proposals concerning electronic units should be subject to scrutiny by the Department of Electronics.

[Min. of Def. O.M. No. 22(2)/71/D(BEL) dated the 19th December, 1972].

Recommendation (Serial No. 6)

According to the undertaking the saving in Foreign Exchange has been worked out with reference to the selling price or CIF cost whichever is lower as reduced by foreign exchange content of the imported items. The Committee, however, notice from the Annual Report of the company for the years 1964-65 and 1965-66 that the value of production including the work-in-progress has been assessed on the basis of selling prices. As the value of production so arrived at has been reduced to exclude the value of work-in-progress at cost, the resultant value of completed production represents the selling prices. On the basis of the data furnished to the Committee at Paras 8.10 and 8.11 of this Report it is noticed that the landed cost inclusive of Customs duty is lower than the selling prices of the Company.

In view of the above, the Committee are unable to express any opinion on the quantum of Foreign Exchange claimed to have been

saved by the undertaking. The Committee would, therefore, recommend that the Foreign Exchange savings worked out with reference to the CIF costs may be furnished to them duly vetted by Audit. (Paragraphs 2.24 & 2.25).

Reply of Government

BEL have stated that compilation of Foreign Exchange savings figures with reference to the CIF cost of production for all the past years would be a time consuming job, besides involving a lot of clerical work. The Company has pointed out that the F. E. Saving figures as already reported to the Committee on Public Undertakings had been computed on a conservative basis in that the CIF cost or the BEL's selling price, whichever is lower, was adopted for working out the notional value of completed production and the foreign exchange savings were arrived at after deducting the imported content from the notional value of completed production thus arrived at. Since as shown separately in the Committee's Report itself, BEL's selling prices for the major equipments produced by the Company are lower than the CIF prices of Corresponding imported equipments, adoption of the CIF prices for the purpose of determining the foreign exchange savings would, in fact present a picture even more favourable to BEL. However, the savings in Foreign Exchange based upon CIF prices for the last five years have been computed by the Company and are furnished below:—

(Rupees in lakhs)

Year	Completed Production		F.E.	F.E. Savings	
	As reported earlier	Now given based on CIF cost		As reported previously	Now given based on CIF Cost
1967-68	1663	1981	562	1096	1419
1968-69	1964	2334	694	1244	1640
1969-70	2253	2617	727	1530	1890
1970-71	@	3046	805	@	2241
1971-72	@	3529	853	@	2677

@Data not included in the Committee's Report.

The following basis has been adopted in working out the foreign exchange savings:—

- (a) CIF Cost wherever available as reduced by Foreign Exchange spent on materials Imported.

(b) BEL's selling price, where CIF prices are not available, as reduced by the foreign exchange spent on materials including customs duty paid.

2. Incidentally, it is pointed out that according to the data reproduced in para 8.10 of the Committee's Report, the selling prices of BEL for Receiving Valves are lower than the landed cost of corresponding imported valves. It is only in the case of Germanium and Silicon Semi-conductors and Transmitting Valves that BEL's selling prices effective from 1-3-1969 were higher than the prices of imported semi-conductors and transmitting tubes.

[Min. of Def. O.M. No. 22(2)/71D(BEL) dated the 10th January, 1973].

Recommendation (Serial No. 7)

The Committee find that percentage of foreign exchange content of completed production has been on the rising side. Compared to slight improvement (fall by 3 per cent) but compared to 1966-67, The Committee are unable to locate the exact reasons for such progressive increase in foreign exchange content in their products instead of their reduction.

However, the Committee note that in 1969-70 the percentage content of foreign exchange in completed production has shown slight improvement (fall by 3 per cent) but compared to 1966-67, foreign exchange content still remains high. Stressing the need for attaining self-reliance as soon as practicable, the Committee urge on the BEL to study this aspect of their performance and take effective remedial measures to reduce their dependence on imported components in this vital industry. (Paragraph 2.26).

Reply of Government

The main reason for the increase in the foreign exchange content in the year 1968-69 compared to 1966-67 is devaluation of the Indian rupee by 57.5 per cent. This resulted in higher money values being paid for the imported components and raw materials in that Bharat Electronics had to pay 57.5 per cent more in the year 1968-69 for the imported items as compared to 1966-67. On the other hand, BEL's selling prices were not increased in the same proportion. It is because of this that the percentage of foreign exchange content in terms of monetary expenditure showed an increase in 1968-69 over the percentage for the year 1966-67.

However, from the year 1969-70, the percentage of foreign exchange content to the value of completed production has recorded

The reply of Government to recommendation at Sl. No. 6 has not been finally vetted by Audit.

a downward trend as could be seen from the table below because of increasing indigenisation efforts:—

(Rupees in Lakhs)

Year	Completed Production	Foreign Exchange content	Percentage of F.E.
1968-69	1954.00	694.00	35%
1969-70	2253.00	727.00	32%
1970-71	2806.00	805.00	29%

[Ministry of Defence O. M. No. 22(2)/71/D(BEL) dated the 12th December, 1972].

Recommendation (Serial No. 12)

It will be seen from the statement at para 4.6 of this Report that the actual production and planned production in almost all the cases was far below the installed capacity. The Committee view with concern the wide gap between the installed capacity and the actual production. The low production not only means loss to the Undertaking but also results in high cost of production. The Committee could get no proper explanation for low production of these items. They desire that the Company should keep a constant watch over the production and sustained efforts should be made to achieve the installed capacity. (Paragraph 4.7).

Reply of Government

Bharat Electronics have noted the recommendation that a continuous review should be made of the production in the field of the valves, semi-conductors, capacitors etc. It might, however, be stated that during the period discussed in the recommendation the gap between installed capacity and planned actual production was mainly due to the market condition being sluggish. The anticipated growth rate of radio receiving industry which is the main market for these products, did not materialise as anticipated and there were also other private units manufacturing the same products in the field. It might further be stated that installed capacity is meant for catering to anticipated market demand as it may be expected to stabilise over a period but the actual production will have to be adjusted to the market conditions. However, the gap between actual production and the installed capacity has been considerably narrowed down in the

years 1970-71 and 1971-72 in respect of some of the items as can be seen from the enclosed Appendix IV.

[Ministry of Defence OM No. F 22(2)|71|D(BEL) dated the 19th December, 1972].

Recommendation (Serial No. 16)

The Committee find that the BEL had entered into an agreement with CSF (French Collaborators) in 1952 which also covered *inter alia* manufacture of ceramic capacitors. On 1st April 1960, BEL entered into another agreement with NRDC/NPL for a period of 14 years for the manufacture of ceramic capacitors in their factory. Subsequently, BEL curtailed this agreement with NRDC from 14 years to 10 years.

The Committee note that the undertaking changed the process of manufacture of disc type of capacitors which they were following on the NRDC/NPL know-how as that process was found by the undertaking (BEL) to be expensive and labour intensive. Moreover, the technical know-how for the manufacture of not only disc type of capacitors but also of plaquettes, tubulars, the trimmers types of capacitors prompted the undertaking to seek the assistance of its collaborators CSF (French Firm).

The Committee note that in 1965, the BEL decided to go in for foreign collaboration for manufacture of tubulars and trimmers and started their actual production in February 1966, whereas according to the National Physical Laboratories, the Laboratory was able to develop by end of 1965 "trimmers bases which were acceptable to the industry".

The lack of understanding and report between BEL and National Physical Laboratory would be clear from the statement of National Physical Laboratory to the Committee that "since BEL had made preliminary moves in getting into collaboration agreement with a foreign firm, NPL did not find it necessary to pass on the know-how for trimmer bases to BEL", while the BEL have stated in the note to the Committee that "BEL understand that a few firms have been licensed to manufacture Ceramic Capacitors with the NPL know-how but do not however, have information whether the parties so licensed have started production".

The Committee depreciate strongly this lack of coordination between NPL and BEL both of which are financed from Government funds. The Committee consider that NPL should have specifically brought to the notices of BEL the process for manufacture of

trimmers and tubular capacitors as soon as they had developed it for commercial exploitation and that BEL should have on its own also kept track of investigation and research being continued at National Physical Laboratory so as to avail of the indigenous know-how as soon as it came upto the mark, in preference to the foreign collaboration.

The Committee urge that there should be a very close cooperation between National Physical Laboratories (NPL), Central Electronics and Engineering Institute etc. under CSIR and BEL and similar undertakings in the matter of Research and Development. The Committee are of the view that the purpose should be to attain self-reliance at the earliest available opportunity and the import of technical know-how on items of technology where indigenous know-how and expertise is available should be avoided. [Paragraphs 5.28 to 5.33].

Reply of Government

The Committee's observations can be divided into two parts i.e. (i) relating to disc capacitors and (ii) relating to tubulars and trimmers.

2. As regards disc capacitors, BEL had taken up NPL technology with a view to encourage indigenous research effort and continued with it so long as the market requirements were relatively small and could be catered to by adopting the NPL technology. But when there was a very big increase in demand, BEL found it necessary to utilise the C.S.F. technology (for which enabling provision already existed in their original collaboration agreement of 1952), as the NPL technology was labour intensive and could not be utilised for mass production. NPL had also not taken up design of automatic production equipment vitally necessary for mass production methods.

3. As regards tubulars and trimmers, BEL had undertaken some production of tubulars on a pilot-run basis, with their own efforts but this was soon given up when BEL discovered that there was no adequate market for these and that M/s. Philips with their automatic machinery and superior technology enjoyed advantage. BEL at no time took up the production of tubulars and trimmers with foreign technology, in preference to NPL know-how.

4. BEL has, nevertheless, noted the necessity for close coordination between the research laboratories like NPL and others for productionising indigenously developed items. The Company has appointed a Research Liaison Officer on deputation from the C.S.I.R. for this purpose.

5. The Deptt. of Electronics is also seized of the problem of co-ordination and have expressed themselves to be in full agreement with the need of greater understanding, coordination and cooperation between various agencies engaged in research and development and production, all of which are supported by public funds.

Note:—The above reply has not vetted by the Audit.

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 10th January, 1973.]

Recommendation (Serial No. 20)

The Committee note with concern that the cost of production of most of the components manufactured at BEL has increased considerably in 1969-70 as compared to their cost of production in 1966-67. The cost of production has risen by more than 25 per cent during the aforementioned period, e.g., the cost of production of receiving valves EZ 80 has increased by 25.4 per cent, EBC 81 by 20.96 per cent, UF 89, by 32.57 per cent, UCH 61 by 29.7 per cent, EL 84 by 38.46 per cent and ECL 82 by 31.23 per cent. Even the cost of production of BEL 100 type transmitting tubes has increased from Rs. 257.42 per piece in 1967-68 to Rs. 519.17 per piece in 1968-69, i.e. by 101.68 per cent. The Committee recommend that the reasons for this increase in the cost of production may be gone into and the remedial steps be taken to arrest this trend. [Paragraph 5.41].

Reply of Government

Production cost in 1966-67, and to some extent in 1967-68, were based on materials produced in 1965-66, prior to devaluation. Between the years 1966-67 and 1969-70, the following factors, contributed to the increase in the cost of production:—

- (a) Imported materials becoming dearer because of devaluation of the Rupee by 57.5 per cent, apart from normal price increases abroad since 1965-66, and increase in customs duty levies.
- (b) Increase in the price level of indigenous materials within the country and impact of increased excise duty levies on industrial materials etc.
- (c) Upward revision in the Wage, Structure and increases in rates of dearness allowance, registering an increase of 35 per cent in the average wage rates between 1966-67 and 1969-70.

(d) Increased rates of depreciation in respect of the production equipments for Receiving Valves and Germanium Semiconductors. The rates of depreciation were increased on consideration of possibilities of accelerated obsolescence of the machinery or the products being superseded by other types.

2. BEL are keeping constant vigil over the cost of production and the Company have taken the following remedial steps for reducing the cost of production of components:—

- (i) Establishment of a Laboratory for purification of used chemicals for making them fit for reuse.
- (ii) Establishment of alternative sources of supply of raw materials at reduced cost.
- (iii) Effecting changes in the processes so as to reduce cost. This has been effected in areas such as "Bulb coating", "Base Spraying" and "Base bending".
- (iv) Establishment of facilities for recovery of metal from the waste e.g., recovery of silver from used silver oxide and recovery of Germanium Di-oxide from the sludge in the manufacture of Germanium Semiconductors.
- (v) Establishment of facilities for production of several types of gases used in the manufacture of components thus reducing the total cost.
- (vi) Continuous work study of all processes. Recently such a study was conducted in respect of packing and packaging methods for Valves and Semiconductors which has resulted in cost savings by reducing the packaging.

3. Incidentally, the correct cost of production of BEL-100 type Transmitting Tube during 1968-69 was Rs. 399.36 and not Rs. 519.17 as given earlier by the Company, due to an error which is regretted. The increase in the cost of production in 1968-69 in respect of this item, in comparison to 1967-68 will work out to 55.5 per cent as against 101.68 per cent based on Rs. 519.17 and indicated in the Report of the Committee on Public Undertakings.

[Ministry of Defence OM No. 22(2)/71/D(BEL), dated the 10th January, 1973.]

Note:—The above reply has not been vetted by Audit.

Recommendation (Serial No. 21)

The Committee regret that percentage of rejection of Germanium Semiconductors is on the increase. For example percentage of rejection of OA 79/72 has increased from 16.17 per cent in 1968-69 to 23.84 per cent in 1969-70, that of OA 85/81 Diode from 16.03 per cent in 1968-69 to 32.58 per cent in 1969-70. Similarly, percentage rejection of AC 127, AC 132 and AC 187, Transistors has gone up from 22.83, 19.61 and 19.02 in 1968-69 to 38.59, 30.99 and 36.27 respectively in 1969-70. Though Bharat Electronics Ltd. claim that these percentage rejections are "within the limits normally encountered by manufacturers abroad", they have not given precise details of such limits. It is, however, evident that the percentage of rejections in 1969-70 has shown a rising trend. The Committee recommend that Management of Bharat Electronics Ltd., should make concerted efforts to arrest this disturbing trend by putting the present arrangements for quality control in their enterprises on a sound footing. [Paragraph 6.6].

Reply of Government

The main causes for an increasing trend in the rejection percentages of certain types of Germanium Semiconductors during 1969-70 are indicated below:—

(a) Diode OA 72/79, OA 81/85

In order to meet the increased demand of diodes it was necessary to employ an automatic diode sealing machine which has a capacity of nearly double that of all the hand operated machines used earlier (There are 8 hand operated machines being used). On the hand-machine each diode could be individually controlled and hence rejection percentage could be kept low. However in the automatic the diodes cannot be individually controlled and as a result the rejection rates, of both components and final product, are considerably higher. It may be mentioned that one automatic machine employing 3 persons has the same capacity as 16 hand mills requiring 16 operators. But even though rejection percentages are higher by 10—12 per cent the production cost remains low and increase in wages and in the prices of raw materials and components etc. have not increased the production cost which has remained steady.

(b) AC 127/187

Prior to 1969-70, the production quantities of these types were comparatively lower (1.76 lakhs and 0.43 lakhs) for which imported semi-finished assemblies were used. During 69/70 and 70/71, the

production figures were 6.72 lakhs and 18.1 lakhs for AC 127, and 0.51 lakhs and 6.2 lakhs for AC 187. For this, the components and semi-finished assemblies (crystals and alloyed tab soldered crystals) were produced locally for the first time. Since these processes took some time for a stabilisation, the overall yield was effected adversely.

(c) AC 132:

For this type, earlier B.E.L. had used imported "pulled" crystals which give a better yield compared to the crystals made by the then existing methods of zone levelling. Even though B.E.L. have installed the crystal puller in 1968, the Company had considerable stocks of "levelled" crystals which had to be used up, thus resulting in lower efficiencies.

In general, it may be mentioned that the efficiencies of different types transistors were also affected adversely due to induction of new hands for increased production, and progressive indigenisation programme which tends to introduce process variations. Further, the average yields of such mass manufactured components are also governed by various technological problems and variations in quality of the different chemicals, gases etc. used.

2. Taking into account all the relevant factors and their vast experience in the field, B.E.L.'s Technical Collaborators, M/s. Philips of Holland, have indicated in general the average yields of different types of Germanium devices as follows:—

Diodes (OA 72/79)	70 percent
High frequency Transistors (e.g. AF 114)	65 „
Low frequency Transistors (e.g. AC 127[132]187)	60 „

The efficiencies obtained in BEL are much higher compared to these figures. That is why the rejection percentage in B.E.L. are considered to be within the limits normally encountered abroad. However, despite the several technological problems encountered in the manufacture of Semiconductor Devices, constant efforts are being made by B.E.L. to reach optimum yields. The rejection rates of the different types of Germanium devices in question over the last four years are given below for comparison. It can be seen that in the case of Diodes where the unit selling prices are considerably lower compared to those of transistors, the rejection rates have been brought to a steady level (within reasonable limits). Further improvement in this is limited due to reasons mentioned in para 1(a). As regards AC 127/132/187 where the rejection rates have a more significant

impact due to their higher selling prices, there is a marked decreasing trend in the rejection rates:—

Type	Rejection Percentage				Unit selling Price	Remarks
	1968-69	69-70	70-71	71-72		
OA72/79	16.17	23.84	27.37	28.39	1.15/ 0.85	Automatic diode mill introduced in 1969-70.
OA81/85	16.03	32.58	33.64	31.97	1.15/ 1.4	Only small quantities are produced to meet special requirements.
AC 127	22.83	38.59	20.82	17.36	2.25	
AC 132	19.61	30.99	31.58	25.81	2.40	
AC 187	19.02	36.27	20.66	29.90	2.50	

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 10th January, 1973.]

Recommendation (Serial No. 24)

The Committee note that decline in the percentage of profit as compared with the volume of sales for the year 1967-68 and 1968-69 was not due to increase in cost of production only. If profitability of BEL go down in spite of growing volume of sales, it is a development which has to be viewed with concern, what be the reasons for such a development. The Committee hope that BEL would be able to arrest this disturbing trend soon by giving a better return on the investment made. [Paragraph 8.6].

Reply of Government

The decline in the profit-before-tax during 1968-69 as compared to 1967-68 is mainly accounted for by the following factors:

- (i) A large volume, representing Rs. 531.10 lakhs of the sales during 1968-69 comprised items purchased for resale on which the Company did not have a good margin of profit;
- (ii) The price reduction effected for the transistor amounting to Rs. 65.0 lakhs; and
- (iii) An amount of Rs. 158 lakhs was included in the sales amount towards Excise Duty.

If adjustments are made for these factors, the percentage of profit in 1968-69 is almost equal to the percentage attained in 1967-68. The details are indicated below:

	(Rupees in lakhs)
I. (a) Sales	2700.00
(b) Less excise duty element	158.00
(c) Sale value exclusive of excise duty element	2542.00
(II) (a) Profit	434.24
(b) Add: Benefit passed on to customers through price reduction on transistors	65.00
(c) Adjusted profit without price reduction	499.24
(III) Percentage of Profit to i.e. II (c) to I (c)	19.6%

2. It may also be mentioned that the Company's performance in the matter of ratio of profit before tax to sales subsequent to 1968-69 has recorded considerable improvement as would be seen from the following figures:

(Rupees in lakhs)

	(1968-69)	(1969-70)	(1970-71)
Sales	2700.00	2471.06	2634.73
Profit before tax	434.24	426.76	520.79
Percentage of Profit before tax to sale:	16.08	17.27	19.77

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 12th December, 1972.]

Recommendation (Serial No. 26)

The Committee reiterate that BEL should take urgent steps to introduce standard costing so that performance could be watched against standards. If BEL still face certain accounting difficulties in this connection the matter should be thrashed out in consultation with accounts and Audit authorities. [Paragraph 8.18].

Reply of Government

Introduction of Standard Costing in BEL involves certain practical difficulties (rather than accounting difficulties) in view of the varying product-mix as also continuous fluctuations in regard to the cost of raw materials and components as well as wage rates, particularly in the context of progressive indigenisation. In view of the large variety of items going into the manufacture of electronic equipment and components, fixation of standards costs and their frequent review will throw up considerable work necessitating additional manpower as BEL does not at present have a computer. In this situation, only some products, especially in the Company's Components Division, which are repetitive in nature and where maximum phased development has more or less been achieved, could be considered for standard costing at present. Accordingly, in deference to the Committee's recommendation, BEL intends to make a start to set up standard costs in monetary terms for Receiving Valves and Germanium Semi-conductors from April, 1973. The intervening period is required for carrying out the preparatory ground work e.g. fixing of the standard cost for each item for a large variety of raw materials and components, standard labour costs and determination of budgeted manufacturing expenses and

overheads in respect of each production and service cost centre, etc. After watching the actual working of the Standard Costing System in respect of the above-mentioned two items for some time and assessing the benefits thereof the question of extending the application of this system to other items will be considered. By that time, BEL also hopes to acquire a Computer facility.

[Ministry of Defence O.M. No. F. 22(2)/71/D(BEL) dated the 12th December, 1972.]

Recommendation (Serial No. 30)

The Committee are happy to note that the Government have recognised the urgent need for development of Electronics Industry in this country and have set up the Electronics Commission. The Electronics Commission has been asked to "review the entire field of Electronics with regard to research, development and industrial operations with full authority to formulate policy in this field and to direct implementation on sound technical and economic principles of all measures, both promotional and regulatory, that are necessary for the country to attain self-reliance in the shortest possible time and in the best possible manner.

As pointed out earlier in this report, there is need for making intensified efforts for achieving self-reliance in Electronics. The Committee have no doubt that the Electronics Commission would take special note of recommendation made at the National Conference on Electronics held in Bombay in March, 1970 and would take concerted measures to promote self-reliance in the industry, in order to meet not only the requirements of all strategic sections within the country but also to develop export potential in this promising area. The Committee also suggest that the Electronics Commission should draw up a perspective plan for the Electronics industry in the light of all relevant developments since the Bhabha Committee Report was submitted and have a system of continuously reviewing the trends in demand and production so as to extend in concrete terms every help to the development of Electronics Industry within the country. A yearly report on the achievements in the Electronics Industry should be presented in time to Parliament so that the matter receive continuous attention at the highest level. [Paragraphs 9.22 & 9.23].

Reply of Government

The recommendation was forwarded to the Department of Electronics for their comments and their reply is reproduced below:—

“The Electronics Commission has already set out a number of important tasks to be undertaken on a most immediate basis. The Commission is taking into account the recommendation of the Bhabha Committee, the discussions in the National Conference on Electronics held in Bombay in March 1970 and the modern developments in electronics in the world, together with the growing demands in electronics in various fields in the country; and it is the objective of the Commission to achieve self-reliance in the shortest possible time so that not only are all the needs of the country met but the export potential is also fully exploited. The Electronics Commission, in this context is assessing the existing export efforts and the steps necessary to promote exports such as incentives, simplification of procedures, and the setting up of wholly export oriented industries including operations such as Free Trade Zones. The Commission is engaged in the preparation of a perspective plan which will be continuously reviewed. Every year the progress of the electronics industry in all its aspects would be assessed and presented in the Annual Report of the Department of Electronics which will be placed before the House. The Commission is also undertaking to set up a high level National Advisory Body consisting of experts from all sectors of Electronics whose advice will be available in achieving all these important tasks.”

[Ministry of Defence O.M. No. 22(2)/71/D(BEL) dated the 19th December, 1972].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendations (Serial No. 13)

The Committee note the view point of the management that the plant was working to its full capacity but BEL may try to bring in full capacity of its Equipments Division also. As mentioned in para 4.11, overall utilisation of productive machines in the equipment division had been 72 per cent of the available capacity in 1969-70 on the basis of two eight hour shifts. It is, therefore, evident that all the units of the plant were not working to their rated capacity.

The Committee think that the rated capacity of the plant should be fixed in terms of physical output as the value of production was liable to change. If the rated capacity of the Plant was not indicated to them by the supplier of the Plant or the Collaborator, BEL, it is suggested would undertake an assessment of the ultimate and rated capacity on their own and then keep a watch over the progress made to achieve that capacity. [Paragraphs 4.12 and 4.13].

Reply of Government

Bharat Electronics Limited have been advised to make every effort to increase the utilisation of machines in all their Divisions. The Company has stated that they are carefully watching the utilisation of machines and labour in various parts of the factory, and a continuous check on efficiency is maintained. However, because of the nature of diversified equipment production and the continuously changing product-mix, it would be virtually impracticable to define the rated capacity in terms of physical outputs. If a fixed product-mix can be pre-determined and specified, the rated capacity for such product mix, based on the available machines, could be indicated in physical terms. However, things being as they are, the capacity can only be specified broadly in terms of value. The Company sets physical targets each year against which the actuals are assessed, Physical targets are quantified into financial terms at current selling prices and reported in the Company's Annual Reports. Thus, the achievements of financial targets will amount to

achievement of physical targets, which factor is also examined by the Board of Directors of the Company.

On the above basis the actual utilisation of machines during the last three years is as under:—

1969-70	72 per cent
1970-71	69 per cent
1971-72	73 per cent

It may be added that a cent percent utilisation of the machinery and equipment is not feasible, specially when the product-mix is so varied and the operations involved are of different types on the various products.

[Min. of Def. O.M. No. 22(2)/71/D(BEL), dated the 10th January 1973].

Note:— The above reply has not been vetted by Audit.

Comments of the Committee

Please see paras 1 to 6 of Chapter I of the Report.

Recommendation (Serial No. 25)

The Committee regret to note that BEL's selling prices (including excise duty) effective from 1st March 1969 in respect of Germanium Semi-conductors (CA 70,73,79,81,85,91,95) range from Rs. 1.30 to Rs. 2.00 as against total landed cost of Rs. 1.07. The position in respect of silicon semi-conductors was no better. For example as against the total landed cost of Type, BY 100 and BY 114 as Rs. 3.82 and 3.50 BEL's wholesale prices were Rs. 5.50 and Rs. 5.00 respectively. The position of some types of transmission valves was still worse. For example, the selling price per unit of BEL 3000 and 5000 types was Rs. 3000 - and Rs. 4,400 respectively as against the highest landed cost per unit of these type which were Rs. 2,481 and Rs. 3,995. BEL had argued that "it might not be correct or fair to make comparison of BEL's selling prices with landed cost of foreign transistors, as foreign manufacturers have not only be in the filed many years earlier but their market as well as quantities of production was many times the capacity of the plant of BEL". The Committee agree that these factors do influence the selling price of a product but wish to stress that BEL should not relent in their efforts to reduce, their cost of production so that it might be possible to bring their selling prices at par with the landed cost of Germanium Semi-conductors, Silicon Semi-conductors, and Transmitting Valves etc. (Paragraph 8.13)

Reply of Government

The selling prices of Germanium and Silicon Semi-conductors as mentioned in the Committee's Report include an element of 50 paise on account of excise duty. Moreover, as already explained, the higher costs of certain components produced by BEL as compared to the prices of similar items produced abroad is attributable to the low volume of production resulting from law demanded, a lesser degree of automation than prevalent abroad, high prices of certain imported as well as indigenous primary materials and high prices of fine chemicals. In spite of these, BEL has been trying to reduce their production costs and to pass on the benefit to the customer. As a result of these efforts, BEL has been able to reduce the selling prices of some of the popular types of Semi-conductors as shown below (The current prices also exclude the excise duty of 50 paise since withdrawn by the Government):—

Prices effective from 1-3-69 as published in the Report	Rs.	Current prices
AC. 127 . . .	2·90	2·10
AC. 128 . . .	2·90	2·10
BF. 195 . . .	3·00	1·80
BF. 194 . . .	3·0	1·80
BC. 149 . . .	3·50	2·00 B.C. 149—B 2·50 B.C. 149—C
B.C. 147 . . .	2·80	1·65 BC 147—A 2·00 BC 147—B
B.C. 148 . . .	2·60	1·65 BC. 148—A 1·80 BC. 148—B 2·00 BC. 148—C

[Ministry of Defence O.M. No. 22(2)/71/D (BEL) dated the 12th
December, 1972.]

Comments of the Committee

Please see paras 7 to 10 of Chapter I of the Report.

CHAPTER V

**RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES
OF GOVERNMENT ARE STILL AWAITED**

—NIL—

**NEW DELHI;
March 20, 1973.**

Phalguna 29, 1894 (S).

SUBHADRA JOSHI
Chairman,
Committee on Public
Undertakings.

APPENDIX I

(Vide reply to recommendation at Sl. No. 5, Chapter II)

No. F:17(107)/72/D(PS)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 1st June, 1972.

To

- (i) The Chairman,
HAL, Bangalore (10 copies)
- (ii) The Chairman-cum-Managing Director,
MDL, Bombay.
GSL, Goa.
BEL, Bangalore.
- (iii) The Managing Director,
BEML, Bangalore.
GRW, Calcutta.
PTL, Secunderabad.
BDL, Hyderabad.

SUBJECT: *Recommendation No. 5 contained in para 2.20 of the Third Report of the Committee on Public Undertakings relating to Bharat Electronics Ltd., Bangalore.*

Sir,

I am directed to forward herewith a copy of this Ministry's letter No. 22(2)/71/D(BEL) dated 29th April, 1972, on the subject mentioned above for information and necessary action.

Yours faithfully,

Sd/-

K. S. RAO,

Under Secretary to the Government of India.

Copy to:—

D(HAL I) | D(BEL II) | D(BEL) | D(GRW|MD) Dte of P.&C/SO.
II/D(PS).

IMMEDIATE

No. F. 22(2) | 71 | D (BEL) | PC. 5

GOVERNMENT OF INDIA**MINISTRY OF DEFENCE***New Delhi, the 29th April, 1972.***OFFICE MEMORANDUM**

SUBJECT: *Recommendation No. 5 contained in Para 2.20 of the Third Report of the Committee on Public Undertakings relating to Bharat Electronics Ltd., Bangalore.*

The Committee of Public Undertakings has in the above-mentioned Report recommended that all undertakings in the public sector should endeavour without any further loss of time to attain indigenisation in the technical know-how and in the production of equipments and components and should in no case approach a Foreign agency unless a clear certificate is given by the concerned Ministry about their inability to meet their requirements from indigenous sources.

2. The above recommendation is brought to your notice for immediate necessary action and issue of suitable Instructions to the Public Sector Undertakings under your administrative control.

Sd/- K. S. RAO,

Under Secretary to the Government of India.

To

1. Ministry of Industrial Development.
2. Ministry of Communications.
3. Ministry of Steel.
4. Ministry of Social Welfare.
5. Ministry of Foreign Trade.
6. Ministry of Food and Agriculture.
7. Ministry of Works and Housing etc., etc.

No. F.17(155)/68/D(PS)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi the 17th March, 1969.

To

- (i) The Managing Director,
H.A.L., Bangalore (10 copies).
B.E.L., Bangalore.
B.E.M.L., Bangalore (3 copies).
M.D.L., Bombay.
G.R.W., Calcutta.
P.T.L., Secunderabad.
- (ii) The Manager,
G.S.L., Vasco-da-gama, Goa.

SUBJECT:—Forms of application to be submitted by entrepreneur for approval of their collaboration proposals.

(ii) Foreign Collaboration policies and procedures—Guide Lines.

Sir,

I am directed to forward herewith a copy each of the Ministry of Industrial Development and Company Affairs (Department of Industrial Development) Circular No. IP&FC-5(26)/68-II dated the 25th January, 1969 and Office Memorandum No. IP&FC-5(26)/68-II dated the 29th January, 1969, on the subject mentioned above, for information and guidance.

Authenticated for Issue

Sd/-

(J. N. BALLEY)

Yours faithfully,

Sd/-

(MOHINDAR SINGH)

Secton Officer Under Secretary to the Government of India.

Copy forwarded for information and guidance to:—

D(HAL.I)/ D(HAL.II)/ D(BEL)/ D(GRW/ MD)/D(NF)/ D(FY)/
D(Prod/Admin) D(Prod/ Dte. of P&C)/ D(PS)—Shri T. Datt.
(To initiate action on para 8 of O.M. No. IP&FC-5(26)/68-II dated 25-1-1969).

Copy also to:—JS(ALP)/ JS(PS)/ DS(PS)/ DS(PA)/ DS(R&A)/
US(PA)/ US(PS).

No. IP&FC-1(1)/69

GOVERNMENT OF INDIA

MINISTRY OF INDUSTRIAL DEVELOPMENT AND COMPANY
AFFAIRS, (DEPTT. OF INDUSTRIAL DEVELOPMENT)

New Delhi, the 17th January, 1967.

OFFICE MEMORANDUM

SUBJECT: *Foreign Investment Board—Receipt of applications for foreign collaboration Centrally by the—*

As the Ministry of Petroleum and Chemicals etc. are aware, a Foreign Investment Board has been set up which will be responsible for all matters relating to foreign collaboration and investment. The Board started functioning with effect from 10th December, 1968. One of the features of the new procedures to be followed is that, for the sake of maintaining centralised information and for adequate supervision by the Board, all application foreign investment collaboration will be received centrally in the Secretariat of the Foreign Investment Board which is located in the Department of Industrial Development. The matter was further considered by the Foreign Investment Board at its meeting held on 12th December, 1969 and it was decided that all applications for foreign investment or foreign collaboration will be addressed to the Secretary of the Foreign Investment Board who will have them promptly registered and transmit to the appropriate Ministry concerned for further processing. Although wide publicity is being given to inform the prospective entrepreneurs to address their applications for foreign collaboration to the Department of Industrial Development, it is possible that some foreign collaboration applications might be received direct by the concerned administrative Ministries/Departments/Sections. With a view to adhering to the prescribed procedure and to collect statistical data in the Secretariat of the Foreign Investment Board, it is requested that a copy of each of the applications for foreign collaboration received from the applicant after 10th December, 1968 or those which might be received in future, may kindly be sent to the Department of Industrial Development for registration in the Secretariat of the Foreign Investment Board.

2. Detailed instructions regarding the procedures for processing of foreign collaboration applications are being issued separately.

3. It is also requested that in the 'letters of intent' wherever foreign collaboration is involved, the entrepreneurs in future may

be advised to address applications for foreign collaborations direct to the Secretary, Foreign Investment Board, Department of Industrial Development, Udyog Bhavan, New Delhi.

Sd/-

(R. N. MISRA),
Under Secretary to the Government of India.

To

All Ministries/Departments of the Government of India, etc.

No. IP&FC-5(26)/68-II

GOVERNMENT OF INDIA

MINISTRY OF INDUSTRIAL DEVELOPMENT AND
COMPANY AFFAIRS

(DEPARTMENT OF INDUSTRIAL DEVELOPMENT)

New Delhi, the 25th January, 1969.

OFFICE MEMORANDUM

SUBJECT: *Foreign Collaboration Policies and Procedure—Guide Lines—*

As the Ministry of Commerce, etc., are aware, Government have had under consideration the question of minimising procedural delays in the disposal of applications relating to foreign investment and collaboration. A Foreign Investment Board has recently been created which will be responsible for expeditious disposal of all cases relating to foreign investment/collaboration. With the establishment of the Foreign Investment Board and its Sub-Committee, the Foreign Agreements Committee, the foreign Investment Committee and the Negotiating Committee have ceased to function. A note on the constitution, functions and procedures of the Foreign Investment Board and its Sub-Committee is enclosed (Annexure I).

So far as the Public Sector is concerned, only those cases involving foreign investment/collaboration will require submission to the Foreign Investment Board which were earlier within the jurisdiction of the Negotiating Committee, that is, the projects involving a total cost of more than Rs. 5 crores. The proforma for preparation of summaries of such cases for consideration of the Foreign Investment Board will continue to be the same as hitherto.

2. With the concurrence of the Ministry of Finance, the following guide-lines are issued for the expeditious disposal of all applications for foreign financial investments and technical collaborations.

3. In consultation with all the Ministries concerned, illustrative lists of industries have been prepared (Annexure II) as explained below:—

List—I(A) includes industries where foreign investment may be permitted (with or without technical collaboration);

List—I(B) includes industries where only foreign technical collaboration may be permitted (but not foreign investment);

List—I(C) includes industries where a foreign collaboration (financial or technical) is considered necessary.

These lists are illustrative only and are subject to review from time to time. The range of royalty permissible is also indicated against each of the industries in the first two lists. Apart from royalties, payments for design, engineering etc., may be authorised by the administrative Ministries to the extent considered appropriate within the limit of their delegated powers. It is not practicable to lay down any general criteria to regulate lump sum payments. The total payments should normally be within the ceilings prescribed in the powers delegated to the Ministries.

An application for foreign investment/collaboration in any industry not included in any of the lists will be considered by the Board on merits.

4. In supersession of the existing orders of the Ministry of Finance delegating powers to the administrative Ministries, it has been decided that all cases of foreign technical collaboration involving payment in cash of royalties not exceeding the ceiling prescribed in the lists in Annexure II and all cases of technical know-how fees payable in cash not exceeding 10 per cent of the issued equity capital, provided the aggregate gross payment does not exceed Rs. 5 lakhs per annum in any one case, may be disposed of by the administrative Ministry concerned without reference to the Foreign Investment Board or its Sub-Committee.

Even where the primary responsibility rests with the administrative Ministry concerned under powers delegated above, the Foreign Investment Board will have supervisory functions in respect of disposal of all applications and may call for and deal with any individual application in the Board itself.

The present system of consultation with the D.G.T.D., C.S.I.R. and other technical authorities regarding the specific rate of royalty to be allowed in particular cases shall continue.

5. The categories of cases which may be disposed of by the Sub-Committee and the cases to be dealt with by the Foreign Investment Board as well as the categories of cases to be reserved by the Foreign Investment Board for decision of the Cabinet Committee are indicated in Annexure III.

It may be noted that in cases where an existing Indian Company already having certain non-resident equity participation, proposes to set up a joint venture with equity participation by another foreign company, the cumulative direct cum beneficial non-resident shareholding should be taken into account for purposes of determining the quantum of effective foreign equity investment/participation in the new joint venture.

6. The following are some of the general principles to be borne in mind while dealing with foreign investment/collaboration cases;

(i) Even when the principle of foreign investment in a particular industry is accepted, it is important to ensure that, to the maximum extent possible, effective control in a joint venture rests in Indian hands. That is why foreign equity participation beyond 49 per cent is accepted in only exceptional cases. It is probable that in view of the Indian shareholding being dividend, the foreign collaborator may be in a position to exercise effective control on the basis of a holding of less than 49 per cent. In view of this, all cases with foreign holding in excess of 40 per cent should be looked at carefully and, where approved, such steps as may be practicable (such as insistence on majority Indian Directors) should be taken to ensure that effective control remains in Indian hands. In judging the relevance of foreign equity holding to effective control, it would also be pertinent to distinguish between cases where the foreign equity holding belongs to a single group of management (or closely related groups of management) and those where it is shared, particularly with foreign financial institutions including International Institutions. Cases involving foreign capital participation will, however, be decided at the levels indicated in Annexure III.

While our policy is to encourage foreign private investments in the industries which we desire to develop, one of the criteria for judging such proposals would be related to the profitability of a particular industry. While considering proposals for foreign equity participation in industries where the profit margin is substantially high, Ministries should take into account the quantum of dividends which will have to be remitted abroad in a relatively short period and relate this to the likely earning or saving of foreign exchange.

(ii) Normally royalty is expressed as a percentage of the ex-factory selling price of the product, minus the landed cost of the imported components including ocean freight, insurance, customs duties payable thereon etc. In appropriate cases the alternative of expressing royalty as a fixed amount per unit of production may be considered. This may be particularly appropriate in cases where the Indian price of a commodity is expected to be very high as compared to the International price.

In respect of the engineering industries, a provision should be made in all collaboration agreements to the effect, that if a readily identifiable component is made by the same Indian party, in collaboration with another foreign party, on a royalty basis, the cost of such a component should be deducted from the ex-factory price of the final product for the purpose of computation of royalty. Similarly, if the same foreign collaborator is associated with the manufacture of the final product and also any of the identifiable components, even if the Indian partners are different, the cost of such components should also be off-set from the value of the final product for the purpose of the computation of royalty.

(iii) For the purpose of these guidelines royalty has been grouped into two ranges, a low range upto 3 per cent and the other upto 5 per cent. All royalties are subject to Indian taxes. The Ministries and the Departments of the Government of India should not as a rule negotiate on the basis of payment of fees to foreign collaborators free of Indian taxes but should insist on such payments being fixed subject to applicable Indian taxes.

The question has been considered whether in cases where minority foreign investment is allowed, the rate of royalty applicable should be something less than what would be admissible if there is no equity participation. A view has been expressed that in so far as the foreign investor gets a share in the profits of the company, there is a justification for a reduction in the royalty rate. On the other hand, the

foreign investors have often taken the stand that their participation in the equity risk should not be a ground for denying payments which would otherwise have been made. Government have accepted this position. It is felt that we should not take a rigid stand that there should be an appreciable reduction in the percentage of royalties on account of equity participation particularly as this may act as a disincentive to investment. In the interest of quick decisions, it does not seem desirable to have too much of a refinement to regulate the rate of royalty according to the quantum of minority investment.

(iv) In the very limited number of cases where majority foreign participation is agreed to the royalty payments to the foreign collaborators should be on a substantially reduced basis.

Proposals for majority foreign participation in new enterprises should be considered only when one or more of the following main criteria are satisfied:

- (a) the main contribution of the project is in a field of technology where India has made little progress and where great deal of initial or additional development is necessary;
- (b) the amount of foreign exchange needed for the project is such that unless the foreigner is allowed to have majority share holding we shall ourselves have to find a substantial amount of the foreign exchange for the project, no alternative methods of long term finance being practicable; and
- (c) an essentially export oriented scheme.

(v) There should generally be no provision for payment of a stipulated minimum amount of royalty related to turnover.

(vi) In the case of payment of royalties to overseas concerns by fully-foreign-owned or majority-foreign-owned Indian companies, the following procedure should be followed.

- (a) *Collaboration between a wholly-owned subsidiary of a foreign company in India and the parent company.—*

Ordinarily no royalty payments to the parent company will be agreed to, but payments towards technical services and fees for contribution towards research expenditure may be considered on merits in individual cases.

(b) *Collaboration between a wholly-owned foreign subsidiary in India and a foreign company other than the parent company.*—As a general policy, collaboration between wholly-owned subsidiaries in Indian and a foreign party other than the parent company should be discouraged.

(c) *Payment of royalty in joint ventures in which the foreign collaborator has a majority holding.*—In cases of companies with majority foreign equity participation, it will not be practicable to take the stand that there should be no royalty payments at all. The existing policy of allowing a substantially lower rate of royalty than would otherwise have been agreed to will continue to be followed.

(vii) Royalty payments should normally be restricted to a period of 5 years from the date of agreement or 5 years from the date of commencement of production provided production is not delayed beyond 2 years of signing of agreement (i.e. a maximum period of seven years of signing of agreement).

(viii) In all cases of Government approval to foreign collaboration proposals it should be specifically stipulated that the royalty terms were being approved for a particular quantum of production (*viz.* upto the capacity licensed or proposed to be set up, and 25 per cent. in excess thereof) and that in the case of production in excess of that quantum the prior approval of Government would have to be obtained regarding the terms of payment of royalty in respect of this extra production.

(ix) The fact that foreign investment is allowed should not be a ground for allowing import of capital goods which would otherwise not have been allowed. There should be appropriate scrutiny from the indigenous availability angle to ensure that the maximum possible fabrication of indigenous machinery is insisted upon. It is, in general, desirable for investment to be in the form of cash, with purchase of equipment from the cheapest source. Where the investment is in the form of equipment, care should be taken to see that the prices charged are reasonable. Where the capital participation exceeds the value of imported machinery, the balance should be brought in cash.

(x) There should be no stipulation that raw materials, components etc. will be obtained only from the foreign collaborator. The Indian parties should have freedom of choice in this regard.

(xi) With a view to promote exports of non-traditional products the following points should be kept in view:

- (a) when existing collaboration agreements which limit export franchise, come up for renewal, the restrictions should be totally eliminated or substantially removed. In the event of the foreign collaborator not agreeing to this course of action, renewal of agreements should not be permitted;
- (b) further agreements should be stringently scrutinised to eliminate export restrictions, the approach being that the agreement should allow free export to all countries except perhaps the country of the foreign collaborator or the countries where the foreign collaborator is having joint ventures in the same field of production;
- (c) in low-priority or non-essential fields of production where foreign collaboration is not generally allowed, a relaxation be made where the foreign collaborator agrees to undertake a major share of the production for exports; and
- (d) the existing policy of not allowing foreign collaboration in trading activities may be relaxed where such collaboration is *exclusively* aimed at augmenting our export sales.

The Ministries should ensure that the export clause in the collaboration agreements gives correct and definite information regarding the countries to which exports will be specifically permitted or disallowed and this information should be clearly indicated in the Notes|Summaries prepared for consideration of the Foreign Investment Board or its Sub-Committee.

In considering applications for foreign investment|collaboration in low priority and non-essential fields, no specific percentage can be rigidly enforced in regard to the quantum of production to be underwritten by the foreign collaborator for export; this will have to be considered on the basis of the export potential of each product. Before putting up such cases to Foreign Investment Board Ministry of Commerce should be consulted and their views obtained in each case.

(xii) Where an indigenous 'know-how' capable of commercial exploitation is available, importation of know-how is not normally permissible.

(xiii) The importance of avoiding repetitive import of know-how for the same or similar product or process should be kept in view. Also to the extent practicable fresh entrants should be asked to obtain the know-how imported by those already in the field.

In the fields of manufacture where a number of collaborations have already been approved and a new application is received for approval of foreign collaboration in the same field, steps should be taken to explore whether it is possible for the new applicant to obtain the know-how from one of the parties who are already in possession of it. In many of the existing agreements there is a secrecy clause. In future agreements the Ministries should ensure that there is a provision to the effect that the technical know-how| product design|engineering design can be passed on to another Indian party, should it become necessary, on terms as mutually agreed to by all the parties concerned, including the foreign collaborators, and subject to the approval of Government.

In the fields where there is a likelihood of 3 or 4 units of the same industry, being set up at about the same time and all of them are likely to require foreign collaboration, it should be ensured that negotiations for acquisition of know-how for these units are conducted in a co-ordinated manner, with selected foreign parties, rather than permit each Indian party to negotiate individually and independently of each other. Economies of scale would make themselves felt in such a case of negotiation on a multi-plant basis and result in lowering of royalty rate and lump sum fees for the first as well as every subsequent unit.

(xiv) In appropriate cases, and to the maximum extent practicable, there should be provision for Indian scientific, technological and engineering institutions being associated with the foreign collaboration, so that the foreign 'know-how' is in our economy as quickly as possible and further developments could take place within the country. While approving a case of foreign collaboration, stress would be laid on the development of indigenous 'know-how' as early as possible, so that it may be possible to discontinue the collaboration after the period of validity of the agreement.

(xv) With a view to ensuring maximum possible utilisation of Indian Consultancy services, wherever Indian consultancy is available it should be utilised exclusively, and if foreign consultancy is also required, Indian consultants should also be associated and, as a rule, be the primary agency employed for consultancy. From amongst the Indian consultancies, preference should be given to agencies in which the predominant interest is Indian.

Clearance of the Foreign Investment Board should be obtained by the concerned Ministry/Department before consultancy services involving payment in foreign exchange of Rs. 50 lakhs or more are agreed to.

(xvi) Suitable provision should be made for the training of Indians in the field of production and management.

(xvii) The question of use of foreign brand names/trade marks should be examined from the view points (i) whether any additional payment is envisaged for the use of such foreign brand names; and (ii) whether the use of such name would adversely affect the small scale sector or the indigenous industry. In such cases the use of foreign brand names should not be allowed for products manufactured under foreign collaboration and meant for the Indian market. There should, however, be no objection to the use of foreign brand names on the products meant for export.

(xviii) A predominantly foreign owned company with agency functions operating in India should be called upon to redefine its functions, whenever, it proposes to associate Indian capital or, in other words, reduces foreign equity.

(xix) Cases of 100 per cent foreign owned Indian companies or predominantly foreign owned companies seeking to take over another predominantly foreign owned Indian company or may other category of Indian company (a) by complete merger or (b) by making inter-corporate investments, within the ambit of Section 372 of the Companies Act, should be brought before the Foreign Investment Board/Sub-Committee. All cases of merger of two Indian companies which will result in the merged company having a direct cum beneficial non-resident shareholding in excess of 40 per cent of the equity capital should also be brought before the Foreign Investment Board.

7. Administrative Ministries are requested to dispose of all cases falling within the powers delegated to them keeping in view the general principles and guidelines contained in this Memorandum. Any variation from the position as indicated in this Memorandum read with the appended Lists should be with the specific approval of Government and should normally be brought up before the Foreign Investment Board. It may also be noted that a public announcement has been made that normally all applications will be disposed of within a period of 3 months. It is of the utmost importance that every effort should be made to adhere to this time limit; wherever delays are expected the cases may, wherever considered

appropriate, be brought up before the Foreign Investment Board|Sub-Committee, so that quick decisions may be taken.

In a number of cases, the intending investors apply for a Letter of Intent|Licence and for foreign collaboration in the same application. In such cases, normally the application is first considered by the Licensing Committee and a Letter of Intent is issued subject to the terms of foreign collaboration being arranged to the satisfaction of Government. Thereafter, the foreign collaboration terms are separately considered. This arrangement, however, involves considerable time and it is not likely that the application can be disposed of within three months. It is, therefore, considered desirable that in such cases the application for the licence and the application for foreign collaboration may be processed simultaneously, though separately.

8. Administrative Ministries are also requested to lay down procedures for the disposal of cases falling within their delegated field and to forward a copy thereof to the Secretariat of the Foreign Investment Board.

9. A copy of the proforma for preparation of Summaries for consideration of the Foreign Investment Board|Sub-Committee is enclosed (Annexure IV).

10. This Memorandum issues with the concurrence of the Ministry of Finance (Department of Economic Affairs).

11. Kindly acknowledge receipt of this letter.

Sd/-

(A. P. SARWAN).

Deputy Secretary to the Government of India.

To

1. All Ministries|Departments of the Government of India, etc. etc.

ANNEXURE I

FOREIGN INVESTMENT BOARD

Composition:

Secretary, Ministry of Finance—*Chairman.*

MEMBERS

1. Secretary, Department of Industrial Development.

2. Secretary, Ministry of Petroleum and Chemicals.
3. Secretary, Department of Company Affairs.
4. Secretary, Ministry of Commerce.
5. Secretary, Planning Commission.
6. Secretary, of the Administrative Ministry concerned.
7. Director General, Council of Scientific and Industrial Research.
8. Director General, Technical Development.
9. Member-Secretary to be provided by the Department of Industrial Development.

Jurisdiction:

2. All cases of foreign investment and collaboration will fall within the jurisdiction of the Board. Even where the primary responsibility rests with the administrative Ministry concerned under powers delegated to the Ministry, the Board will have supervisory functions in respect of the disposal of all applications and may call for and deal with any individual applications in the Board itself.

Sub-Committee of the Foreign Investment Board

Composition:

(At the level of Joint Secretaries)

Department of Industrial Development—*Chairman.*

MEMBERS

1. Department of Economic Affairs.
2. Department of Company Affairs.
3. Ministry of Commerce.
4. Ministry of Petroleum and Chemicals.
5. Department of administrative Ministry concerned.
6. A representative of the Planning Commission.
7. A representative of the Directorate General of Technical Development.
8. A representative of the Council of Scientific and Industrial Research.
9. Secretary to be provided by the Department of Industrial Development.

Procedures:

3. In order to ensure speedy disposal of cases, Government have delegated adequate authority to the administrative Ministries who will be primarily responsible for the prompt disposal of applications falling within their particular fields in accordance with guide-lines now laid down. For the sake of centralised information and for adequate supervision by the Board, all applications (6 copies in the prescribed form) for foreign investment|collaboration will be received centrally in the Secretariat of the Foreign Investment Board. They will be serially registered in a register to be maintained for this purpose and two copies will be immediately transmitted to the Administrative Ministry concerned, with an indication regarding the authority (the Foreign Investment Board|Sub-Committee or the administrative Ministry) competent to deal with the application under the delegated powers. One copy each will also be forwarded simultaneously to the Director General, Council of Scientific and Industrial Research, to the Director-General, Technical Development (or technical authority concerned) and to the Development Commissioners, Small Scale Industries.

Where the matter is within the delegated powers of the administrative Ministries, they will dispose of the application finally within a period of two months of the date of application and inform the Secretariat of the Board.

4. The Secretariat of the Board will maintain close liaison with the various Ministries. The Board and its Sub-Committee will meet normally once a fortnight. The categories of cases which will be dealt with by the Board and its Sub-Committee will be those indicated in (B) and (C) respectively of Annexure III. The categories of cases indicated (A) of Annexure III will be considered by the Board and submitted for decision to the Cabinet Committee, with its recommendations.

In respect of these cases, the administrative Ministry concerned will after obtaining the comments of the Directorate General, Technical Development, Council of Scientific and Industrial Research or other authorised concerned, forward a note to the Secretary of the Foreign Investment Board|Sub-Committee within 1-1/2 months from the date of receipt of the application. If, in any particular instance the note is not received within 1-1/2 months, the Secretary of the Sub-Committee of Foreign Investment Board should contact the administrative Ministry and expedite submission of the Note. In any case, an application for foreign investment|collaboration must be brought up to the Foreign Investment|Board|Sub-Committee at the expiry of the period of 2 months from the date of its receipt, irres-

pective of the stage of the processing of the case and even without waiting or the comments of the technical authorities.

On receipt of the note from the administrative Ministry, the Secretariat of the Board will ensure that it is included in the agenda of the next meeting of the Sub-Committee|Board, as the case may be.

Where, under the delegated powers, the Sub-Committee is competent to deal with the subject, it will do so and inform the Board of its decision.

Where the note deals with a subject which is within the competence of the Board or of the Cabinet Committee, it shall be included in the agenda of the next meeting of the Board.

Where the Board is competent to deal with the matter, they will do so but where the subject falls within the jurisdiction of the Cabinet Committee, the Board will consider the Note and record their recommendations on the proposal made by the administrative Ministry.

In such cases the Secretary of the Board shall forward to the administrative Ministry concerned the recommendations of the Board and it will be the responsibility of the administrative Ministry concerned to put up its proposal as well as the recommendation of the Board thereon to the Cabinet Committee with as much expedition as possible.

The Secretary of the Foreign Investment Board|Sub-Committee will promptly forward to the administrative Ministry the relevant minutes of the Foreign Investment Board|Sub-Committee for necessary action. It is expected that final order will be issued by the Ministry concerned between 4 to 7 days from the date of issue of the minutes.

All papers meant to be included in the agenda of any meeting of the Board or its Sub-Committee should be sent well in time so as to be received by the Secretary of the Board|Sub-Committee at least 7 days before the date of the meeting and they should be promptly circulated by the Secretariat of the Board so that Members may have at least 5 days' time to study the agenda notes.

5. At each meeting of the Board, apart from the specific cases to be considered by the Board, the Secretariat of the Board will also bring up—

- (i) lists of cases which have to be dealt with by the Board or its Sub-Committee but which, for reasons to be indicat-

ed, have not yet been considered within the period of six weeks prescribed above; and

- (ii) lists of applications to be dealt with by the administrative Ministries and which have been pending for over two months with the administrative Ministries.

so that wherever considered necessary the Board may give directions for their prompt disposal.

6. While considering proposals relating to an industry for which there is capacity in the public sector, the Ministry concerned will keep in view the desirability of consulting the Public Sector Undertakings concerned.

7. The Board will also review the decisions taken by the various Ministries from time to time within their delegated powers on cases relating to foreign technical collaboration.

ANNEXURE—II

LIST—I (A)

Illustrative list of industries where foreign investment may be permitted.

Industry	Royalty Range	Remarks
<i>Oil and Chemical Industries</i>		
(i) Fertilizers (Other than single super-phosphate)	No royalty	
(ii) Selective pesticides	Upto 5%	
(iii) Off-shore oil exploration	No royalty	
(iv) Oil refining including the production of	—	
(v) Special additives & Chemicals required for the oil industry	Upto 4%	
(vi) Petro-Chemicals (not otherwise specified)	Upto 5%	
(vii) Thermo-plastics	Upto 3%	
(viii) Synthetic Rubber	Upto 5%	
(ix) Detergent Alkylates	Upto 5%	
(x) Certain Drugs & Pharmaceuticals	Upto 5%	
(xi) Edible, Pharmaceutical Photographic and Special gelatine	Upto 3%	

Industry	Royalty range	Remarks
Paper, Pulp & Allied Industries		
(i) Newsprint	No royalty	
(ii) Speciality papers like electrical insulation papers and boards such as cable paper, condenser paper presspahn, press board, leatheroid, photo base paper and special type of filter paper	Upto 3%	
(iii) Paper & Board Makers felts	Upto 3%	
Rayon & Synthetic fibres Industries:		
Nylon Polyester yarn/fibre including industrial yarn, polypropylene fibre, polyvinylalcohol fibre, acrylic fibre	Upto 20 paise per Kg.	
Asbestos & Carbon Products:		
(i) Asbestos packing & Jointing.	Upto 3%	
(ii) Graphite electrodes	Upto 3%	
Timber-based Industries:		
(i) Fibre Board	No royalty	
(ii) Particle Board	No royalty	
Refractories (special types including electro cast refractories)	Upto 3%	
High Tension Insulators and Bushings and solid core insulators for railways	Upto 3%	
Abrasive grains	Upto 3%	
Industrial Machinery :		
(i) Cylindrical, tapered, spherical and other special bearings (excluding ball bearings)	Upto 5%	
(ii) Some items of textile machinery like combers, automatic pirn, winding and warp winding machines, processing and finishing machinery	Upto 5%	
(iii) Jute Machinery (certain selected items)	Upto 5%	
(iv) Rayon Machinery	Upto 5%	
(v) Specialised printing machinery (for example Rotary printing presses, off set printing presses and composing machinery etc.)	Upto 5%	
(vi) Rubber processing Machinery	Upto 5%	
Seamless Tubes	No royalty	

Industry	Royalty range	Remarks
Cast Iron, Cast Steel forged rolls	Upto 3%	
Specialised items of chemical and pharmaceutical Machinery.	Upto 5%	
Silicones	Upto 5%	
Catalysts	Upto 5%	
Commercial explosives	Upto 3%	
Watches	Upto 3%	
Standard and portable typewriters	Upto 3%	
Electric typewriters	Upto 3%	
Data processing machines	Upto 5%	
Calculating & Adding Machines	Upto 3%	
Precision Measuring Tools	Upto 3%	
Machine Tools & Accessories (Selected types)	Upto 5%	
Programme Control Equipment	Upto 5%	
High Duty Wharf and floating cranes of all types	Upto 5%	
<i>Electrical Engineering Industries :</i>		
(i) Electromagnetic and time relays	Upto 5%	
(ii) Railway electrical signalling	Upto 3%	
(iii) HRC Fuses	Upto 3%	
(iv) Germanium and Silicon Diodes	Upto 3%	
(v) Dry cells and train lighting cells	Upto 3%	
(vi) Electronic instruments and selected electronic components	Upto 5%	
(vii) Selected measuring instruments	Upto 5%	
(viii) Electro-medical, optical and dental instruments and equipments for medical profession	Upto 5%	
(ix) DC Motors and controls	Upto 3%	
(x) Transistors and very High Frequency Electrical Equipment	Upto 3%	
(xi) LT & HT circuit breakers	Upto 3%	
(xii) Power Cables above 11 KV	Upto 3%	
Earth moving equipment (Crawlers, Tractors, Scrapers, Excavators, Blast hole drills, heavy duty dumpers and haulers, payloaders tractor showels tyre mounted cranes)	Upto 5%	

Industry	Royalty range	Remarks
Power Tillers	Upto 3%	
Specialised Automobile Ancillaries	Upto 5%	
Industrial Gases (Oxygen, nitrogen, Hydrogen, Carbon-dioxide, Acetylene)	No royalty	
Mine Safety/Rescue appliances	No royalty	
Gas Testing apparatus for mines	No royalty	
Selected Ferro Alloys:	Upto 5%	
Ferro—molybdenum		
Ferro-titanium		
Ferro-tungsten		
Ferro-venadium		
Non-Ferrous Metals	Upto 3%	
Copper		
Zinc		
Lead		
Iron Ore including processes for agglomeration of ore fines	Upto 3%	
Consultancy Engineering:	No royalty	
<i>Glass Industry</i>		
Polished Plate glass laboratory glass-ware and silica ware	Upto 3%	
Deep Sea Fishing		

LIST—I (B)

Illustrative list of Industries where only foreign technical collaboration may be permitted (but not foreign investment)

Industry	Royalty range	Remarks
<i>I. Paper, Pulp & Allied Industries:</i>		
(i) Special grades of papers such as Natural tracing paper, Vegetable parchment paper, Cigarette paper, Carbonising tissues, Stencil-base tissues, Tabulating Machine paper, High strength kraft paper like sack kraft, waxing, laminating and impregnation base papers, vulcanised fibre sheets, Abrasive Body paper, Chart Paper, Indicator paper	Upto 3%	
(ii) Tyre-cord and special chemical pulp		

Industry	Royalty range	Remarks
VII Metallurgical Industries:		
(i) SG Iron Castings	Upto 3%	
(ii) Alloy Iron Castings		
(iii) Non-ferrous semis not produced in the Country at present	Upto 3%	
VIII Industrial Machinery Industries:		
(i) Coal and Ash handling plant	Upto 5%	
(ii) Printing machinery		
(iii) Gears and gear boxes		
(iv) Chemical and Fertilizer plant		
(v) Metallurgical equipment including foundry equipments including foundry equipments (plant and machinery for such items as L.D. converters, rolling Mills, special features of blast furnaces for giving improved productivity and coke oven by-product plants)		
(vi) Oxygen and Acetylene plant		
(vii) Ceramic Machinery		
(viii) Pulp & Paper Mill Machinery		
(ix) Food Processing Machinery		
(x) Accelerated freeze drying plant		
(xi) Mineral Beneficiation plants		
(xii) Specialised equipments for Air conditioning and Refrigeration and Air Control equipment such as centrifugal compressors, low temperature freezers, transport, refrigeration equipment, electrostatic precipitators, silos etc.		
(xiii) Mining machinery: Hydraulic props and electric drills;		
(xiv) Any specialised item for industrial machinery other than those particularly excluded vide list of industries where no foreign collaboration (financial or technical) is considered necessary		
IX Cutting Tools		
Selected cutting tools	Upto 5%	
X. Other Miscellaneous Industries		
(i) Improved types of agricultural implements and machinery	Upto 3%	
(ii) Pesticides application equipment (Special types)	Upto 3%	

Industry	Royalty range	Remarks
(iii) Time-pieces (non-conventional)	Upto 3%	
(iv) Industrial sewing machines	Upto 5%	
(v) Gas appliances	Upto 3%	
(vi) Hair-spring and other types of delicate and complicated springs	Upto 5%	
(vii) Industrial precision roller chains bigger than 5/8" pitch, simplex, duplex and triplex, bush chains, special rollers chains for mechanical handling, bush slot bank, trolley conveyor chains, hollow bearing pen type chains.	Up to 5%	
(viii) Special bicycle components, such as multispeed hubs, with trigger and wist control	Upto 3%	
(ix) High pressure pipe fittings of specialised type other than malleable iron fittings	Upto 3%	
(x) Ship chains and alloy steel chains other than ordinary mild steel welded link chains	Upto 3%	
(xi) Sophisticated types of valves and cocks	Upto 5%	
(xii) Superior quality sanitary fittings	Upto 3%	
(xiii) Fishing hooks	Upto 3%	
(xiv) Thermo-setting moulding materials	No royalty	
(xv) Fatty alcohols	No royalty	
(xvi) Electro-planting chemicals	No royalty	
(xvii) Welding fluxes	No royalty	
(xviii) Foundry Chemicals.	No royalty	
(xix) Iron ore pelletization including production of sinter feed	No royalty	
(xxi) Alumina	No royalty	
(xxii) Safety razor blades and safety razors	Upto 5%	
(xxiii) Alloy and special steel including:		
Coal rolled grain oriented sheets special alloy steel, Tin-free double reduced or single side-plated tinplates, Coloured galvanised sheets, Plastic coated sheets, Other special items of steel etc.	Upto 3%	
(xxiv) Wire thinner than 19 g and special wire	Upto 3%	
(xxv) Chemical porcelain	Upto 3%	

Industry	Royalty range	Remarks
(xxvi) Welding Electrodes (special types)	Upto 3%	
(xxvii) Duplicators (special types)	Upto 3%	
(xxviii) Machine screws (special types)	Upto 3%	
(xxix) Steel Mill Cranes (Class IV duty)	Upto 5%	

NOTE: (i) This list indicates the fields where foreign investment is not likely to be required for setting up new units. This does not, however, preclude the expansion of existing joint ventures.

(ii) Foreign investment is also not precluded in any composite scheme of manufacture where the production of any of the above items is envisaged along with other major items for the manufacture of which foreign investment is welcome.

List II

[List of Industries where no foreign collaboration (financial or technical) is considered necessary].

1. Paper, Pulp and Allied Industries:

Common grades of printing, writing, packing and wrapping: paper and boards e.g., white printing papers, azure, cream laid and woven paper, art paper and board; litho, offset paper; drawing and cartridge paper; M.G. poster; bank and bond paper; airmail paper; cheque paper; Typewriting paper; manifold paper; ledger paper; kraft paper; match paper; greaseproof and glassine paper; ordinary M.G. tissue papers; blotting paper; straw boards; mill boards; grey boards; pulp board; buplex board; ticket board; carbon paper; type-writer ribbons; VPI paper.

2. Rubber Goods:

Bicycle tyres and tubes; tyre-retreading material; rubber and canvass footwear; conveyor belting; industrial and agricultural hoses; automobile rubber components; rubberised fabrics; latex foam; industrial and surgical gloves; medicinal rubber goods such as vaccine and other injectible bottlevalials; ice cups and hot water bottles and reclaim rubber.

3. *Chemical Industries:*

Formaldehyde, acetic acid; esters of acetic acid like ethyl acetate, butyle acetate; formic acid; monochloro-acetic acid; ethyl chloride; methyl bromide; Chloroform; methylene chloride; chlorobenzene; plasticisers (phthalates—Batch process); oxalic acid; chlorinated paraffins; bear; Ethenol, Pento-orythritol, Aniline.

4. *Leather and Leather Goods Industries:*

Glue/technical gelatine; vegetable tanning extracts; pickers; packing bands; leather belting; cotton and hair finished leather; leather footwear, synthetic tanning materials.

5. *Rayon and Synthetic Fibres Industries:*

Viscose filament yarn|staple fibre; viscose tyre yarn.

6. *Asbestos and Carbon Products:*

Asbestos cement products; pencils.

List-II (Page 2)

7. *Timber based Industries:*

Teachest plywood, commercial plywood, matches.

8. *Glass Industry:*

Sheet glass, table and pressed ware; vacuum flasks; enamelware; containerware.

9. *Cement and Cement Products:*

Cement, RCC pipes, prestressed and pre-tension cement products; building bricks and roof tiles.

10. *Ceramics Industry:*

Sanitary-ware; glazed tiles; crockery.

11. *Castings:*

Grey casting, steel casting.

12. *Electrical Engineering Industries:*

Distribution transformers;
Power transformers 1000 KVA and below;
AC motors below 30 HP;

Electronic Components (Ferrite, transformers, telescopic aerials, ceramic capacitors) cables (except power cables above 11 KV);

Iron Clad Switches;
 Winding Wires and strips;
 Hospital wares;
 Electric fans;
 Domestic refrigerators;
 Domestic air-conditioners;
 Commercial radio receivers;
 House service meters;
 Ammeters and Vol-meters other than sub-standard;
 Multimeters;
 Storage battery.

13. *Industrial Machinery:*

Sugar Machinery;
 Cement Machinery;
 Conveyors;
 L.P. Gas cylinders;
 Coal mining machinery (except hydraulic props & electric drills);
 Coal washery plant;
 Building & constructional machinery—except specialised items;
 Poultry equipment.

List II (Page 3)

Pesticides application equipment (other than special type equipment);

Milk and dairy machinery except specialised items;
 Cooling towers;
 Tea processing machinery;
 Oil Mill Machinery;
 Water treatment plant;
 Solvent Extraction Plants;
 Rice Mill Machinery of conventional type;
 Weighing Machinery except specialised items;
 Cold formed sections and slotted angles;
 Tubular structurals;
 Railway wagons;
 Railway mechanical and signalling equipment;
 Railway points and crossing;
 Steel doors;
 Windows and rolling shutters;
 Wire ropes (other than bicable ropeways);
 Lifts;
 Welding Electrodes (other than special types);
 Bright bars;
 Welded G.L. steel pipes and tubes;
 Conduit pipes;

Electric Hoist block and chain pulley block;
 Transmission line towers;
 Rail and road bridges;
 Structural (light, medium and heavy).

14. *Machine Tools and Small Tools:*

Forged Hand tools (Spanners, Pliers etc.) Steel Files (except export oriented); Twist Drills, General purpose machine tools (simple types).

15. *Other Industries:*

Drums and barrels;
 Collapsible tubes;
 Crown corks;
 Pilfer proof seals and closures;
 Hurricane lanterns;
 Chaff-cutter knives;
 Buckets;
 Domestic utensils and cutlery;
 Agricultural implements and machinery (manual and animal drawn).

Clocks;
 Time pieces (conventional);
 Franking machines;
 Duplicators (other than special types);
 Oil pressure stoves;
 Belt fastners;

List II (Page: 4)

Steel belt lacing;
 Spactacle frames;
 Oil pressure lamps;
 Hand sewing and gramophone needles;
 Addressing machines;
 Pressure cookers;
 Domestic sewing machines;
 Air rifles;
 Cigarette lighters;
 Bicycle and bicycle parts;
 Ball bearings (only);
 Steel Balls;
 Leaf springs;
 Zip fastners;
 Grinding media;

Coil springs excluding hair and other delicate and complicated springs;
 Snap fasteners;
 Toys;
 Bolts, nuts, rivets, dogspikes of all types excluding specialised types of rivets;
 Wood screws other than with special recessed Heads;
 Mild steel welded link chains other than ship chains and alloy steel chains;
 Machine screws other than specialised types;
 Pipe fittings other than specialised types;
 Locks;
 Valves and cocks (other than specialised);
 Shoe grindery;
 Builders hardware;
 Welded wire mesh;
 Wire gauze and netting;
 Oil milling;
 Solvent extraction of oil cakes;
 Soap;
 Synthetic detergents (formulations);
 Fatty acids;
 Textile auxiliaries;
 Paints and allied products.

* * * * *

Note: (i) This list indicates the fields where foreign investment is not likely to be required for setting up new units. This does not, however, preclude the expansion of existing joint ventures.

(ii) Foreign investment is also not precluded in any composite scheme of manufacture where the production of any of the above items is envisaged along with other major items for the manufacture of which foreign investment is welcome.

ANNEXURE III

FOREIGN INVESTMENT BOARD AND ITS SUB-COMMITTEE

(A) *Categories of cases to be reserved by Foreign Investment Board for decision of the Cabinet Committee (PPE)*

(a) Cases where the total investment in equity capital in any Indian company, including foreign equity capital investment (issue of free shares for technical know-how inclusive), exceeds Rs. 2 crores.

- (i) in any new Indian company where the foreign equity investment exceeds 40 per cent of the total issued equity capital; or
 - (ii) in any existing Indian company, the fresh foreign equity investment will maintain the existing foreign investment at a level above 40 per cent or result in the foreign equity investment exceeding 40 per cent of the total issued equity capital.
- (b) Any cases of importance involving any special point on which the Foreign Investment Board may desire guidance from the Cabinet Committee.

(B) Cases to be dealt with by Foreign Investment Board

- (a) Cases involving foreign investment in equity capital (including issue of free shares for technical know-how) of an Indian company, whether new or existing.
 - (i) where the resultant foreign investment in the equity capital exceeds 40 per cent of the total issued equity capital provided the later does not exceed Rs. 2 crores;
 - (ii) where the resultant foreign investment in the equity capital is between 26 per cent and 40 per cent of the total issued equity capital irrespective of the amount of total investment in the equity capital; and
 - (iii) where the resultant foreign investment in the equity capital is upto 26 per cent and the total issued equity capital is more than Rs. 1 crore.
- (b) all cases of foreign investment in preference shares carrying no voting power;
- (c) all cases reserved for decision of the Foreign Investment Board by the Sub-Committee of the Board.

ANNEXURE—III (page 2)

(C) Cases to be disposed of by the Sub-Committee of the Foreign Investment Board.

I. Cases involving foreign investment

Cases involving foreign investment in equity capital (including issue of free shares for technical know-how) of an Indian company, whether new or existing, when the total investment is Rs. 1 crore or less and the resultant foreign investment in the equity capital does not exceed 26 per cent of the total issued equity capital.

II. Cases of Technical collaboration

- (a) All cases of royalty payments with or without technical know-how payments in cash exceeding Rs. 5 lakhs (gross)

- per annum, even if they are within the prescribed ceilings.
- (b) All cases of technical know-how payments exceeding 10 per cent of the issued equity capital in cash or royalty payments which exceed the ceiling rate of royalty prescribed by the Department of Industrial Development.
- (c) Cases of existing foreign majority Indian companies where the gross royalty-cum-technical know-how fees in cash exceed 50 per cent of the gross dividend receivable by the foreign investing company from the Indian company, even if the royalty and the technical know-how fees are within the ceilings.
- (d) Special cases of importance referred to by the administrative Ministries concerned for decision by the Sub-Committee.

ANNEXURE IV

PROFORMA

No. _____

Ministry of _____

(Department of _____)

New Delhi; the

Summary for consideration of the F.I.B./Sub-Committee.

Subject:—

1. Name and address of the applicant.

2. Name and registered office address of the Indian company which will implement the project and whether it will be public limited or private limited.

PART 'A'—*Capital structure and form of management*

*3. Is the Indian company controlled either directly or indirectly by non-residents; if so, please give particulars of the direct participation and the indirect beneficial participation; i.e. in the list of shareholders are there any companies which themselves have non-resident shareholding (Particulars of major shareholdings of 5 per cent and above of the equity capital alone may be taken for this purpose).

*4. Names of the Directors of the Board—Foreign and Indian separately.

*This information is required in respect of the company against item (2) and also in respect of the company against item (1) in case the applicant is a company.

*5. Names of the Managing Agents, Selling agents, Secretaries & Treasurers or Consultants of the Company if any, existing or proposed.

6. Capital structure:

<i>Existing</i>	<i>Equity</i>	<i>Preference</i>
Authorised		
Subscribed		
paid up		
of which		
Foreign holding		
Indian holding		
<i>Proposed</i>		
Authorised		
Subscribed		
paid up		
Of which		
**Foreign holding		
Indian holding		

PART 'B'—*Line of manufacture and the capital cost of Project (The Import and Indigenous content).*

7. Existing business and proposed business. Has licence been obtained for the proposed business under the Industries (Development & Regulation) Act, 1951; if so, give its number and date/if letter of Intent has been obtained please quote reference/If registered with the DGTD, the reference may be indicated.

8. Estimated value of annual production:

<i>Product</i>	<i>Quantity</i>	<i>Value</i>
1.		
2.		
3.		

*This information is required in respect of the Company against item (2) and also in respect of the Company against item (1) in case the applicant is a Company.

**This should include the indirect beneficial non resident participation also with reference to Item No. 3 above.

9. Location of factory and the State.

Tehsil

District

State

10. Proposed capital cost of the project:

(a) Cost of Capital equipment—

(i) Imported

(ii) Indigenous.

(b) Cost of other items of capital nature viz. Land Building.

(c) Working capital.

11. Annual requirements of raw materials and components (to be given separately):

Name of raw material/ Component	Whether indigenous or imported; if the latter, the country of origin.	Qty. required per year	Estimated value
------------------------------------	---	------------------------------	--------------------

12. Details of phased manufacturing programme, i.e. the import content and indigenous content of raw materials and component which will go into the production:

Year	Item of Production	Annual Turnover	%age of value of imported content (i. e. total of all imported raw materials and components).
		Quantity/Value tonnage	

1st Year

(i)

(ii)

(iii)

(iv)

2nd Year

(i)

(ii)

(iii)

(iv)

3rd Year

(i)

(ii)

(iii)

(iv)

PART 'C'—Details of foreign collaboration

13. Name and address of the foreign collaborator|s with whom the Indian company will be collaborating as far as this applications is concerned.

14. Terms of foreign collaboration:—

(a) If the foreign collaborator proposes to invest in the equity capital of the Indian company:

- (i) the amount of foreign equity investment,
- (ii) what percentage this would be of the total equity capital of the Indian company;
- (iii) whether the foreign investment would be in the form of cash or in kind.

(b) Royalty and other payments:

Technical know-how fees	Cash	Free Shares
Royalty payment (lumpsum)		
Other payments (give details)		

(c) Whether recurring royalty is proposed and if so, the rate.

(d) Duration of the agreement.

(e) Estimated annual gross outgo of foreign exchange (without deduction of tax), of technical know-how fees, if payable in cash and royalties for the duration of the agreement.

(f) What are the specific services to be rendered by the foreign collaborator in pursuance of the agreement.

.. PART 'D' Miscellaneous Information**15. Nature of export franchise:**

- (i) Names of countries, if any, to which exports are excluded; and if so, the reasons therefor.
- (ii) Nature of any other restrictive clause.
- (iii) Export commitments, if any. Quantity and percentage of the output and value of exports year-wise.

16. Please indicate if the foreign collaborator is agreeable to include a provision in the collaboration agreement to the effect that the technical know-how/product design/engineering design can be passed on by the Indian company to another Indian party, should it become

necessary, on terms as mutually agreed to by all the parties concerned, including the foreign collaborator, and subject to the approval of Government.

17. Whether the foreign collaborator has any other collaboration with any other party in India for the same or similar product. If so, give details.

PART 'E'

1. Date of receipt of the application.

2. Item/items of manufacture:

(If a scheduled industry—No. to be indicated).

3. Name of the List of Industries, List I(A), I(B) or (II) in which the item of manufacture is included; the range of royalty, if any, as indicated in List I(A) or I(B).

4. Licensing policy in respect of item of manufacture i.e. if the item is on the "rejection list", "merit list" etc.

5. Whether application has been accepted by the following Committees and if so the particulars of the Industrial Licence/Letter of Intent issued and the date till it is valid:

(a) Licensing Committee.

(b) C. G. Committee.

6. If the item (items) is (are) imported, quantity and value of imports during the preceding year and current year so far (Item wise).

7. If lumpsum payment in cash or in free shares, for technical know-how is involved, what percentage will this be (1) of the value of the total annual production (2) of the value of imported capital goods (3) of the value of the total capital equipment required for the project.

8. Whether the proposed agreement contains provisions which relate to matters pertaining to Company Law or Foreign Exchange Regulation Act, which require separate approval of the Government.

9. Recommendation of the DGTD or the concerned Technical authority.

10. Recommendation of the CSIR (if not consulted, an indication to that effect with reasons).

11. Recommendation of the DC, SSI (if not consulted, an indication to that effect with reasons).

12. Recommendation of other concerned authorities, if any.

13. Comments of the Administrative Ministry.

14. Recommendations of the Administrative Ministry on the terms of collaboration.

(Signature)

No. IP&FC-5 (26)/68-II

Government of India

MINISTRY OF INDUSTRIAL DEVELOPMENT AND COMPANY
AFFAIRS

(Department of Industrial Development)

New Delhi, the 29th January, 1969.

CIRCULAR

Subject:—Form of application to be submitted by entrepreneurs for approval of their collaboration proposals.

A copy of the proforma in which the prospective entrepreneurs are expected to submit their application for obtaining Government's approval to foreign collaboration is enclosed for information and appropriate action.

Sd/-

(A. P. SARWAN,)

Deputy Secretary to the Government of India.

To

1. *Information Officer,*
Press Information Bureau,
New Delhi, etc. etc.

FORM OF APPLICATION TO BE SUBMITTED BY ENTREPRENEURS FOR APPROVAL OF THEIR COLLABORATION PROPOSALS.

(To be submitted with 5 spare copies)

1. Name and address of the applicant.

2. Name and registered office address of the Indian company which will implement the project and whether it will be public limited or private limited.

PART 'A'—Capital structure and form of management

*3. Is the Indian company controlled either directly or indirectly by non-residents; if so, please give particulars of the direct participation and the indirect beneficial participation; i.e. in the list of shareholders are there any companies which themselves have non-resident shareholdings? (Particulars of major shareholdings of 5 per cent and above of the equity capital alone may be taken for this purpose).

*4. Names of the Directors of the Board (i) Foreign Nationals
(ii) Indian Nationals.

*5. Names of the Managing Agents, Selling agents, Secretaries & Treasurers or Consultants of the Company if any, existing or proposed.

6. Capital Structure:

<i>Existing</i>	<i>Equity</i>	<i>Preference</i>
Authorised		
Subscribed		
paid up		
Of which		
Foreign holding		
Indian holding		
 <i>Proposed</i>		
Authorised		
Subscribed		
paid up		
of which		
**Foreign holding		
Indian holding		

PART 'B'—Line of manufacture and the capital cost of project. (The Import and Indigenous content.)

7. Existing business and proposed business. Has licence been obtained for the proposed business under the Industries (Development & Regulation) Act, 1951; if so, give its number and date/If Letter of

*This information is required in respect of the Company against item (2) and also in respect of the Company against item (1) in case the applicant is a Company.

**This should include the indirect beneficial non-resident participation also with reference to column No. 3.

Intent has been obtained please quote reference/If registered with the DGTD, the reference may be indicated.

8. Estimated value of annual production:

<i>Product</i>	<i>Quantity</i>	<i>Value</i>
1.		
2.		
3.		

9. Location of factory and the State.

<i>Tehsil</i>	<i>District..</i>	<i>State</i>
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10. Proposed capital cost of the Project:—

(a) Cost of capital equipment—

(i) Imported.

(ii) Indigenous.

(b) Cost of other items of capital nature viz.

Land

Building

(c) Working capital.

11. Annual requirements of raw materials and components (to be given separately):—

<i>Name of raw material/ Component</i>	<i>Whether indigenous or imported: if the latter, the country of origin</i>	<i>Qty. required per year</i>	<i>Estimated value</i>
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12. Details of phased manufacturing programme, i.e. the import content and indigenous content of raw materials and components which will go into the production:

<i>Year</i>	<i>Item of Production</i>	<i>Annual Turnover</i> <hr/> <i>Quantity/Value tonnage</i>	<i>%age of value of imported content [i. e, total of all imported raw materials and components].</i>
-------------	---------------------------	---	--

Ist Year

(i)

(ii)

(iii)

(iv)

2nd Year

- (i)
- (ii)
- (iii)
- (iv)

3rd Year

- (i)
- (ii)
- (iii)
- (iv)

etc.

PART 'C'—Details of Foreign Collaboration

13. Name and address of the foreign collaborator/s with whom the Indian company will be collaborating as far as this application is concerned.

14. Terms of foreign collaboration:—

(a) If the foreign collaborator proposes to invest in the equity capital of the Indian company;

(i) the amount of foreign equity investment;

(ii) what percentage this would be of the total equity capital of the Indian company;

(iii) whether the foreign investment would be in the form of cash or in kind.

(b) Royalty and other payments:

Cash

Free Shares

Technical know-how fees

Royalty payment (lump sum)

Other payments (give details)

(c) Whether recurring royalty is proposed and if so, the rate.

(d) Duration of the agreement.

(e) Estimated annual gross outgo of foreign exchange (without deduction of tax), of technical know-how fees, if payable in cash and royalties for the duration of the agreement.

(f) What are the specific services to be rendered by the foreign collaborator in pursuance of the agreement.

PART 'D'—Miscellaneous Information

15. Nature of export franchise:

- (i) Names of countries if any, to which exports are excluded; and if so, the reasons therefor.
- (ii) Nature of any other restrictive clause.
- (iii) Export commitments, if any, Quantity and percentage of the output and value of exports year-wise.

16. Please indicate if the foreign collaborator is agreeable to include a provision in the collaboration agreement to the effect that the technical know-how/product design/engineering design can be passed on by the Indian company to another Indian party, should it become necessary, on terms as mutually agreed to by all the parties concerned, including the foreign collaborator, and subject to the approval of Government.

17. Whether the foreign collaborator has any other collaboration with any other party in India for the same or similar product. If so, give details.

Dated

Signature of the applicant.

 No. F.17(22)|69|D(PS)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 22nd February, 1969.

To

- (i) The Managing Director,
H.A.L., Bangalore (10 copies)
B.E.L., Bangalore
B.E.M.L., Bangalore (3 copies)
M.D.L., Bombay
G.R.W., Calcutta
P.T.L., Secunderabad.

- (ii) The Manager,
G.S.L., Vasco-da-gama, Goa.

SUBJECT: *Foreign Investment Board—Receipt of applications for foreign collaboration Centrally by the—*

Sir,

I am directed to forward herewith a copy of the Ministry of Industrial Development and Company Affairs (Deptt. of Industrial

Development) Office Memorandum No. IP & FC-1(1) |69, dated the 17th January, 1969 on the subject mentioned above, for information and guidance.

Authenticated for Issue

Yours faithfully,

Sd|-

(J. N. BALLEY)

Section Officer.

Sd|-

(MOHINDER SINGH)

Under Secy. to the Govt. of India.

Copy to:—D (HAL. I) | D (HAL. II) | D (BEL) | D (GRW | MD3 | D (FY) |
D (NF) | D (Prod) | D (Prod | Admin.) | Dte of P & C.

Copy also to:—JS (ALP) | JS (PS) | DS (PS) | DS (OF) | DS (PA) | DS.
(R & A) | US (PS).

APPENDIX II

(Vide reply to recommendation at Sl. No. 17, Chapter II)

'IMMEDIATE'

No. F. 22 (2) | 71 | D (BEL) | PC.17

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

(DEPARTMENT OF DEFENCE PRODUCTION)

New Delhi, May 16, 1972.

The Chairman and Managing Director,
Bharat Electronics Limited,
Bangalore.

SUBJECT: *Third Report of the Committee on Public Undertakings (5th Lok Sabha) pertaining to BEL Recommendation No. 17 (Para 5.34).*

Sir,

I am directed to refer to the above mentioned recommendation in the Third Report of the Committee on Public Undertakings (1971-72) (5th Lok Sabha), pertaining to Bharat Electronics Limited and to say that it is recognised that there may be need to change over to new processes and technologies, from time to time, considering the overall advantages of such changes in relation to economic production and profitability of the enterprises and that on this account some items of plant and machinery or tools or raw materials may be rendered surplus. Nevertheless, the quantum of the loss that might have to be sustained on account of the write off of such assets because of the change over will also have to be taken into account. Government, therefore, agree with the recommendation of the Committee on Public Undertakings that Bharat Electronics Ltd. should make a thorough analysis of the demand and cost of production before undertaking manufacture of any new items or before switching over to new processes and technologies so as to minimise losses of the type referred to in the above mentioned recommendation of the Committee.

Yours faithfully,

Sd/-

MOHINDAR SINGH,

Deputy Secy. to the Govt. of India.

APPENDIX III

(Vide reply to recommendation at Sl. No. 28, Chapter II)

'IMMEDIATE'

No. F.6(6)|72|D(BEL)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 7|10th August, 1972.

To

The Chief of the Army Staff,
Army Headquarters, New Delhi.

The Chief of the Air Staff,
Air Headquarters, New Delhi.

The Chief of the Naval Staff,
Naval Headquarters, New Delhi.

SUBJECT: *Advance payments against orders placed on Bharat Electronics Limited, Bangalore by the Defence Services.*

Sir,

In supersession of this Ministry's letter No. 6(32)|62|D(BEL), dated 10th June, 1965 on the above subject I am directed to say that it has now been decided that in modification of the existing scheme of advance payments to BEL against the orders placed by Defence Services, the following procedure will be adopted for this purpose in respect of all orders placed on BEL by the Defence Services, irrespective the value thereof:—

- (i) An initial advance payment of 20 per cent of the value of the order will be admissible immediately on the placement of the orders;
- (ii) Further payments not exceeding 85 per cent in all of the total value of the order, including the initial advance payment of 20 per cent referred to at (i) above, will be made to BEL towards the purchase of materials and costs booked against the order, subject to a certificate from BEL that the total amount claimed as advance is not more than the total progressive expenditure incurred by

the Company against the relevant order upto the date of the claim.

- (iii) A further payment of 10 per cent of the total value of each consignment will be made on production of proof of inspection and despatch of stores to the consignee.
- (iv) Payment of the balance of 5 per cent of the total value of each consignment will be made on the consignee certifying the receipt of stores in good condition.

2. The above procedure will be applicable to existing order as well except that where an initial advance payment in excess of 20 per cent of the value of the order has already been made that may be allowed to stand, but further payments will be in accordance with Para 1(ii) to (iv) above.

3. It is hereby clarified that for the purpose of obtaining the advance payments, the procedure indicated in this Ministry Memorandum No. 6(32)|62|D(BEL), dated 15th October, 1963 (copy enclosed) will continue to supply.

4. This letter issues, with the concurrence of Ministry of Finance (Defence) *vide* their u.o. No. 2024-Proj II|72, dated 2nd August, 1972.

Yours faithfully,

Sd|-

K. SREEDHAR RAO,

Under Secy. to the Govt. of India.

Copy of the above forwarded to:—

1. The Chairman-cum-Managing Director, Bharat Electronics Limited, Bangalore. (With 10 spare copies).
2. The Controller General of Defence Accounts, New Delhi.
3. The Director of Audit Defence Services, New Delhi.
4. The Controller of Defence Accounts, Southern Command, Poona.
5. The Deputy Director of Audit, Defence Services, SC, Poona.
6. The Controller of Defence Accounts, (Air Force), Dehra Dun.
7. The Controller of Defence Accounts (Navy), Bombay.
8. The Controller of Defence Accounts, Eastern Command, Poona.

9. Controller of Defence Accounts (Fys.), Calcutta.
10. Controller of Defence Accounts, Central Command, Meerut.
11. Deputy Financial Adviser, Ministry of Finance (Def|Proj).
12. Deputy Financial Adviser, Ministry of Finance (Def|AF).
13. Deputy Financial Adviser, Ministry of Finance (Def|Navy).
14. Deputy Financial Adviser, Ministry of Finance (Def|O).
15. Army Headquarters, M.G.O. Branch (W.E.-6|7).
16. Air Headquarters (Dte. of Equipment).
17. Air Headquarters (Dte. of Signals).
18. Naval Headquarters (Dte. of Signals).

Copy also to:—

Addl. Secy|JS(O)|JS(A)|JS(F)|JS(P & C)|DS(PSI); Dir.(Plg)|D(GS-IV); D(O-I); D(Air-I); D(N-I); Legal Adviser, Ministry of Defence; U.S. (Planning); U.S. (BEL).

Sd|-

K. SREEDHAR RAO,

Under Secretary to the Government of India.

No. 6(32)|62|D(BEL)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 15th October, 1963.

MEMORANDUM

SUBJECT: *Advance Payments for orders placed on Bharat Electronics Limited, Bangalore by Defence Services.*

The undersigned is directed to refer to Ministry of Defence letter No. 6(32)|62|D(BEL), dated the 10th December, 1972 on the above subject and to say that it has been decided that in future all demands from Bharat Electronics Limited, for advances under the authority of the above reference, shall be routed through the indenter, who shall counter sign the same in confirmation of the fact that the demand relates to an indent placed by him on BEL and the amount of advance demanded is within the percentages prescribed and forward the claims to the C.D.A. concerned for payment. Arrangements may kindly be made by the indentors to ensure that the claims

when received from BEL are processed expeditiously. The CDA (EC) will keep the indenter informed of payments made against such demands. The above procedure will also enable the indentors to have these advance payments reflected in the periodical Budget Returns.

2. This issues with the concurrence of the Ministry of Finance (Defence) *vide* their u.o. No. 5249/Prod. II, dated 9th October, 1963

Sd|-

B. L. MITTAL,

Under Secretary to the Government of India.

To

The Army Headquarters (WE-6/7) (OS-17-A) (MG-C)

Air Headquarters (Dte. of Equipment)

Naval Headquarters.

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APPENDIX IV

(Vide reply to recommendation at Sl. No. 12, Chapter III)
Actual Production and Installed Capacity

Sl. No.	Item	Year	Present Licensed Capacity	Installed Capacity	Production Planned	Actual Production
			millions	million/Year	million	million
1	Receiving Valves	1970-71	5.00	5.00	5.60	5.47
		1971-72	\$5.00	\$5.75	5.75	5.84
2	Germanium Semi-Conductors.	1970-71	16.00	16.00	12.50	13.04
		1971-72	16.00	16.00	12.8	13.54
3	Silicon Semi-conductor	1970-71	10.00	\$5.00	\$5.5	8.05
		1971-72	10.00	\$5.00	\$8.5	8.40
4	Ceramic Capacitors	1970-71	20.00	%11.5	%14.0	16.74
		1971-72	20.00	18.6	18.0	18.12

§This is due to the fact that Company has received a letter of intent for 10 million in August 71 and that necessary facilities are being established in phases.

§The reasons for the higher planned production than installed capacity in 70-71 and 71-72 are due to the fact that the actual licenced capacity in these years was about 7 to 8 million because of additional facilities being established to achieve an ultimate licenced capacity of 10 million conductors.

%The planned production for 1970-71 was higher than the installed capacity due to establishment of required facilities in phases as in the case of Silicon Conductors.

APPENDIX V

(Vide Para 5 of the Introduction)

Analysis of Action Taken by Government on the recommendations contained in the Third Report of the Committee on Public Undertakings (5th Lok Sabha).

I.	Total number of recommendations	30
II	Recommendations that have been accepted by the Government (<i>vide</i> recommendations at Serial Nos. 1, 2, 5, 8, 9, 10, 11, 14, 15, 17, 18, 19, 22, 23, 27, 28 and 29)	
	Number	17
	Percentage to total	56.7%
III	Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendations at Serial Nos. 3, 4, 6, 7, 12, 16, 20, 21, 24, 26 and 30)	11
	Number	11
	Percentage to total	36.7%
IV	Recommendations in respect of which replies of Government have not been accepted by the Committee (<i>vide</i> recommendation at Serial Nos. 13 and 25)	
	Number	2
	Percentage to total	6.6%