

1	2	3	4
		Revenue Rs.	Capital Rs.
		Revenue Rs.	Capital Rs.
16.	Public Works Department	72,53,16,000	38,29,44,000
17.	Health & Medical Education Department	86,63,97,000	9,25,85,000
18.	Social Welfare Department	12,91,10,000	4,37,77,000
19.	Housing and Urban Development Department	15,96,39,000	25,75,08,000
20.	Tourism Department	6,63,18,000	5,78,33,000
21.	Forest Department	27,38,73,000	12,01,61,000
22.	Irrigation & Flood Control Department	35,61,50,000	19,72,83,000
23.	Public Health, Engineering Department	50,11,53,000	20,69,72,000
24.	Estates, Hospitality and Protocol, Parks & Gardens Department	9,55,27,000	1,07,78,000
25.	Labour Stationery and Printing Department	6,04,10,000	8,91,23,000
26.	Fisheries Department	2,56,86,000	1,15,05,000
27.	Higher Education Department	27,84,74,000	4,87,28,000

15.15 hrs.

[English]

## JAMMU AND KASHMIR APPROPRIATION BILL 1996\*

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : Sir, I beg to move :

"That leave be granted to introduce a Bill to authorise payment and appropriation of certain sums from and out of the Consolidated Fund of the State of Jammu and Kashmir for the services of the financial year 1996-97".

MR. CHAIRMAN : The question is :

"That leave be granted to introduce a Bill to authorise payment and appropriation of certain sums from and out of the Consolidated Fund of the State

of Jammu and Kashmir for the services of the financial year 1996-97."

*The motion was adopted.*

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : Sir I introduce\*\* the Bill.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : Sir, I beg to move :

"That the Bill to authorise payment and appropriation of certain sums from and out of the Consolidated Fund of the State of Jammu and Kashmir for the services of the financial year 1996-97, be taken into consideration".

MR. CHAIRMAN : The question is :

"That the Bill to authorise payment and appropriation of certain sums from and out of the Consolidated Fund of the State of Jammu and Kashmir for the

\* Published in the Gazette of India, Extra ordinary, Part-II Section-2 dated 11/9/96

\*\* Introduced and Moved with the recommendation of the President.

services of the financial year 1996-97, be taken into consideration."

*The motion was adopted*

MR. CHAIRMAN : The House will now take up Clause by Clause consideration of the Bill.

Clauses 2 and 3

MR. CHAIRMAN : The question is :

"The Clauses 2 and 3 stand part of the Bill."

*The motion was adopted.*

*Clauses 2 and 3 were added to the Bill.*

MR. CHAIRMAN : The question is :

"That schedule stand part of the Bill".

*The motion was adopted.*

*The Schedule was added to the Bill.*

MR. CHAIRMAN : The question is :

"That clause 1, the Enacting Formula and the title stand part of the Bill."

*The motion was adopted.*

*Clause 1, the Enacting Formula and the Title were added to the Bill.*

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : I beg to move :

"That the Bill be passed."

MR. CHAIRMAN : The question is :

"That the Bill be passed."

*The motion was adopted.*

[English]

FINANCE (NO. 2) BILL, 1996

MR. CHAIRMAN : Ten hours have been allotted for the discussion of Finance (No. 2) Bill, 1996. If the House agree, we may have seven hours for general discussion, two hours for Clause by Clause consideration and one hour for the third reading.

Now, the Minister may move the Bill for consideration.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : Sir, I beg to move :

"That the Bill to give effect to financial proposals of the Central Government for the financial year 1996-97, be taken into consideration."

Sir, large number of suggestions were made by the hon. Members on the Finance Bill. The discussions on

the Budget brought forth many suggestions and, I am sure, that the discussion on the Finance Bill will bring forth many more suggestions. It is not without truth that it is being said, "It is given to no man to both tax and to please". Our philosophy of taxation has been buttressed by the experience gained over the last five years that rates of taxation must be low, procedures must be simple, but enforcement must be strict. Our philosophy has also been that the tax base must be as wide as possible.

We have three major sources of revenue-income tax including corporation tax, customs and excise. We have a very narrow base of income tax. Approximately 10 million people, approximately about a crore of people pay income tax. That is a very narrow base.

In corporation tax, our experience has been that although the corporation tax is 40 per cent, the effective rate of tax on profits, according to various sample studies, indicates, that it is no more than 19 per cent or 20 per cent.

On customs duties, the Common Minimum Programme recognises that we must bring our tariffs to the world level over a period of Time. That, I believe, is the correct approach. We are now a part or we are trying to be a part of the ASEAN system. We are a full dialogue partner of ASEAN. We have applied for membership to APEC. We are a prime mover to SAPTA, leading to SAFTA. We are also one of the founding members of the Indian Ocean Rim initiative. All these regional arrangements mean that tariffs will have to be brought down. We will not be able to bring down tariffs overnight to very low levels.

Therefore, we have our own timetable, a timetable chalked out by the Raja Chellaiah Committee and we must adhere as far as possible to that timetable, subject of course to the exigencies of world trade, demand and supply.

Excise is a crucial tax. I wish we had a VAT. But for reasons which are obvious, we cannot have a pure VAT in this country. Taxes are levied both by the State Governments and by the Central Government. There are some very outdated and irrational taxes in the States. I need hardly name them. Efforts were made to bring the States and the Centre together to evolve a kind of a VAT. Since we have not been able to reach any conclusions on that, we continued with the MODVAT system. Excise is in the nature of a VAT, but not exactly a VAT. But it is a tax on value addition. At every stage, there should be an excise. But in order to ensure that it does not escalate, we should allow the adjustment of excise duties paid at an anterior stage. That is how we have introduced the system of MODVAT. In my view, we must move towards a single excise rate, subject of course, to MODVAT. That is the only way in which to distinguish between efficiency and inefficiency and to award efficiency.

This can be demonstrated very simply, but I would not take the time of this House to demonstrate the calculations which will show that a single uniform rate promotes efficiency. The excise must apply to virtually all goods and services which are produced in this country. We had 11 rates, we have brought them down to seven. It is my intention to move towards four rates in two years, that is, in the next two Budgets. But for the time being, we will have to live with about seven rates. But in order to restrain price rise and to foster more competition within the domestic economy, we must also have a low excise rates and that is why, in this Budget, I have cut customs duties across the board as well as excise duties across the board, keeping in mind several factors, the foremost among them being that the domestic industry requires time to adjust itself.

I have also been keeping in mind that there are anomalies in the existing structure and these anomalies cannot be set right in one go. They have to be set right in stages.

Hon. Members have made a number of suggestions. As you will find presently, I have made an attempt to respond to many of those suggestions. I want to make it clear not merely by words but by deeds-as I will show that I have responded to many of the suggestions. I have conceded many arguments of hon. Members made directly or hon. Members who have been accompanied by the people who have been affected by this rate or that. But I have not also been able to accept some suggestions for reasons which were explained to hon. Members when they met me, for reasons which were explained to industry groups when they met me.

Taxes should not be used as a device to hide inefficiency. Some taxes are a portmanteau to cover or hide inefficiency. We must be able to see through that and say that this tax hides your inefficiency and, therefore, reduction of the tax will force you to become more efficient. It is simply no way in which we can build a strong economy unless we become competitive and efficient. In fact, the Finance Minister of West Bengal called on me along with the hon. Chief Minister of West Bengal. And it was refreshing to hear him say whether it is in the public sector or the private sector, he and his Government fully support making that sector and that unit in that sector competitive.

This is a competitive world and most prices will be determined globally. We cannot escape being impacted by global prices. Therefore, our units of production must respond to global price trends. Price is no an exclusive instrument of forcing efficiency but it is a useful instrument to force efficiency. Global prices have a way to force efficiency in a sector which sometimes we may not understand but global prices do force units to become more efficient, sectors to become more efficient, industries to become more efficient.

My dear friend, Shri B.K. Godhvi, mentioned 'sickness'. Sickness is a state of the mind, more than a state of the industry. If you pamper industry by undeserved shelters, they will become sick. If there is a greater degree of competition, they will become efficient. And if despite a high degree of efficiency, some industries become sick, then, of course, we must look into the causes of that sickness. I have, therefore, tried to adopt this philosophy in the taxation proposals that I have made and the amendments that I have proposed in the Finance Bill. I may have disappointed some sections. And I am afraid, that at the end of this debate, I will continue to disappoint some sections. But it is because I have tested every suggestion on the touchstone of whether it promotes efficiency or retards efficiency, whether it promotes competition or diminishes competition, whether it will enhance production or whether it will create a little island of protection.

Sir, many suggestions are outside the Budget and I want the hon. Members to bear with me and try to understand this part of my statement. There are many suggestions which do not relate to the Budget and the Finance Bill. There are suggestions which can be dealt with during the course of the year. I do not have to respond to them at this stage nor is it possible for me to deal all those representations at this stage.

Take for example, a suggestion that has been made about the marble industry. The marble industry is excluded from SSI protection. I asked my officers the reason for it saying that if it is a small scale unit, it should also have the SSI exemption. But it does not have it. Why? The reason is that the industry is organised in a manner today-and it may be historical-where they are all one next to each other, what we call check by jowl and one does not know where a unit begins and where a unit ends. There are polishing factories at the mine head or the pit head itself. So, unless we define what a unit is, it is difficult to grant exemption of a small scale unit to marble industry. But I have promised hon. Members, including Mr. Jaswant Singh, that I will send a team of people to visit the area to see whether some way can be found in which small scale unit can be identified and earmarked and boundaries defined so that the benefits can be given to them. This is just an example of non-budget demand which can be met during the course of the year rather than at the time of consideration of the Finance Bill. So, if I have not responded to many suggestions, it is perhaps because some of them are at least non-Budget or non-Finance Bill items and therefore, I will respond to them during the course of the year.

The second thing is the need to raise resources. I wish the Government and this country were flushed with resources but we are not. As I said, I have to tax in a manner in which a bee sucks honey from a flower. I have to draw the money but I cannot sting and I cannot hurt. We propose to raise Rs. 2692 crore in this Budget.

I cannot do with less, I can do with more. When suggestions were made which will cost me Rs. 50 crore or Rs. 100 crore, that immediately sent a shiver down my spine and I thought as to how can I respond to a suggestion which will cost me Rs. 100 crore. I cannot afford for Rs. 100 or Rs. 200 crore. If a suggestion will cost me a crore of rupees, may be I can respond more readily to that suggestion in the hope that buoyancy will take care of that crore of rupees. Therefore, if big items are being proposed to me, I am sorry that I will have to regretfully turn down that suggestion.

We need money. Our fiscal deficit is Rs. 62266 crore. There are other demands round the corner. The Pay Commission's Report is due any time. I do not know what that bill will be. We may have to spend more for Defence. I have already promised that we will spend more for science and technology. We have to find some additional resources for Jammu and Kashmir. Therefore, I am very reluctant to make huge financial sacrifices. So, hon. Members may bear with me if I cannot respond more readily to their demands which will entail huge financial sacrifices.

Tax base has to be expanded and that what I am doing and intend to do in the next few months. It is no sense of achievement that we have only one crore income tax paying people. I think, that hides perhaps an equal number of more. Now, we need to get these taxes from the people who have incomes.

It is only when the Direct Tax revenues rise that we can move faster on the front of Indirect Taxes as well as exempting the low income people. One of the reasons why I am unable to raise the exemption limit from Rs. 48,000 to Rs. 60,000 in the first slab of the income tax is because immediately 20 to 30 lakhs of people would go out of the tax net, both salaried and others. The demand is coming on behalf of the salaried people. But if the bracket is raised, the slab is raised, then both the salaried and the non-salaried would go out of the tax net. Therefore, I had to hit upon this rather cumbersome way of giving benefit to the salaried people by raising the standard deduction from Rs. 15,000 to Rs. 18,000 and showing by a simple calculation that if he/she makes a minimum contribution to the provident fund, a salaried person would pay no tax upto Rs. 68,000. I hope that my arithmetic has been accepted by the hon. members. But there are non-salaried people also who have a variety of income and various kinds of income. I do not think that we should let them go out of the tax net. It is because once they go out of the tax net, once they cease to be on the records of the income tax Department and they cease to have a permanent account number, then even if their incomes rise later, it is difficult to bring them back into the tax net. That is why I have to keep

these people in the tax net without allowing 20 or 30 lakhs of people to go out of the tax net even while I readily concede the argument that salaried people should be given tax relief upto Rs. 60,000. That is the introductory statement which I wish to make.

Sir, now I will turn to the changes I propose in the Clauses relating to Direct Taxes and Indirect Taxes. First, Direct Taxes.

Clause 11 of the Bill seeks to amend section 32 of the Income-Tax Act, 1961 relating to depreciation. During the course of discussion on the General Budget, a number of hon. Members have expressed their apprehension that the proposed amendment limiting carrying forward of unabsorbed depreciation to 8 years will adversely affect the growth of industry. Similar apprehensions have been raised in a large number of post-Budget memoranda. I would like to allay these fears. The proposed amendment is only prospective in as much as the cumulative unabsorbed depreciation brought forward as on 1st April, 1997 can still be set off against taxable business profits or income under any other head for assessment year 1997-98 and seven subsequent assessment years. Therefore, the proposed change will have effect only after 8 years and there is no cause for immediate concern about its likely impact on industry. Eight years, I believe, is a period long enough for industry to adjust itself to the new dispensation and provide for depreciation accordingly. A number of hon. members have brought to my notice that the proposed amendment may adversely affect sick companies. It is possible that a company may be declared sick but in a given year even while it is under a rehabilitation scheme it might have a book profit. I accept the suggestions made by them. I, therefore, propose to provide that the time limit of 8 years, in the case of unabsorbed depreciation, shall not apply to sick companies, during the period the company is treated as a 'sick company' under Sick Industrial Companies (Special Provisions) Act, 1985.

I further propose to make a drafting amendment in clause 11 to clarify that the depreciation for the year can be set off not only against profits and gains of any business carried on by the assessee but also against income under any other head, as is the case with the set off or business losses. Shri Suresh Prabhu should be happy.

Clause 14 of the Bill, *inter alia* seeks to amend section 36 of the Income-Tax Act with a view to defining the term 'long-term finance' to mean any loan or advance where the terms under which moneys are loaned or advanced provide for repayment along with interest thereof during a period of not less than 7 years. Representations have been received from financial institutions that the period of seven years is rather long and should be

reduced. After considering the matter, I propose to reduce the period to five years.

Hon. Members will recall that I introduced, through Clause 16 of the Bill, a new Explanation to section 43 of the Income-Tax Act to deal with sale-and-lease back transactions which were widely misused by leasing companies resulting in substantial loss of revenue.

However, I am given to understand that even the proposed amendment may be circumvented through successive sales of the same asset thus defeating the purpose of the amendment. Therefore, in order to thwart any attempt to do so, a modification to the aforesaid Explanation is being proposed to the effect that in the case of successive sales of the asset also the written down value in the books of the original seller will be taken as the cost of the lessor.

I also propose an amendment in Clause 17 of the Bill which seeks to modify the provisions of Section 438 of the Income Tax Act. This is necessary in order to remove the doubt that in cases where bank interest has been earlier claimed and allowed on due basis, such interest will not be allowed for the second time on cash basis. I am also proposing that only interest on term loans of the banks will be covered by the amendment proposed to the provisions of Section 438.

1541 hrs.

(SHRI P.M. SAYEED *in the Chair*)

Clause 19 of the Bill proposes to insert a new Section 54EA in the Income Tax Act which provides for exemption to the capital gains arising from the transfer of long term capital assets of the net consideration is invested in any bonds or debentures specified in this behalf by notification in the official Gazette. While replying to the debate on the Budget, I had announced that the units of mutual funds will also be included in the assets in which a tax payar may invest to obtain exemption from capital gains tax. To carry out this decision, I propose to amend Clause 19 of the Bill.

Section 88 of the Income Tax Act was sought to be amended by Clause 32 of the Bill, and the ceiling of Rs. 60,000 was raised to Rs. 70,000 for cases where investment is made in equity shares or debentures forming part of any eligible issue of capital by a public company. The eligible issue of capital was to mean an issue by a public company where the issue is wholly and exclusively for the purposes of developing, maintaining and operating an infrastructure facility or for generating, and distributing power. It has been suggested to me that units of any mutual fund dedicated to the infrastructure or power sector should also qualify for being subscribed to for purposes of Section 88. I have accepted this suggestion and, therefore, I propose to make a suitable amendment.

A large number of suggestions have been received from trade associations, companies and various sections of industry on the proposal regarding MAT. The matter has been raised by many hon. Members also.

Over the years, the Income Tax Act has added many provisions that confer concessions and incentives. These exemptions and deductions have been introduced in the Statute to serve many objectives which were considered desirable social and economic objectives. In addition to adding to the complexity in administering the law, these concessions have reduced the capability of the Government to raise revenue.

No doubt, companies plan their affairs in a manner so as to pay the minimum amount of tax. While we may not decry this, profit making companies that pay no tax to the exchequer continue to pay their share-holders handsome dividends. In recent times, the number of Zero-tax companies and companies paying marginal tax has grown. A number of studies have been conducted. A study conducted by the Directorate of Income Tax Special Investigation, New Delhi, in 1995 revealed that out of 217 companies which showed good profits of Rs. 5813 crore for assessment years 1991-92 to 1993-94, that is three assessment years, no Corporation Tax was paid as the return or the assessed taxable income was computed as nil. However, out of the big profits of Rs. 5813 crore, dividends at varying rates were declared and distributed by many of these companies.

The Centre for Monitoring the Indian Economy, which has the advantage of Corporate data base of about 4000 companies, published the following figures in its Journal issue of November, 1995.

It shows that in the years 1991-92 to 1994-95, that is, four years, sample sizes varying from 1937 to 3458 companies, the profit making companies range from 1711 to 2763. Profits before tax range from Rs. 18537 crore in 1991-92, Rs. 23846 crore in 1992-93, Rs. 33464 crore in 1993-94 and Rs. 30664 in 1994-95. The tax provision made in each of these years resulted in an effective tax of 24 per cent in 1991-92, but only 19.2 per cent in 1992-93, 15.9 per cent in 1993-94, 14.9 per cent in 1994-95. The statistic *prima facie* that while there has been a substantial rise in the profits of the corporate sector, the effective rates of tax has declined for the sample companies. The CMIE Report also observes that there has been a consistent shortfall in tax incidence in the corporate sector. According to the Report, ten per cent of the companies paid taxes less than five per cent of the profit before tax. In 1994-95, in a sample of 1730 companies, 790 companies paid no tax at all. These were all profit making companies. In the study conducted by a Deputy Commissioner of Income-Tax, Bombay, out of a sample of 3934 companies, he found that 2865 companies

were profit making companies, but out of 2865 companies, 1789 companies paid no tax or only a marginal tax.

I am, therefore, satisfied that MAT is a justified levy. It will require some taxes to be paid but that tax is on book profits. How a company computes its book profit is entirely left to the company. If its books have larger depreciation, it will show less book profits and bring the profits more or less in line with profits disclosed in the Income-Tax Act. But if a company and its shareholders and General Body are content with booking lower depreciation and declaring larger book profits for the purpose of paying dividends, I think it is only just that the State gets a fair share of the tax and that share of the tax is no more than 12.9 per cent, which is still less than the effective rate of tax which I find in the samples that have been studied for the last four years. I only hope that this will not encourage some of my friends to demand a rise in the rate of MAT. I do not propose to rise the rate of MAT at all. ... (Interruptions)

SHRI ANIL BASU (ARAMBAGH) : 12.9  
... (Interruptions)

SHRI P. CHIDAMBARAM : It is 12 plus surcharge. It is really 12. (Interruptions)

DR. DEBI PROSAD PAL (CALCUTTA NORTH EAST): The Companies Act provide for lower depreciation and, therefore, if the companies follow the depreciation under the Companies Act, they will have a larger book profits on which 30 per cent taxes to be paid.

SHRI P. CHIDAMBARAM : I know your argument. I met your argument.

SHRI JASWANT SINGH (CHITTORGARH) : We come to this later.

SHRI P. CHIDAMBARAM : We come to this later in the debate.

Nevertheless, Sir, there is an argument that if these revenues are not collected by the State, they will generate more growth, more jobs, more excise duties, more customs duties. But I concede that argument. But if that argument is right, no tax should be collected because all taxes which are uncollected will be invested somewhere and that will generate growth, that will generate jobs, that will generate excise duties and that will generate sales tax. Theoretically then, the State should not collect any tax. But just as this money invested will promote growth and other taxes please remember that the State is also under obligation to provide a number of services for which there is no correlated tax.

The State sets up a judiciary and delivers justice. The State has a policy machinery and enforces law and order. The State has a standing Army and provides security to the country. The State has to provide health and education to a large number of people. So, taxes

have to be collected. So, the argument is not with which is the relatively more efficient use of tax. Even if I concede that money left in the hands of the citizen is more efficiently used than money left in the hands of the Finance Minister, that argument means, no tax should be collected at all. I do not think that argument is right. All that I am saying is that until we are able to look at the income-tax Act-which we are all looking at now-and until we have a new income-tax law, which eliminates many of these 158 or so exemptions and brings a certain amount of sanity and clarity to our income-tax law, the companies which make profits and which declare dividends, as they are expert to, should pay a small tax to the State and I, therefore, most humbly submit that MAT is a justified tax and I would request this hon. House to support the Government and to support me in the levy of MAT.

I have, however, been persuaded that MAT may have an adverse impact in two cases. In those two cases I propose to make an exemption from MAT. Firstly, I propose to exclude from the purview of MAT profits of industrial undertakings located in industrially backward States enumerated in the Eighth Schedule of the Income-tax Act for such period for which these units are entitled to claim 100 per cent reduction under Section 80 IA read with the Eighth Schedule of the Income-tax Act. This will cover all of the North-Eastern Region and some of the other States and Union Territories which are enumerated in the Eighth Schedule to the Income-tax Act. When industrially backward districts are notified, they will also be excluded from the purview of MAT.

I also propose to exclude the profit of sick industrial companies from the purview of MAT during the period the company is treated as a sick company under the Sick Industries (Special Provisions) Act 1985. The logic that I applied to exempting them from the rule of unabsorbed depreciation for eight years will also apply to this case and, therefore, MAT will not apply to sick companies.

Clause 35 of the Bill seeks to reduce the rate of capital gains tax for domestic companies from 38 per cent to 20 per cent. After this change, all companies, individuals and HUFs will be taxed at the rate of 20 per cent on their long-term capital gains. However, the partnership firms and association of persons will still be taxed at 30 per cent. In order to bring uniformity in this regard and to remove the discrimination against partnership firms, I propose to reduce the tax rate in their cases also to 20 per cent.

I also propose a couple of changes in the provisions not covered by the Bill. The first of these relates to sub-section (3) of Section 40A of the Income-tax Act which, *inter alia*, deals with disallowance of a part of the expenditure incurred by an assessee, payment in respect

of which is made in case in a sum exceeding Rs. 10,000. A number of representations have been received that the present limit of Rs. 10,000 is too low and requires upward revision. It has been pointed out that this limit was fixed in 1987 and that it causes a lot of hardship, particularly to transport contractors, civil contractors and to the assesses in such trades where, looking to the exigencies of the business, payment has to be made in cash. For example, the case has been brought to my notice in case of delivery lorries which deliver goods say at 8:00 clock, at night or near midnight in a small town or delivers on a Friday evening, they cannot be paid the lorry hire charges for goods which are coming from, say Ferozabad or Panipet or Ichalkaranchi, because if you pay in cash, it will not be exempt. Having considered the matter and finding some merit in their representations, I propose to raise the limit modestly from Rs. 18,000 to Rs. 20,000.

Another change that I propose is in pursuance of the announcement made by me last week. Section 80L of the Income-tax Act provides for a deduction from the gross total income of an individual or HUF in respect of income earned by way of interest from Government securities, National Savings Certificates, deposits with banking companies, dividends from Indian companies, income from units of Mutual Funds etc. I propose that the overall ceiling under Section 80L be raised to rs. 15,000 and out of this Rs. 3,000 will be allowed only in respect of income from dividends from an Indian company or income received in respect of units of a Mutual Funds including UTI.

Clause 54 of the Finance Bill seeks to bring to tax for wealth tax purposes, the commercial buildings which are not occupied for the purposes of business. It has been brought to my notice that commercial buildings forming part of the stock-in-trade may also be affected by this amendment. Since it was not my intention to affect stock-in-trade I see merit in this demand and, therefore, propose to exclude commercial properties forming part of stock-in-trade not all other commercial properties from the levy of wealth tax.

Sir, I shall now turn to the changes I propose in respect of Indirect Taxes.

I had proposed several changes in my Budget proposals relating to indirect taxes. These proposals relate to further rationalising the tax structure as well as strengthening the procedures so as to achieve the twin objectives of helping the honest tax payers and to reduce compliance cost and curb evasion of taxes.

The Budget proposals have been widely welcomed by a cross-section of trade and industry. Many hon. Members have also give encouraging support. However, I have received a number of representations from many

hon. Members in which they have suggested some changes in the overall interest of the industry. I am grateful to them for their valuable suggestions.

Sir, there is by now a general consensus in the country that our customs and excise duty structure should move to moderate rates of taxes applied on a wider base and our excise and customs procedures should be transparent and easy to follow. At the same time, we ought to use the tax mechanism to reduce costs and make our industry further competitive. Accordingly, I had mentioned in my Budget speech that we ought to further our tax structure should provide necessary relief in deserving areas.

I have given my earnest consideration to the suggestions made by several hon. Members as also by the trade and industry. I am inclined to accept that in some cases adjustment in the tax rates is called for.

I am informed that a uniform rate of excise duty of 10 per cent which was proposed in the Budget proposals as the rate to be applied to paper and paper board made from pulp containing at least 50 per cent of non-conventional raw materials would affect many small paper mills. It has been represented some more time lest they be rendered unviable. I, therefore, propose to modify the scheme of concessional excise duty for the use of non-conventional raw materials in the manufacture of paper and paper board while at the same time keeping the structure simple and not the earlier structure which is extremely complicated. ... (Interruptions)

Let me finish. In your debate, you can mention. I am only introducing the things. I propose that paper and paper board made from pulp in which at least 75 per cent of non-conventional raw material are used would be subjected to excise duty at the rate of 10 per cent. I am told that over 300 paper mills i.e. the vast majority of mills, in fact, an overwhelming majority of mill will fall under this category. However, in order to give a competitive edge to smaller paper mills, first clearances up to 10,00 tonnes in a financial year would be subjected to a reduced rate of duty of five per cent. Small paper mills can now clear virtually the whole of their production at the lower rate of five per cent. I am confident that the tax structure now proposed would provide adequate fiscal relief to the small paper mills and also encourage use of non-conventional raw materials in a larger proportion.

I also propose exemption from excise duty in a few deserving cases which have been brought to my notice by several hon. Member. Henceforth, spoons, forks, ladles, etc. falling under heading 82.15 of the Central Excise Tariff would be exempt from excise duty. ... (Interruptions) Similarly, no excise duty will be charged on vermicelli.

**1600 hrs**

Absorbant cotton wool, non-absorbent cotton wool, gauze, bandages and similar articles for medical purposes would be free of excise duty if they are marketed without a brand name. I also propose to exempt rosin manufactured without the aid of power from excise duty. These are total exemptions from excise duty.

Sir, products of coir industry are exempt from excise duty. We also need to encourage its production in the cottage sector which generates employment. I have visited Kerala and I have seen that the sector employs a large number of women and mechanisation of some processes which is underway in Kerala will help remove their drudgery. Keeping this objective in view, I have decided to exempt specified coir processing machinery from excise duty.

Insulted wares of plastics will henceforth be chargeable to excise duty at the reduced rate of 15 per cent as against the rate of 28 per cent proposed in my budget.

Shoddy woollen yarn is chargeable to excise duty at a low rate of five per cent. I propose to extend a similar relief to synthetic shoddy yarn up to 10 counts. This would also facilitate the process of assessment as now the officer will not be required to make a distinction between shoddy woollen yarn and synthetic shoddy yarn which I am told is anyway very difficult to distinguish and leads only to litigation. I also propose to exempt synthetic shoddy blankets of value not exceeding Rs. 100 per sq. metre from the levy of excise duty. They will now be totally exempted. It has been represented to me that unprocessed knitted or crocheted fabrics are generally produced in the decentralised sector. In any event such fabrics attract excise duty when they are processed. Therefore, I propose to exempt unprocessed knitted or crocheted fabrics made of man made fibres from excise duty. I also propose to exempt certain specified processed narrow woven fabrics of cotton and man made fibres from excise duty.

I also propose to exempt Iscador, an anti-cancer drug, from customs duty. I propose to exempt Chemiluminescence Identity Acid diagnostic kits, intended to detect AIDS, etc. from customs duty.

In my budget proposals I had proposed to reduce the import duty on computers and computer parts to 20 per cent. I have received representations that while reduction in import duty on computers is a step in the right direction, charging the same rate of duty on parts of computers may adversely affect the manufacturers engaged in production of computers. I have consulted the Department of Electronics as well as the cross section

of Industry. I accept the logic of this argument and propose to reduce the rate of customs duty on certain computer parts, that is, hard disc drive, floppy disc drive and CD-ROM drive from 20 per cent to 10 per cent. I have no doubt in my mind that both the computer parts industry as well as the computer industry will grow at an even faster rate henceforth than the rate at which they have grown in the last five years.

In my budget proposals I had proposed to reduce the customs duty on rayon grade wool pulp from 25 per cent to five per cent. It has been represented to me that such a steep reduction would no doubt reduce cost of production of viscose fibre and yarn and that is good because we will use the wood pulp of other countries, but it would adversely affect such of the rayon grade wood pulp manufacturers who market their entire production rather than consume it captively. I, therefore, propose to keep the reduction in the customs duty on rayon grade wool pulp from 25 per cent to only 10 per cent.

Steel is the core sector of industry. Hon. Members will agree with me that our steel industry has adjusted itself admirably to the gradual reduction in customs duties.

I do not wish to increase the customs duty on steel in general, however, after consulting the Department of Steel as well as the specific steel mills, I propose to increase the customs duty on primary forms of steel, other than stainless steel slabs, from 20 per cent to 30 per cent. At the same time I propose to reduce the customs duty on stainless steel scrap, which is a raw material, from 20 per cent to 10 per cent. These two steps will help these units to import stainless steel scrap at reasonable prices for the manufacture of blooms, billets etc. and give them adequate protection against imports of such semi-finished goods.

I have made adjustment in customs duty in few more areas. I have decided to reduce the duty on methanol from 40 per cent to 30 per cent, on spichlorohydrin from 40 per cent to 30 per cent and on DBM from 50 per cent to 40 per cent. These are responding to the demands of user industry.

In my budget proposals I had modified the customs duty structure in respect of ball or roller bearings. I have, however, received representations from manufacturers as well as traders. I have considered their view points in entirety. Henceforth ball or roller bearings of bore diameter upto 60 mm would be chargeable to customs duty at 10 per cent plus Rs. 150 per kg. Ball or roller bearings of bore diameter of over 60 mm, that is 60 mm and above, would attract duty at the rate of 10 per cent plus Rs. 60 per kg. I have also decided that parts of ball or roller

bearings would be charged at the same rate of duty as applicable to the corresponding bearings.

I had proposed reduction in customs duty on raw materials and components for electronic industry. I am given to understand that sufficient investment is coming for increasing the production of colour picture tubes in the country. I recognise the fact that it is a capital intensive industry and some fiscal protection is necessary in the short run. For the present therefore, I have decided to increase the customs duty on colour picture tubes from 30 per cent to 35 per cent.

Except for increase in customs duty on rayon grade wood pulp and colour picture tubes, all other changes will come into force from today. Copies of the notifications issued in this regard will be laid on the Table of the House in due course. Increase in customs duty on rayon grade wood pulp and colour picture tubes will come into force with effect from the date the Finance Bill is enacted.

The changes proposed above in respect of customs and excise duties involves a net loss of revenue of Rs. 31 crore on the customs side and Rs. 63 crore on the excise side in a full year. But I am confident that the buoyancy of revenue will make up for this nominal loss.

With these words, I commend the Finance (No. 2) Bill, 1996 to the House and request the hon. Members to give their wholehearted support to it.

MR. CHAIRMAN : Motion moved :

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1996-97, be taken into consideration."

SHRI S. BANGARAPPA (SHIMOGA) : Sir, I want to seek a few clarifications.

SHRI P. CHIDAMBARAM : Shri Bangarappa, this is start of the debate, you can speak in the debate.

MR. CHAIRMAN : For the general debate seven hours time is allotted. You can speak at that time.

SHRI S. BANGARAPPA : I want you to comment on one thing.

SHRI P. CHIDAMBARAM : How can I comment? At the end, reply will be there.

MR. CHAIRMAN : The Minister will reply at the end of the debate.

SHRI G.M. BANATWALLA (PONNANI) : Sir, is the time allotted for general debate seven hours ?

MR. CHAIRMAN : The total time is 10 hours and for general discussion seven hours are allotted.

MR. G.M. BANATWALLA : Sir, my submission is that this seven hours should be minus the time taken by the hon. Minister ... (Interruptions)

MR. CHAIRMAN : Let us start the debate. Shri Jaswant Singh may speak now.

Members have received a number of representations from many

SHRI JASWANT SINGH (CHITTOGRARH) : Sir, I well recognise that the Finance Bill comes at what is the tail of the fiscal business that Government engages in during the exercise of presenting the Budget and then getting it passed in Parliament. I am, therefore, consciously mindful of the fatigue that sets in by the time the Finance Bill comes up for consideration of the House.

Sir, I am also very mindful of the excessive doses of Parliamentary exposure that the hon. Finance Minister has been subjected to, to steer all these things through both the House of Parliament. Therefore, whatever I have to say, I shall say mindful of these things.

Now I must thank, at the very outset, the hon. Finance Minister for so graciously, at the beginning of his presentation, accepting the difficulties of the marble industry and suggesting that a special team be deputed to look into whether they are or they are not eligible for the benefits of small scale industry and what stands in their way. To dispose of the domestic matter, may I also request him to consider the question of opium cultivators with similar sympathy ? This is entirely a domestic matter.

I recognise, Sir, that the Finance Bill is, after all, an instrumentality through which the overall approach of the Government's Budget proposals is put into effect. I will, therefore, not go into the details of rates of taxation or what the rates ought to be or ought not to be because that can be argued at different forums and at different levels.

But I would wish to take up the hon. Finance Minister's philosophy of taxation. He has suggested that - if I recollect correctly - it be low, should be simple, and the enforcement should be strict. The fourth thing he suggested about the tax payers I did not understand correctly or fully.

I want to leave with the hon. Minister just two or three thoughts. There is a conflict in the phraseology that is used. This is not simply an academic point because words do not simply have a meaning alone, but they also have a life of their own. We have got used to using the word called 'tax net' because words have a life of their own. On the one hand he suggests that he wishes to catch in the tax net-the word 'net' implies catch - while on the other, he says that his philosophy of taxation is to collect it in the same manner as a bee collects honey from a flower. There is an obvious enough disharmony in these two things. I am sure, Sir, a man of the intelligence and capability of the Union Finance Minister will see what I am getting at.

I do believe that the tax system of any country, and our country in particular, must be a civilised one. When it has to be a civilised system, it cannot start with the assumption that the system is a net in which we are

attempting to catch other the unwary or even the recalcitrant.

The taxation system should be simple, but it must also be just. I cannot say Sir, that the present system that has been administering us is just. It is really an imperialistic legacy. We have not changed the essence of it. It is not a just system. I do believe, Sir, that it should be easy to understand and easy to implement. I first asked my friend, Shri Prabhu to give me a copy of the Finance Bill because I was not having a copy of it. I will just read out at random. The question is, is it easy to understand? If it is not easy to understand, will it be easy to implement?

I am reading from line 22 on page 8 of the Finance (No. 2) Bill, 1996. It says :

"Where the long-term specified asset is transferred or converted (otherwise than by transfer) into money at any time within a period of seven years from the date of its acquisition, the amount of capital gains arising from the transfer of the original asset not charged under section 45 on the basis of the cost of such long-term specified asset as provided in clause (a), or as the case may be, clause (b) of sub-section (1) shall be deemed to be the income chargeable under the head "Capital gains" relating to long-term capital assets of the previous year in which the long-term specified asset is transferred or converted (otherwise than by transfer) into money."

I am afraid that it does not end here and because it is so simple and so transparent in its meaning, we have, then, to provide four or five lines of explanation at the end of it.

SHRI P. CHIDAMBARAM : If you will believe me, it is easier to understand if you translate into Tamil and read it.

SHRI JASWANT SINGH : Sir, the point is really vague.

SHRI P. CHIDAMBARAM : Sir, I understand and I accept this point. There are hundreds of examples of draftmanship which will bowl over anyone. We must get out of this system of drafting. This is an imperial legacy. We must get out of this system and I do not know what the Drafting Committee which we have appointed will come up with. But I will ensure that they write plain English rather than this kind of English.

SHRI NIRMAL KANTI CHATTERJEE : That will cut into the incomes of people like Dr. Pal.

DR. DEBI PROSAD PAL (CALCUTTA NORTHEAST): In the Drafting Committee accounts people are not there. But there are only departmental officials.

SHRI P. CHIDAMBARAM : That is not correct.

SHRI JASWANT SINGH : Sir, I am very grateful to the hon. Minister of Finance for accepting the validity of the point that I am making.

Sir, there is one more point. I do believe that the tax system ought to be stable. The fact is that our tax system is not stable is borne out of this Finance Bill itself. This particular Bill is actually a kind of Bill which does not have that many pages. But even this Bill has 64 pages or so. We produce, annually, Finance Bills ranging from 60 to 100 pages and annually we add the 60 or 100 pages of more incomprehensible laws into our taxation system. Therefore, annually we ensure that the ever-growing tribe of Chartered Accountants prospers and the ever-decreasing numbers of tax payers are more and more troubled.

There have been endless numbers of Committees, the last one being the Chelliah Committee. I leave a very strong recommendation with the hon. Minister of Finance not to have any more Committees. He has enough material about what reforms have to be carried out and I appeal also to the hon. Chairman of the Standing Committee on Finance to please take up all these Tax Reforms Committee Reports in his next consideration and make a gist of them so that the task of the Ministry of Finance will be easier. Please do something. It is as urgent as yesterday.

Now, what are the issues in taxation? If, at last count, we were a nation with a population between 90 to 95 crores, as the hon. Minister of Finance has himself pointed out, I think, the first issue is the "spread" of direct tax. Deliberately I do not use the word "net", because it is not an entrapment. I am using the word "spread". I think the spread of direct tax in a population of 90 to 95 crores of barely 1.1 crores is unacceptable.

I do not think the answer is in that ancient debates about shall we to tax agriculture, or not to tax agriculture. I do not think that is the answer at all. There are two issues. I could well be wrong in my conclusion but I believe that we are possibly the only country in the world which has such a low spread of direct tax. Barely nine per cent of the citizens pay direct tax. This is absolutely unacceptable for India's destiny. What is India's destiny I believe that India's destiny is to be in the forefront of the nations of the world. If we want to be in the forefront of the nations of the globe, we cannot have a system in which barely nine per cent of the population pay direct taxes. I was asking my good friend, a very distinguished banker earlier-not being very good at arithmetic - about this, he told me that against one crore citizens that pay tax today ten crore were to pay and they pay only Rs. 6,000, we would be earning Rs. 60,000 crore, almost the entire sum of our interest that we are paying today or our current year's borrowings. I think, which is Rs. 50,000

odd. We have to think innovatively and not just think on the great anomaly that in a nation of 90 to 95 crore people only one-ninth pay the direct taxes. That is why, I am moving away from the simple question of what the rate or level of taxation ought to be. I am coming to the question of spread of taxation. I do believe you can increase the spread if you lower the rate of taxation. I think, we have to start thinking on those lines because if we do not, we simply cannot achieve that, which I believe is the destiny of my country to achieve.

The second issue is the question of rate. Personally, I believe that these are all ancient shibboleths of yesterday's thinking which make us entrapped in the business of rate—we must have high rate and therefore we will have high revenue is not empirically proved. But more than that I request the hon. Finance Minister to reflect on that the rate must bear a relationship, particularly given the fact till such time we are able to alter it—that we have 11 million taxpayers... *(Interruptions)*

Now, this question of rate has to be related to what the taxpayer is able to take home. It is no good having academic discussion that 40 is good or 60 is bad or it ought to be 20, or whatever. After all, it is a limited number of people who are paying you tax. Those citizens what are they able to take home after the State has dipped its hand into their pockets and taken away what the State believes is its own or is its share? Here again, I think the philosophy that should govern the fixation of the rate has to be essentially a compassionate philosophy and not an expropriatory philosophy and it must be considerate of the citizen and it must take into account what the citizen is actually able to take home, and thereafter, what become the citizen's spending capacity.

Now, I leave another thought with the hon. Finance Minister because this is again an index of the growth of the nation—the ratio between direct and indirect taxes. I believe that the ratio that we have in India is not a ratio that we ought to accept because the essential nature of indirect taxes is that it taxes the poor. Eventually, indirect taxes will reach the poor. In one form or another, indirect taxation is a taxation of the poor. Therefore, the ratio between direct tax and indirect tax should be the very reverse of what obtains in our country today. We have a larger proportion of indirect taxes and a much lower proportion of direct taxes. A much higher proportion of citizens ought to be much higher than the total quantum of indirect taxes which eventually reach the poor—the ratio must be reversed. I do not think that this is a job that can be achieved overnight. But it could be done for the sake of greater fiscal health and balance. We talk of market forces, but at least a third of the country is not even a part of the market. Therefore, when we are talking of a civilised taxation system, our indirect taxation system must not tax those who are not really a part of this market, who are, by our own admission, below the poverty

line and it is they who will get affected by an unthinking indirect tax regime.

I have a difficulty with the present Finance Bill. We could argue that the savings rate in the country is 24 per cent or 22 per cent or, as the hon. Finance Minister has said, the public savings rate is low but the private savings rate is high. I believe that one of the cultural and civilisational qualities of India, markedly different from elsewhere in the world, is savings. All families are savings-oriented. After every harvest, the first thing that most of the farming community do is to go and, howsoever small it is, from a small silver ring for the daughter or some tiny ornament for the wife, buy that and that becomes a saving. The aspect of savings is ingrained in our nature. Our tax regime must encourage the natural tendency of the country to save. My great difficulty with the Finance Bill as also with the budgetary proposals really, is that there is insufficient encouragement to savings. I am not quibbling over this. If we do not encourage savings within the country, we will compound our own difficulties.

I do not think that the Finance Bill out to be really concerned only with the revenue side. I accept that the hon. Finance Minister really does not have time to go into all that. I do believe that the Finance Bill ought to begin to address itself to expenditure. You cannot have a concept of revenue unless you have simultaneously a balanced idea of what expenditure is. There is no accounting of the expenditure to Parliament other than the Demands for Grants or what is examined by the committees. But somehow this has to be integrated and brought forward much more openly and clearly in the Finance Bill.

I go to the next point of infrastructure and taxation. I am not going into all the various measures in details that the Union Finance Minister has outlined. But I will refer to two or three aspects. One is this two per cent across the board surcharge on Customs duty. I really do not know how this surcharge is going to be administered, how it is transferred into infrastructural channels and it also runs counter to the otherwise effort of reducing the tariff across the board. I have not been able to convince myself that this two per cent surcharge on Customs duty is really going to benefit those that the hon. Finance Minister thinks it will. I do not think so. I will be happy if the hon. Finance Minister clarifies his thinking on the subject.

The Finance Bill, particularly, the speech accompanying the Finance Bill of the Finance Minister, spoke of tax benefits. I think we are running into the usual problems of excessive litigation here. I do not think there is an acceptable definition of what is infrastructure. What do you put under infrastructure? You are granting tax benefits to infrastructure-related activities, infrastructure-related companies. What is infrastructure? Are you talking

of physical infrastructure? If physical infrastructure is to be given tax benefits, why not on social infrastructure? I notice in the speech somewhere the tax on drinking water and sewerage. There also, infrastructure is there. It is not simple to arrive at a taxable definition of infrastructure. It is no good putting the thing there and thereafter 150 explanations or notifications follow from the respective Boards as to what infrastructure actually is or what it is not and for the whole issue to get entangled yet again in endless litigation. I do not want to make this point. I really wanted to make it when the hon. Minister for Science & Technology was also present. I will perhaps do it tomorrow during zero hour. This is a question of herbal petrol. I cannot call it anything else. I leave it out of the Finance Bill at present. I will reserve it for tomorrow.

[Translation]

SHRI SUKDEO PASWAN (ARARIYA) : The same discussion was held in the House Yesterday.

SHRI JASHWANT SINGH (CHITTORGARH) : Yes it was held in the House...*(Interruptions)* I shall mention it tomorrow.

[English]

I go on to important points about the public financial institutions. They do not really fall within the strict and water-tight compartments of the limits of the Finance Bill as such. I would like to share my concern about public financial institutions, their role, their conduct, the governance of such organisations, the absence of Managing Director and Chairman. We have been debating endlessly these points. In one Committee after another, this matter has been raised. How can you separate the functioning of public financial institutions, in which banks come in, insurance companies come in, Unit Trust comes in and which is related as an activity not really within the folds of the Finance Bill? I think these are instrumentalities of State. The State controls virtually the entire banking industry, the entire insurance industry. It has a virtual monopoly by way of Unit Trusts etc.

If these malfunction, as they so obviously have malfunctioned, then, we will have the consequence. That consequence is in the revenue of the State. Therefore, I would request the hon. the Finance Minister to share some of his thinking with us about the governance of such organisations, about the dysfunctions, the appropriation of such organisations for private purpose and the mismanagement of such organisations. This is an issue of high public importance and we do wish to know, even if it is a debate on the Finance Bill, on this aspect.

The hon. Finance Minister gave us some figures of Corporate Tax. The Corporate Tax, in effect, is really at

about 19 per cent. My figures may be wrong. But in effect, the Corporate Tax comes down to 19 per cent. This 19 per cent tax is combined with a whole basketful of the most wonderful exemptions of all varieties. I think a time has come not simply for the reform of the Company Law but also for a total re-examination of all the exemptions that you have currently granted. I would request the hon. Finance Minister, when he replies to react to this point because this is very directly, I believe, linked to the concept of the Minimum Additional Tax. I will come back to that in a moment. But I would request the Finance Minister to consider this whole question of exemptions. By all means, if you feel, for the present, the corporate tax is too high, bring it down but eliminate all exemptions because these exemptions are a source of great siphoning of funds. I combine that with the question of what is now called after the Cadbury Committee Report in the U.K. which has almost become a cliché phrase, of corporate governance. I do not wish to belittle the entrepreneurial spirit of India. I also do not wish to belittle the great ability of the Indian entrepreneurs who have created the industrial empires from nothing. But these industrial empires having been created, we simply cannot accept that they are mis-governed to the detriment of either the shareholders, or to the detriment of the State or to the detriment of the laws of the land. Therefore, this whole question has to be addressed. Following a similar experience in the U.K., a Committee called the Cadbury Committee was appointed. Belatedly, the idea was picked up by the Indian industry and yet again, belatedly, the stumbling Indian industry is moving into that second-hand channel as it were. I think there is need for the Government to take an initiative in this regard.

The whole question of corporate governance is a very important question. I request the Finance Minister to address himself to corporate governance particularly with one aspect in mind that on most such public limited companies, there are the nominee Directors of the public financial institutions. The appointment of the nominee Directors, their continuance in office has become a kind of a quagmire and yet another avenue for patronage dispensation by the political authority of the time or of the day. This is not the purpose of the nominee Directors of public financial institutions on the so-called private sector of the country. For example, I do not wish to take the individual names of companies because that will not be proper. But I do not think that there is even a single large industrial house that is not a major borrower from the public financial institutions.

Therefore, as representatives of the State, as representatives of the lending institutions, companies, we have these Nominee Directors. Have all those Nominee Directors functioned as they should have been functioning?

I am not left with any sense of re-assurance on that score. I do not wish to cite instances. But if you are now having or experiencing difficulty than otherwise what you were reputed for, to professionally managed companies - not really family holding companies - and if such professionally managed companies are also today charged with all kinds of malfeasance, then what were the Nominee Directors doing while all this was happening? And I would request the hon. the Finance Minister to share his thinking on the subject.

Let me, before I come to what I think are some of the disharmonies and the anomalies in the Finance Bill, leave one more thought with the hon. the Finance Minister. The more deregulated the economy, the more liberal the regime that you aspire to, then you have to make more transparent and stronger the regulatory mechanism that you wish to have. This is not a contradiction. You cannot by mouthing the cliché phrase of 'free market' is etc. etc. which with due deference, I put it to the House that 'free market' is not a euphemism of 'free for all'. Free market is not a free for all. You simply cannot wish the role of the State away. Then you have to combine the openness and deregulation, letting the creative genius of the India flower, with transparency plus strong regulatory mechanism. I really wish some of that had found the reflection in the Finance Bill.

I make additional pleas to the hon. the Finance Minister. I am sorry that I do not have the exact section of this otherwise not my favourite literature called the Finance Bill. But I will refer to the paragraph of the speech of the hon. the Finance Minister on page 29, para 114. It is the question of sports goods. I do not see any reason whatsoever why you should charge or why you should feel satisfied by reducing the duty on sports goods from 50 per cent to 30 per cent. I do not think even that is a good enough gesture. You eliminate duty on sports goods altogether. I am saying that it is not a very major item of revenue accrual.

SHRI P. CHIDAMBARAM : What about Jalandhar ?

SHRI JASWANT SINGH : Jalandhar is producing hockey, cricket balls. I do not think the labour cost of Jalandhar can be matched anywhere other than to Pakistan and Pakistan simply does not wish to trade with us. After all, where was the centre of sports industry? It was at Sialkot. From Sialkot we have shifted to Jalandhar and we are not killing Jalandhar. It is not simply a question of duty. It is also a question of encouraging it. If a school, for example, wishes to buy rowing machine so that the shoulders, arms, back and the muscles of the youngsters would grow, then unnecessarily needless regulation of form filling will be there.

I have received a number of representations

[Translation]

The Britishers have turned our country into a country of document writers.

[English]

For everything there has to be an application and application in five forms are sent to ten different people. We must get out of this mentality of Arji-naveez of having an application for everything.

You cannot build sporting spirit unless you build the fighting spirit into that young man or woman. And, how will you build a fighting spirit if a man or woman has to fill 10,000 forms to import even a bow and arrow? In a country as vast as great as India, what do you do by reducing it from 50 per cent to 30 per cent? I strongly recommend, please eliminate all customs duties on sporting goods by all means.

SHRI P. CHIDAMBARAM : It seems your friend Shri Nirmal Kant Chatterjee does not agree.

SHRI JASWANT SINGH : But you have to agree... (Interruptions)

MR. CHAIRMAN : It seems to be the reaction of the entire House.

SHRI JASWANT SINGH : Sir, I will make one more recommendation. This is on page 29, para 1.1.8. It relates to edible oils. Now, here, I wish to give a thought. You have reduced the duty from 30 per cent to 20 per cent. I will tell you where the difficulty arises. For example, take Rajasthan. Rajasthan earlier was not a soyabean producing area at all. The State said, "Produce soyabean, produce soyabean. It is a good crop." And, so in the area like my good friend and colleague like Shri Dau Dayal Joshiji's constituency, vast acreages came under soyabean crop. When acreages come under agro industry, industry related to soyabean also came up.

Sir, we are the only country in the world-no other nation, not even Nepal to the extent-which does not use animal fat for cooking. This is the strength. It is also our vulnerability. Where is that vulnerability? On our indigenous oil seeds. Now, when you say that you are going to reduce the duty from 30 per cent to 20 per cent on oil seeds, at times I fear greatly for the *moongfall* crop of Gujarat. It really requires only one failure of crop in Gujarat, for example, of groundnut and post WTO-because there are obligations in importing foodgrains also. If we were told that we have to bring in cheaper groundnut oil ex-United States of America-ex-Georgia-where vast acreages of groundnut and soyabean are

there, they simply do not have the acreages to reduce the cost that other nations will be able to do it.

I think, this requires a very careful thought because if you reduce the duty on edible oil in consequence—whether it is soyabean or groundnut or any other oilseeds—you might in fact, be causing, perhaps unknowingly, perhaps inadvertently but nevertheless irreparable damage to the agricultural community of India, particularly the oilseeds growing parts.

SHRI NIRMAL KANTI CHATTERJEE : One tangible point you have made.

SHRI JASWANT SINGH : But you did not agree about Sports...*(Interruptions)*

Sir, my third recommendation relates to page 32, para 1.2.9. which is about excise duties on cars. I do not know how you can do it, but I urge upon you, if not immediately, to examine it. Please relate your excise duties to the pollution content of the car engines. The more pollution control measures are there in that engine, that truck, that bus, the lower will be the excise duty. I think, unless we increase pollution consciousness, we will simply not be able to live in this very capital city.

So, please consider my recommendation about indexing excise duty on motor vehicles. Whether they are lorries or motor-bicycles or motor cars, link it up with the pollution control measures introduced.

Now, I come to a very parochial point, which I do not see why he had not considered. When Dr. Manmohan Singh was the Minister of Finance, in an act of undiluted parochialism, he granted all kinds of industrial and tax benefits to Assam and the North-East because he represented Assam in Parliament. He still represents Assam. Even then, I submitted to him that he was being parochial. We have seen all the Ministers of Railways take all the railway tracks to their constituencies. It has now become a custom in India...*(Interruptions)* We did not have the time to take away the railway tracks. You were derailing us all the time...*(Interruptions)*

MR. CHAIRMAN : All hon. Members have to be allowed to speak. There are a number of members from your party to speak.

SHRI JASWANT SINGH : I will be very brief.

If you can grant this kind of a benefit to the hill areas of India, why can you not grant exactly the same benefits—not more, not less—to the desert of India, from where I come ? The desert has an equal difficulty.

*[Translation]*

Mr. Gadwhi, you may speak on Kutch.

SRI B.K. GADHVI (BANASKANTHA) : We shall speak for Rajasthan.

*[English]*

SHRI JASWANT SINGH : Yes, please speak.

What wrong has the desert done ? Why can you not grant to the desert districts of Rajasthan and Gujarat the same tax benefits that you are granting to the hill areas ?

Next, I come to the question of newsprint. This is a complex subject. We have to meet the whole question of the structure of newsprint. It is a triangular arrangement. We have to meet the requirements of the domestic newsprint producer. He must not be finished. We have to meet the requirements of the newspaper industry. The newspaper industry must get good quality newsprint at cheap prices. We must also meet the requirements of the customer. The customer is the reader of newspapers and magazines. The customer must get a newspaper which he can open and read.

After all, governance is really a question of reconciling conflicting interests and if you cannot reconcile the conflicting interests, then, leave governance. Leave it for some others to do it. We hear all kinds of rumours which are afloat about the duty structure of the newsprint industry. I do not give credence to rumours and it would not be becoming to even voice concern over such rumours. But I think that the hon. Minister of Finance should reflect on how to reconcile these three interests—newspapers must get the newsprint that they need at the most moderate rate possible; the domestic newsprint industry must not, in the process, be finished; and the customer must get a readable newsprint on which the newspaper or magazine is printed. My point is made and I request the hon. Minister of Finance to look into it...*(Interruptions)*

SHRI P. CHIDAMBARAM : I wish to remind him that this principle will apply to every product. The principle of reconciling the interests of producers and consumers will apply to every product and not only to newsprint. Therefore, I will deal with it when I deal with the customs duties. I would appeal to both Shri Jaswant Singh and Shri Chatterjee to apply this yardstick which he has just adumbrated so eloquently to other products also.

SHRI JASWANT SINGH : I take that caution very well.

My last point is about the Minimum Alternate Tax (MAT). Now, we should see what is the principle. The principle is that we cannot have two sets of accounts. You cannot have one set of accounts for the Income Tax Department and another set of accounts for shareholders.

To the Income Tax Department, they say that our company is very poor and, therefore, we cannot pay tax. But to the shareholders they say, come on, give us money and we will give you dividends and bonuses. It is an absurd situation.

You cannot have two sets of accounts. How do you reconcile? I accept, in reconciling there is a principle. We have propounded this principle for ourselves. But the methodology that the hon. the Finance Minister has adopted can be faulted; it could have been improved. You could have adopted a much simpler way. You could have combined depreciation by reintroducing investment allowance. You could have said, I will tax the company at one point and thereafter the dividend is not taxable. It is very simple. You could have said, I will tax you on Profit and Loss account. You could have said, I will tax you on what you show to the shareholders.

SHRI P. CHIDAMBARAM : That is what I am taxing.

SHRI JASWANT SINGH : I know, You started by saying that it should be simple. Tax laws should be simple. The manner in which the MAT is being brought about, I hope...

SHRI P. CHIDAMBARAM : This is exactly what we are doing. We are taxing the book profits shown in the P&L account.

SHRI JASWANT SINGH : I am sorry. Let us see how MAT finally turns out.

Sir, I am thankful for your consideration. Discussion on Finance Bill is hardly an occasion to be eloquent. This is nuts and bolts exercise. I am neither a Chartered Accountant nor am I a nuts-and-bolts-man. But I would urge the hon. the Finance Minister to take seriously some of the recommendations and some of the points that I have made.

SHRI B.K. GADHVI (BANASKANTHA) : Mr. Chairman, Sir, the Finance Bill cannot be viewed in isolation. It has to be considered and viewed in the totality of the entire Budget proposal and the direction of the Budget proposal for the country. It is a matter of regret that because of some irrelevant issues being raised in this House, the Demands for Grants of certain important Ministries could not be discussed and the Demands for Grants of almost all the Ministries were to be guillotined. Therefore, very many aspects relating to very many areas have been left untouched. In view of that, in my perception, during the consideration of this Finance Bill this can be touched because the Finance Bill says it is the proposal of the Central Government for the Financial Year 1996-97; its ambit has become little more wider. The direction of the present Bill is to augment resources for the exchequer, from Direct Taxes, such as Income Tax, Corporate Tax,

Excise Tariffs, Customs Duty etc. My point is that when you consider the proposal for augmentation of revenues from Direct Taxes as well as from Indirect Taxes and Customs Duty, we shall have to scrutinise these proposals which come before us for consideration, in which direction they are leading the nation. We have to see what is the aim of these proposals. The hon. The Finance Minister and Shri Jaswant Singh have just now said that only nine per cent of the total population is now within the tax net of Income Tax. It is also suggested that about equal percentage of population is out of the Tax net although they are liable to pay Income Tax.

1700 hours

(MR. DEPUTY-SPEAKER *in the Chair*)

That means, let us say, 18 per cent of the population are able to pay income tax. Then, what about the rest of the population? The rest of the population, that is, 82 per cent of the population of this country has no taxable income and that they are not liable to pay income tax. It indicates the poverty of this nation. It is an index to show that our development—the per capita income of the people and all other aspects where the financial strength of the people is involved—is very weak.

Assuming, for the sake of argument, that 91 per cent are out of the tax net and only nine per cent are within that net—if this is the position or the financial strength of the population of the country—then what should be the direction of the Finance Minister? What should be the direction of the fiscal policies or the financial policies or the tax structure?

Today we all talk about two things from the housetop. One is about transparency and the other is about competitiveness. Both are very relevant. But competitiveness with whom? All nations of the world are not on a level playing field. There are developed nations, there are underdeveloped nations and there are developing nations like India who are almost on the threshold of other big developed nations. But they are not on a level playing ground. Therefore, to ask an amateur to play with an Olympic player, would not be a proper approach. From this angle, we have to consider our tax structure and the tariff on custom and excise.

My hon. friend, the hon. Finance Minister has told me, when I just pointed out that it would lead to sickness of industries also, that it was a mental frame. It is agreed, but what would happen? You will have to scrutinise your indigenous industries and those industries which are strong enough and those industries who can play their own role in the country as well as in the export market? They need protection because the other nations also do the same thing. In one way or the other, they are

indulging in protectionist policies. Unfortunately, in our country also, some malpractices are going on.

Therefore, we have to take care of it. Under liberalisation, it is good. But I believe that it is not just concept. It is the concept forced on us also, by some other agencies. It is forced on us. With compelling reasons, we had to accept those compulsions and mould our policies to their liking. But at the same time, we cannot ignore the interests of our own country. If we have set a goal of self-reliance and if we can set a goal of standing on our own legs, then, we have to see that in this country also, undue competitiveness is not introduced by way of liberalised policies.

[Translation]

It is like a story of a washerman and his donkey.

[English]

A Washerman's donkey was indisposed. Then, the donkey was taken to a veterinary doctor. The doctor gave two pills and a tube; and asked that washerman to put that tube in the mouth of the donkey, then put the pills and then blow, so that the donkey would swallow the pills.

Next day, the washerman came puffed up and indisposed. The veterinary doctor asked: "What has happened?" The washerman replied, "Sir, before I could blow, the donkey blow and I gulped down the pills. Therefore, I am sick. Kindly treat me." This should not happen to us under Liberalised Policy.

In this context, we have to scrutinise whether our policies would primarily sustain and support our indigenous progress and development and, at the same time, make our industries more competitive so that they can play on a level ground or not. That is the moot question that has to be kept in mind.

The Finance Minister is here. I appreciate his difficulties. He has got a constraint of kitty-difficulty in resource augmentation. There are many demands from him. I do not object to all proposal. They will contribute to our kitty-national exchequer. They will augment our exports also well. But if we do not keep an eye on the progress of our own industries, I am afraid, the other agencies, which come to this country very liberally, would corner the entire market of 90 crore people. It is not a very small market. Therefore, a balanced approach has to be taken.

With regard to incentives, the hon. Finance Minister right now announced that from the minimum alternative tax-if the Industries are in the industrially backward States - they will be given some concessions. Sick industries would also be given some concessions. But that is not enough. In that, you have to include and I would wish that you may please include hundred growth centres that

were initiated in the country. Ultimately, it is the balanced development which would keep this country united and together.

It is a time for thinking. We had a policy decision that a particular type of industries will be forced to go to the backward areas. Today, we do not have that restriction for the multinationals and other foreign companies go to backward areas. They have enough money. They can build their own infrastructure. They can have their own generating capacity. In that case, when we allow them to have a large market of India, when we allow them to have cheap labour, when we allow them to have cheap raw material, why cannot we persuade them to go to the backward areas? Otherwise, what would happen? An imbalance would continue in this country. And there will be dissensions. The people would not be happy.

Ultimately, what is our goal? What we wish is that the people from every nook and corner of this country should benefit because of the development. It cannot be a one-sided development. Today, even India is not an industrially developed country. It is slightly industrially developing country. But the mainstay of our economy is the agricultural economy. Agriculturists cannot make both ends meet only with production of cereals like wheat, bajra and maize. He needs to have cash crops and the main crops are cotton and oilseeds. We have got a shortage of oil in this country, we have got a shortage of pulses in this country. Do you have anything in your Budget that it will encourage the indigenous production in these areas? Shri Jaswant Singh also has commented upon oil seeds import duty reduction.

Mr. Finance Minister, it is not with a view to put an insinuation but it is an honest criticism which occurs to me. I would say that you have looked to the entire nation only from a window and not from the top. Therefore, I would wish that in totality, you take stock of the situation. Even today, people are not having two square meals a day. Twenty-two per cent people are below the poverty line. Is it not a shame on our part that we go on pampering elites?

I would say that this Budget is an elitist Budget and the concessions which you are giving are concessions given to those people who do not deserve to have them... (Interruptions)... How many sick units have we got? There are around 2,50,000 sick industries. And what about unemployment? You go to Ahmedabad and see how many textile mills have been closed and workers have been rendered jobless even not getting their provident fund back. You go to other industries. You assure us that you would do something in regard to restructuring of the BIFR. But a hungry man cannot wait for sternity. He has to take meals twice a day. I know that our constraints

are there. But since you have retained the suffix of Congress with your party, although it is Manila Congress, I believe that you would succeed through the lines which we suggested. Otherwise, we have seen in the past how most efficient persons like Shri Morarji Desai, an efficient Finance Minister, went away from Congress with a new name and then, the economy totally collapsed. Another efficient man, Shri V.P. Singh, who was in the Congress left the party and went away and it was a total collapse of the economy. But you are retaining that suffix Congress and that is why, I have got optimism that you will be able to handle the economy well and steer it good.

What I was wishing to submit was, Mr. Finance Minister right now stated that if there is a demand for Rs. 1 crore, he can concede it. But if there is a demand to the tune of Rs. 100 crore, he shivers in his spine. I remember that that were his words exactly. It is true and I understand the Finance Minister's difficulty. But how do we manage? If you are shivering in your spine when somebody asks you for Rs. 100 crore, then what about Rs. 133 crores and not a grain coming to the country?

Yesterday, there was a reply from the Commerce Ministry that gold worth 364 kilograms from MMTC was given to the traders. The money did not come back and some gold was even removed from the bonded warehouses. What will be the cost? I do not think it is less than Rs. 100 crore. It is more than three and a half quintals. The Government wanted to play it down by saying that it was only one per cent. Please stop playing this joke on this House.

You have rightly stated in your introductory speech that fiscal deficit and revenue deficit are alarming and unmanageable. It would be further unmanageable when the Pay Commission's Report comes. Defence expenditure would come, hike in petroleum abroad would come and other things would come. But what do we do? Finance Ministry has got many powers to call for files from almost all the Ministries, examine them and take them to task. Have you ever seen Auditor's Report? Apart from having a Commission, find out what is the wasteful expenditure, what is the blocking of funds, what is the absence of inventory control, non-use of Government property, acceptance of sub-standard work, avoidable expenditure, injudicious decisions, expenditure on excess payments and ill-conceived projects. A plethora of further areas has been pointed out every day not only by the CAG but also by the parliamentary committees. Then, we go on creating one Commission after another what for?

It is just like peeling the leaf of a banana tree. If you remove one leaf another comes up; and if you remove another, the third one comes up and it goes on.

Sir, therefore, what I wish to submit is that the economy of the country is in a very critical condition and our exports are also not doing well. Mr. Finance Minister you had been the Minister of Commerce and you know about the *modus operandi* of exports. Exports are not matching. There is a total imbalance between imports and exports. What are these areas? Those who have offices abroad are indulging in under-invoicing and keeping their part of profit and earning abroad; and those who do not have offices abroad are indulging in over-invoicing and converting their black money into white money without paying any taxes. It is because you have given tax holiday to the exporters. There are cases on record in every Department of the Government about empty containers having gone abroad. Simple money laundering has taken place in a large number of cases. Through Howala racket these were the taxable sources. From these sources you could have collected income tax as well as corporate tax. But those things are going on as they were. If you could consider and calculate, then please calculate and find out as to what loss the Exchequer has suffered on account of these switch management by the various Ministries, export houses and others. If you could find this out and lay your hands on them and put a stop to this, then, I hope, you would not find difficulty in giving more money to the MPs when they ask for it.

Sir, on the question of MAT, I am surprised and to be honest I am not convinced with the argument of the Finance Minister that if the companies could have more depreciation on their account books, then they would have to pay less. Do we want that there should be more depreciation? I understand the argument of the Finance Minister. But my submission is that we, in this country, have to inculcate a sense of savings and investment. Why are our stock markets going down? A small man invests in some shares and debentures with the hope that he would derive a regular income from these things. If you do not inculcate a sense of savings indigenously, then perhaps the growth of industries would be hampered and would be thwarted. I accept the argument of the Finance Minister that in other areas, there would be generation of employment opportunities and more industries would come up. But why are people from abroad coming to invest in this country? If people from abroad are interested to come and invest in this country, then do we not have an atmosphere when our people could have the urge to invest in this country? If that is so, and if they invest in some companies, then they should derive some benefit out of it. In that case, if they have to pay income tax for the dividend or the bonus, then they would pay the tax.

Sir, therefore, in my humble opinion, presently the indigenous urge for investment is going down. That is why the indigenous companies are suffering and they

would continue to suffer. Agriculture, the most important sector of the economy of this country is suffering. It has been mentioned in the Economic Survey that this time there has been a decline in agriculture growth and agricultural production. Certain States like Punjab and other places, from where we get foodgrains in the Central pool, have already reached a saturation point. On the one hand, there has been a decline in the production of agricultural foodgrains and on the other hand there has been a vast increase in population. If we do not cater to the needs of the under-developed areas, then what would happen tomorrow ? We are not to think of the present alone but we also would have to think of the posterity.

That should be the approach of the Finance Ministry. I understand your policy perception. I also understand that you had hardly any time before presenting the Budget to go into all the areas and all the aspects. You have continued certain policies. I personally feel that even liberalised policy has got some limitation. It cannot come in all the domestic areas. It cannot come in all durable consumers. It cannot come in small scale industry. It can go to the infrastructure.

With regard to the income tax, you have stated in your introductory remark, that if you revise the Income Tax rate of Rs. 60,000, perhaps vast many number of people will be out of the tax net. I agree with it. But what is the reality ? How many perquisites the salaried class, which is attached with the Government—either the State or the Centre—the class which is attached with the Government undertakings and other undertakings, is given or getting and how many perquisites the others are getting? How many perquisites the multinationals are offering to their meritorious young people ? That is why, I say that a day would come when—if we do not have more incentives for the people to join the public services—there will be a dearth of employees in the Government services others they get about Rs. 1 lakh every month plus perquisites, bungalow, car and everything and their perquisites are not taxable. As M.Ps. we are getting only Rs. 1500, though we get a lot more. Our total bill comes to Rs. 5500, every month, put what is our Salary? It is only Rs. 1500. We are not transparent to the nation. Likewise multinationals are doing it. Therefore, the hon. Finance Minister should think about it.

Today what happens ? In Defence, there is a dearth of persons in the rank of Officers in the Army. I think it is of the order of more than 10,000. People are not attracted to Government services. They go to the other softer or attractive options. Therefore, if you want to widen the tax net then huge perquisites have to be offered and huge incentives have to be offered which should not be

taxable. You may tap the resources and have the money to do it.

I am surprised to find that there is hundred per cent tax exemption if somebody contributes to the Prime Minister Relief Fund. But for making contribution to the Chief Minister Relief Fund, there is no exemption. If somebody contributes to the Chief Minister Relief Fund, which is to be used when the people are in distress, like earthquake, flood, famine, etc., there is no tax exemption. Why it should be so ? When we have 125 to 130 exemptions in all counts, in this area nobody has given a thought about it.

Shri Jaswant Singh has mentioned about the paper. We do not have any custom duty on the imported paper. There is an excise duty on our own paper. My submission is, let us have a critical examination of our industrial growth. You said that you have to augment the resources. What has been done ? In the area of petrochemical, you have lowered down the duty and that too under what circumstances ? I would give you some figures regarding the loss to the exchequer. I believe, in 1995-96 the duty was about 50 per cent or so. The global prices have fallen down. For polymers, it was Rs. 890 in 1995-96 and it has come to Rs. 720 in 1996-97. So, it has fallen by 19 per cent. In 1995-96, on PSY it was Rs. 1737 crore.

Today for PSF in the international market, it is Rs. 950. The PFY was Rs. 1861 and today in the international market it is Rs. 1200. So is the case with DMT, PTA-I can read out the whole figures. Therefore, what was the reason for lowering down the duty ? Was it because of the glut in the international market ? Do we want to offer out Indian market to them for selling ? When the Global prices have callapsed.

In the petrochemical industries, the Government and the private sector are doing much better in this country. For example, you take IPCL and all others in Gujarat. You take away the competitiveness of those industries by lowering down the duties, when there is a glut, when the prices were high, duty was high ? Now, the prices have fallen down and again we make them further unable to import it. What is the loss by lowering this duty ? The loss to the Exchequer is Rs. 2367 crore and you say that you do not have enough resources to augment. Why do you lower down ? I understand it in the critical areas. I understand and that is why my submission is that where our industries are in a strong position, no effort, no action, no initiative should be taken to weaken it. It is not competitiveness.

Have you ever thought why agriculture is on decline? You have done something about irrigation. But let us see what is the fate of our dams. The silting ratio

contemplated was only one and a half per cent at the time. Now almost in every dam of this country, it has gone beyond three per cent. This is reducing the cost-benefit ratio by 50 per cent. What a colossal loss to the nation! All these areas will have to be taken into consideration because ultimately our aim is not to see from one window. I initially stated that it has not to be looked only in isolation but the whole gamut of our fiscal policies related to industrially development, related to agriculture, related to job-orientation and related to balanced development of the country in all the areas need to be looked into.

Therefore, though my dear friend may dislike, I would say that this is an elitist Budget. It does not take into consideration the realities of the country obtaining today. Therefore, I would wish, consideration. Of course, as an obedient soldier of my party, I would vote and support your Bill. But if I do not point out of things which occur to me and which are not proper, then I would be failing in my duty even as your colleague and as a comrade. Therefore, I wish that please in the matter as I told you, create an atmosphere where investment psychology, psyche is there in the country, you include the growth centres also in the exemption.

Lastly, I would say that I do not say this in anger or criticism, I appreciate the hon. Minister of Finance's effort under the given constraints, circumstances, the compelling circumstances, he has done well. But I wish that this Government should now look into all the areas-I pointed out earlier about the CAG Reports and other things-and take corrective measures. Not take it with by mere touching here. I would say that a touching process would not heal the malady in the economy which has cropped up.

1730 hrs

[English]

#### STATEMENT BY MINISTER

##### Comprehensive Test Ban Treaty (CTBT)

THE MINISTER OF EXTERNAL AFFAIRS (SHRI I.K. GUJRAL) : Mr. Deputy-Speaker, Sir, this hon. House will recall that I had made a *suo motu* statement regarding the Comprehensive Test Ban Treaty (CTBT) on 26th August, 1996, outlining our assessment of the developments in Geneva and our approach during the discussions in the General Assembly in New York. The discussion that followed was heartening in that it reflected a national consensus on an issue which the Government consider to be of vital national importance. The strength of the national consensus is reflected in the policy of this Government and the course of action which was adopted during the discussions in New York. Today, may I, with

your permission take this opportunity to brief the hon. House on the developments in the resumed session of the 50th UN General Assembly in New York.

As hon. Members are aware, we had withheld consensus on the draft text of the CTBT in the Conference on Disarmament (CD) in Geneva because it fell short of the mandate in all its aspects. It is not a "comprehensive treaty"—it permits the nuclear weapon States to continue their weapons related research and development activity using non-explosive technologies. It lacks any meaningful commitment to nuclear disarmament and instead of being the definitive first step of the nuclear disarmament process, it only serves to perpetuate the existing discriminatory *status quo*. Consequently, the draft text cannot, contribute to the enhancement of international peace and security.

From India's point of view, the treaty also had an unacceptable provision in Article XIV dealing with Entry Into Force which seeks to impose obligations on India despite our clearly stated position that India would not subscribe to this text. Hon. Members are aware that we have made known our strong objections to this formulation, in bilateral discussions and in multilateral fora. As this provision was not modified, India was obliged to convey its opposition to the text, both in Geneva and in New York.

Through a procedural manoeuvre, the draft text was introduced in the resumed session of the 50th UN General Assembly in New York. We made it clear to the President of the UN General Assembly and all other delegations that such an approach did not obscure the fact that this text is a non-consensus text which does not fulfil the mandate given to the Conference on Disarmament. Subsequently, we have also informed the President of the UN General Assembly and all delegations about the amendments that would be required for the draft treaty to meet the mandate of the Conference on Disarmament. In doing so, we have placed our concerns, regarding the procedure and the shortcomings in the draft treaty text on record. Hon. Members are aware that our amendments called for a commitment to nuclear disarmament within a time bound framework and for a genuinely comprehensive treaty which commits all countries to refrain from any activity relating to the development, refinement and qualitative improvement of nuclear weapons. We also have, in this document, put forward our amendment relating to Article XIV regarding Entry Into Force.

The deliberations in the UN General Assembly session concluded last night with the adoption of a resolution, adopting the flawed text of the CTBT and calling for a signing conference to be convened at an early date. 158 countries voted in favour of the Australian