

**COMMITTEE ON PUBLIC
UNDERTAKINGS**

(1978-79)

(SIXTH LOK SABHA)

THIRTY-FIFTH REPORT

ON

**EXPORT OF LEATHER AND LEATHER
GOODS BY THE STATE TRADING
CORPORATION OF INDIA LIMITED**

**(Ministry of Commerce, Civil Supplies and
Cooperation—Department of Commerce)**



Presented in Lok Sabha on 20-4-1979

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1979/Chaitra, 1901 (Saka)

Price : Rs. 4.00

CORRIGENDA TO
THIRTY-FIFTH REPORT ON EXPORT OF LEATHER
AND LEATHER GOODS BY THE STATE TRADING
CORPORATION OF INDIA LIMITED.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
(iii)	-	16	Samantasinhera	Samantasinhar
(v)	3	7	*strangehold	stranglehold
3	1	8	leater	leather
9	under 1973-74	-	<u>insert</u> 'lakh'	<u>after</u> '13'
12	3.13	4	got	get
13	315	5	Jaivand	Jiwand
13	3.16	16	It is	If the
21	3.50	14	dt.	from
23	3.51	6	<u>delete</u> 'that'	
25	3.56	2	promoted	provided
28	3.57	7	percolated	percolated
28	3.57	13	State	stake
29	3.61	4	<u>insert</u> 'of' <u>after</u> 'total exports'	
32	4.2	4	ocnditions	c onditions
35	4.11	5	new	now
35	4.12	last but one	manufacturer	manufacture
37	4.17	-do-	Letherware	Leatherware
38	Sub- para 6	1	about	above
50	5.23	5	tenneries	tanneries
52	5.25	5	effect	effort
52	5.29	3	Minister	Ministry
54	5.32	4	Associated	Associates
54	5.34	1	Cancellation	Concentration
55	5.36	2	an	on
55	5.37	13	strong	strongly
61	6.12	1	<u>insert</u> 'on' <u>after</u> 'Task Force'	
67	7.7	1	<u>insert</u> 'is' <u>after</u> 'TAFCO'	
69	7.14	4-5	<u>delete</u> 'whether these--- the SAC and'	
69	7.15	6	whether	whatever
71	7.20	22	know-now	know-how

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
72	7.21	3	<u>insert</u> 'at' <u>after</u>	
				'Design Centre'
74	Col.2	3	2.15	2.16
75	Col.3	1	<u>delete</u> '2.16'	
	last para			
76	Col.3	5	<u>insert</u> 'of' <u>after</u>	
	2nd para			'total exports'
77	Col.3	4	Trader	Treads
	3.63			
77	-do-	15	fields	files
82	Col.3	2	an	on
	5.36			
86	Col.3	2	indutry	industry
	7.22			
86	Col.3	1	cuerlop	overlap
	7.23			
86	-do-	10	throughly	thoroughly

CONTENTS

	Page
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
I Introductory	1
II Exports by or through STC	3
III Leather Footwear	8
IV Semi Processed Hides and Skins	32
V Developmental Efforts of STC	43
VI Incentive/Subsidy for Export Promotion	57
VII Coordination among different Government Agencies	66

APPENDIX

Summary of conclusions/recommendations of the Committee on Public Undertakings contained in the Thirty Fifth Report	74
---	----

**COMMITTEE ON PUBLIC UNDERTAKINGS
(1978-79)**

CHAIRMAN

Shri Jyotirmoy Bosu

MEMBERS

2. Shri O. V. Alagesan
3. Shri Maganti Ankineedu
4. Shrimati Chandravati
5. Shri Tridib Chaudhuri
6. Shri Hitendra Desai
7. Shri Anant Ram Jaiswal
8. Shri L. L. Kapoor
9. Shri K. Lakkappa
10. Shri Dharamsinhbhai Patel
11. Shri Raghavji
12. Shri Padmacharan Samantasinhera
13. Shri Bhanu Kumar Shastri
14. Dr. Subramaniam Swamy
15. Shri Madhav Prasad Tripathi
16. Shri S. W. Dhabe
17. Shri K. N. Dhulap
18. Shri H. B. Mahida
19. Shri Murasoli Maran
20. Shri Era Sezhiyan
21. Shri Viren J. Shah
22. Shri Sultan Singh*

SECRETARIAT

1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri T. R. Krishnamachari—*Chief Financial Committee Officer.*
3. Shri T. N. Khanna—*Senior Financial Committee Officer.*

*Elected w.e.f. 26-12-78 since Shri Deorao Patil died.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report, on their behalf, present this Thirty-Fifth Report on Export of Leather and Leather Goods by the State Trading Corporation of India Ltd.

2. The leather and leather goods industry in the country offered immense scope for a rapid expansion of employment and substantial earnings of foreign exchange. Unfortunately the Comparative advantage that the country possessed has hardly been exploited. A belated but a perfunctory attempt was made since 1972. Government seems to have relied mainly on controls and subsidies to bring about the development of finished leather goods and their exports. Controls could work only if the enforcement machinery is well-equipped and effective which is not the case today. A system of export subsidies is justified only if the cost of production in the country is adverse against the ruling international price for the relevant product, which again is not the case for leather goods. The subsidies therefore went to benefit the rich middlemen in the country and the consumers abroad more and more. As against the projection of exports of the order of Rs. 600 crores by the terminal year of the Fifth Plan, the achievement is not even 50 per cent.

3. It is a pity that the country's share in the world footwear trade is hardly 1 per cent. The impact of STC's operation in this field since 1956 has been next to nothing both in terms of volume of exports and price obtained. The price in the importing countries is at least four times the price obtained by us. The exports largely bear the brand names of the foreign buyers. The days of colonialism look to be over superficially but the fact remains that the stranglehold of economic imperialism not only continues but it is worse than before.

4. There is neither a show room nor a sales depot of the STC in any country abroad and there has been virtually no effective sales promotion. The STC could not eliminate merchant exporters and its leather division is not free from corrupt practices of various kinds.

5. The quota system for discouraging the export of semifinished leather has not brought about the desired shift. There was undoubtedly large scale misdeclaration by exporters, in collusion at some level with the foreign buyers to pass out of the country semi-finished leather in the guise

(VI)

of finished leather. Under-invoicing also could not be checked effectively. There is no doubt that the canalisation has not been implemented well. A Development Fund created under this scheme has not been fully and properly utilized. No less a person than the Executive Director was alleged to have entered into a criminal conspiracy to derive pecuniary advantage to himself while importing machinery.

6. This Report brings out clearly the ineffective operation of the STC through which the exports of leather and leather goods were largely canalised, inadequate or distorted development efforts and the almost complete lack of coordination between different agencies connected with the industry. Government should therefore urgently consider setting up of a unified institutional arrangement in the form of a Leather Board on the lines of Commodity Boards like the Coffee Board to take care of regulatory, developmental and marketing aspects and this Board should be under the Ministry of Commerce in view of the immense export potential of the leather sector.

7. The Committee considered and adopted this Report at their sitting held on 19th April, 1979.

NEW DELHI;

April 19, 1979.

Chaitra 29, 1901 (S).

JYOTIRMOY BOSU,

Chairman,

Committee on Public Undertakings.

INTRODUCTORY

India has the largest heads of cattle in the world. The leather and leather goods industry in the country extends to all three sectors viz., organised, small scale and cottage. The industry covering as it does extensive economic activity has an immense employment potential. The workers constitute one of the most backward sections of the population in the country.

1.2. The domestic consumption of leather and leather goods is small with the result that these have substantial export market. The industry therefore constitutes an important source of country's foreign exchange earnings.

1.3. One of the characteristics of leather export is that the unit value rises with each process mainly on account of low cost of labour in the country. In order to maximise foreign exchange earnings and to expand employment opportunities within the country it was necessary to discourage export of raw or semifinished hides and skins and encourage export of finished leather and leather manufactures creating necessary infrastructure therefor.

1.4. The export of raw hides and skins was banned from January 1973 except for lamb fur skins. A quota system was brought about in 1973 for progressively reducing the export of semi-finished leather, which was canalised through the STC w.e.f. 14th December, 1972 to have a watch on the prices with a view to improving the earnings. The export of footwear to certain countries was partially canalised through the STC w.e.f. 15th August 1965 and later on it was extended to all type of footwear and to all destinations w.e.f. 14th November 1972. The STC was also responsible for export-oriented infrastructural facilities. Various extra export incentives were also given by Government in the form of cash compensatory support and air freight subsidy, besides concessional export financing by the STC.

1.5. All this did not bring about the result either in terms of increase of export earnings or of well-being of the small producers and artisans to the extent expected. In fact the value of exports by the end of the

Fifth Plan of leather and leather goods was expected to go upto Rs. 600 crores according to the Ministry of Industry. Unfortunately this expectation did not materialise even to the extent of 50 per cent.

1.6. As the STC was expected to play a major role in regulation and development of exports the Committee considered it necessary to examine their operations and the succeeding chapters set out their findings and conclusions.

II

EXPORTS BY OR THROUGH STC

The principal items of export in leather sector are :—

- (a) raw hides and skins (banned for export altogether from January 1973 except for lamb fur skins),
- (b) East India (E.I.) tanned hides and skins—Semi-processed leather obtained by processing the raw hides and skins by vegetable tanning,
- (c) Chrome tanned wet blue hides and skins—Semi-processed leather obtained by processing the raw hides and skins by tanning with chemicals,
- (d) finished leather,
- (e) leather goods and other leather manufactures, and
- (f) leather footwear.

2.2. So far as the State Trading Corporation is concerned, it entered the export trade in 1956 when Indian hand-made footweares were exported to U.S.S.R. This continued up to 1964. In 1965, U.S.S.R., however, began concluding direct contracts with the footwear manufactures which resulted in under-cutting of prices. Government, therefore, decided to canalise the export of footwear uppers of which were made wholly or partly of leather to 11 countries viz. U.S.S.R., Czechoslovakia, Poland, Hungary, Yugoslavia, Rumania, Bulgaria, German Democratic Republic, United Arab Republic, Burma and Afghanistan, with effect from 15th August, 1965.

2.3. However, Government's policy of promoting the exports of leather in more finished form came in actual operation during 1973-74. Hitherto export of leather in semi-finished form was unrestricted. As a result of shortages of raw material for the production of finished leather, leather manufactures including leather footwear led to various representations from the manufacturers of these commodities. In July 1972, Government appointed a Committee headed by Dr. A. Seetharamaiah, then Director General Technical Development to examine the whole question of leather exports. In the meanwhile Government also decided to introduce certain structural diversification in the existing pattern of leather export trade for

added export earnings. To this end some shifts were necessary to be made taking into consideration the short-term and medium term factors responsive to production and external market conditions.

2.4. With the above objective, and to set pace for the directional change in December, 1972 Government brought all categories of semi-tanned hides and skins under the Export Control Order. Export of semi-processed hides and skins including E.I. tanned and chrome tanned blue hides and skins and crust leather was also canalised through the Corporation with effect from 14th December, 1972.

2.5. The canalisation of leather footwear was further extended to all types of footwear and to all the destinations with effect from 14th November, 1972, partially decanalised w.e.f. 1.4.1978.

2.6. With effect from 1st April, 1978 footwear has been decanalised subject to minimum floor prices for chappals and sandals with the exception of closed leather shoes upto specific upper value limits which still continue to be canalised through the State Trading Corporation of India Ltd.

2.7. So far as canalisation of semi-processed leather was concerned, the intention of the Government was not to involve STC directly in the export of semi-processed leather as the export of semi-processed leather was to be gradually reduced. The main purpose was to monitor the exports of semi-processed leather and keep a watch on their prices and collect continuously export data for facilitating Government review. Regarding footwear exports, similar purpose was kept in view with added emphasis that STC should prevent *inter-se* competition between exporters, many of whom were in the small scale sector and to get better prices.

India's leather exports until 1972-73 had consisted mainly of East India Semi-tanned hides and skins and chrome tanned (Wet Blue). The following table shows the manner in which exports of various categories of semi-tanned leather and finished leathers fared during early seventies.

Value in Rs. crores ¶

	E I tanned hides and skins	Chrome tanned	Finished leather	Leather Footwear	Leather Goods
1970-71 . .	45.16	24.49	1.49	9.24	1.96
1971-72 . .	64.77	20.99	4.13	8.64	1.98
1972-73 . .	100.44	52.09	16.69	10.26	3.60

2.9. The exports of finished leather, leather goods including footwear amounted only to about 13 to 20 per cent of the total leather exports.

2.10. To an enquiry of the Committee as to what precisely were the plans formulated around 1972-73 for to development of export oriented infrastructure the Ministry of Commerce informed the Committee in a note that following steps have been taken :

1. S.T.C. was instructed to constitute a fund by appropriating 0.75 per cent of service charge accruing on canalised exports of semi-processed leather.
2. Import of leather finishing, footwear and other leather goods machines had been brought under OGL.
3. Cash compensatory support on export of finished leather and leather goods was introduced w.e.f. 1.10.-1975.
4. Airfreight subsidy has been allowed to make leather goods competitive in leather markets.
5. The tanneries have been allowed to automatically convert capacities, for semi-finished leather into finished leather without applying for any licence for the purpose.
6. In 1978 for encouraging the technological upgradation of the leather industry for export purposes, import duty on a large number of tanning machines has been reduced from 40 per cent to 25 per cent. In November, 1973 40 additional footwear making machines have been placed under OGL.

2.11. A statement showing the export of semi-finished leather and export of finished leather and leather goods over the 1973-74 to 1976-77 years both in terms of value and quantity is given below :—

(Value in 1:11 P:)

Item	Unit	Qty.	1973-74 Value	% of total value	Qty.	1974-75 Value	% of total value
1	2	3	4	5	6	7	8
Semi-finished Leather.	Lakh Kg.	370.93	14741.61	81	252.74	10121.53	64
Finished Leather.	Do.	45.17	1678.85	9	53.61	3055.52	20
Leather Foot- wear.	Lakh Pairs	79.53	1041.85	6	104.48	1602.97	10

1	2	3	4	5	6	7	8
Components .	Assorted	..	83.00	..	..	143.14	1
Leather goods and manufacturers.	Do.	..	617.36	4		801.00	5
			1975-76		1976-77		
Semi finished leathers.	Lakh kg.	315.93	13125.18	61	215.62	13735.63	48
Finished leather.	Do.	71.41	5483.04	25	127.91	10522.45	36
Leather Footwear.	Lakh Pairs	101.53	1918.13	9	130.41	2575.02	
Components .	Assorted		98.47		..	610.29	
Leather Goods and Manufacturers	..	..	1036.25	5	..	1527.78	..

2.12. The following is an extract from the Annual Report for the year 1976-77 of the Ministry of Industry :—

“Till recently production in the leather industry was mainly in semi-finished form. It is Government’s policy to change the pattern of export from semi-processed hides and skins to finished leather and leather manufactures. The value of exports by the end of the Fifth Plan of leather and leather goods is expected to go upto Rs. 600 crores. A number of steps have been taken for achievement of this objective such as bringing export of semi-finished leather under quota system, imposition of export duty on the export of finished leather, leather footwear, leather goods etc. Steps have also been taken to encourage the setting up of capacities for manufacture of finished leather. During the year 1976, import of machinery required for finishing of leather was put under Open General Licence to actual users. Liberal import of chemicals and auxiliaries is allowed under registered exporters policy.”

2.13. There is no mention of the export target in the Annual Report of the Ministry of Industry for the year 1977-78 and 1978-79. According to the Annual Report of the Ministry of Commerce for the year 1978-79 the export of leather and leather manufactures were of the order of Rs. 268 crores during 1977-78 and Rs. 143 crores during April to September 1978.

2.14. Traditionally the leather sector offered immense scope for a rapid expansion of employment and substantial earnings of foreign exchange with comparatively lesser capital input. Unfortunately, the comparative advantage that the country possessed, was hardly exploited; instead highly capital intensive industrialisation was embarked upon, justified partly if not wholly, by export possibilities. Although STC was in the field of export of leather and leather footwear for a long time, it made virtually no impact. A belated attempt was made in 1972 in constituting a committee to go into leather exports. Since then, a few more committees and task forces have gone into one aspect or the other of the industry. A system of export controls and subsidies was evolved as if it was the panacea for all ills that afflicted the industry. The Committee are positive that the control was not effectively enforced and that the subsidies went to benefit the rich middleman in the country and the affluent consumers abroad more and more. The real problem lies in the country's incapacity to obtain proper price for our products in the international markets owing to malpractices by the trade as well as lack of proper institutional framework to check these malpractices and an imaginative sales promotion abroad not to mention development of skills or infra-structural facilities in the country for value added finished leather goods exports.

2.15 The Annual Report of the Ministry of Industry for the year 1976-77 claimed that the export of leather and leather goods would be of the order of Rs. 600 crores by the terminal year of the Fifth Plan which in the opinion of the Committee was easily achievable. However this has not been realised even to the extent of 50 per cent. The Annual Reports for the subsequent years, are silent about the target although the nation has a right to know what was responsible for the failure. One would have expected that the Ministry would bring out the performance against the target and explain the short-fall. A deliberate attempt to avoid exposure of the costly failure is abundantly clear. The Annual Reports hiding vital information placed before Parliament as a ritual year after year amounts to evasion of responsibility. In such a situation accountability of the executive to Parliament can hardly be ensured. Government should, therefore, take a serious note of this and see that the Annual Reports bring out all relevant facts to have a proper assessment of performance.

2.16. A package of measures, regulatory and developmental and an effective marketing strategy with a proper unified or well coordinated institutional arrangement were needed to achieve the desired objective. The Government was, however, dragging their feet all along. The failure to achieve the target has to be viewed against this background. The Committee have dealt with rather elaborately the ineffective operation of the STC, inadequate or distorted developmental efforts and the almost complete lack of coordination between different agencies connected with the leather and leather goods industry in the succeeding sections of this Report.

LEATHER FOOTWEAR

According to Audit a country-wise analysis of the Corporation's exports upto 1972-73 indicated that these were mainly accounted for by U.S.S.R. and East European countries, to which scheme of canalisation had been extended to with effect from August, 1965. It is thus obvious that the Corporation was not able to develop export of leather footwear to countries other than U.S.S.R. and East Europe. The exports to other countries, therefore, remained in the hands of private sector till 14th November, 1972 when export of all types of footwear was completely canalised through the Corporation.

In this connection, the Management informed Audit (September, 1973) as follows :—

“In non-Trade Plan countries distribution system has numerous buyers even in same cities or their individual localities who required personalised and continuous attention to feed them with new styles and designs in every season and at competitive prices in the face of subsidised exports from East European countries, Spain, Italy, China, Brazil, Pakistan, etc.

Arrangements, therefore, could not be completed for effectively taking over these areas earlier than November, 1972”.

3.3. A comparative study of the performance indicated that the Corporation could not achieve their own projections of turnover during 1969-70 to 1976-77 (excluding the exports made by the exporters on State Trading Corporation's account in 1976-77) mainly in respect of footwear (including components) as per details given below. No targets of exports were laid down in 1968-69.

(Rupees in Lakhs)

Year	Footwear including components		
	Original estimates	Revised estimates	Actuals
1969-70	430.00		393.27
1970-71	565.00	532.32	520.66

1	2	3	4
1971-72	728.50	640.00	380.62
1972-73	785.00	674.00	597.6
1973-74	1718	1573	1352
1974-75	2210	2110	2196
1975-76	2900	2510	1943
1976-77	4000	3800	3420

(Value in lakhs
Rs.—Invoice)

The major reasons for variation in the budget and actual performance for the years from 1973-74 are given below :—

1973-74

- (i) Against trade plan provision for 13 pairs of shoes, USSR placed orders for 11 lakh pairs only.
- (ii) Export by private parties also did not come upto expectations.

1974-75

- (i) Actual exports of footwear and components were only marginally lower than the budget.

1975-76

- (i) 1974 order for shoes from USSR was only for 6.25 lakh pairs. First part of 1976 order was also not placed sufficiently in advance to effect deliveries during 1975-76.
- (ii) Exports by private parties were also not upto expectations.
- (iii) Exports of components (uppers) to buyers located in France could not developed as per expectations.

1976-77

- (i) Against trade plan provision of 15 lakh pairs, USSR buyers placed orders for 9.5 lakh pairs only. Further the advance order placed against 1977 trade plan was only for 4.95 lakh pairs in September 1976.
- (ii) Negotiations with a USA buyer for sale of uppers did not succeed. Orders expected from Hungary and Bulgaria did not materialise.

3.5 The STC negotiates and finalises the contracts with the foreign buyers directly but assigns these contracts to (a) small scale producers designated as 'fabricators' and (b) 'associates' for execution. While the

'fabricators' manufacture the footwear under the brand name 'Jansewak' on the basis of the designs developed by the Corporation, the 'associates' manufacture footwear on the basis of their own designs.

3.6. It has been stated by the S.T.C., that the term 'associates' and 'fabricators' is used only with reference to USSR orders. In all other categories, the term 'associate' is only used.

3.7. Historically, the associates were introduced by USSR buyers when the order was concluded for the first time in 1956 and 'fabricators' were those units from whom National Small Scale Industries Corporation was procuring export supplies. Later in 1969 the willing groups of fabricators were allowed to form themselves into private limited companies in order to pool their resources. Hence in the existing context of this order, these categories of suppliers are termed as associates and group of manufacturers.

3.8. Yearwise position in respect of groups and associates in relation to exports of shoes to USSR is tabulated below :—

Groups

Year	No. of Groups	No. of Associates
1974 .	20	9
1975 .	19	99
1976 .	22	10
1977 .	24	11

3.9. The number of leather footwear exporters (excluding the number of groups and number of associates given in para 3.8), who have been in operation during the last three years has been as follows :—

1. Manufacturer—exporters	91
2. Merchant—exporters	217
3. Merchant-cum-Manufacturer exporters	8

Out of them, there are 57 parties, falling in group 2 and 3, whose individual export turn over in 1976-77 was over Rs. 1 lakh and there were two manufacturer-cum-merchant exporters and one merchant exporter who were in the highest slab of Rs. 100 to Rs. 200 lakhs.

3.10. The share of fabricators and of Associates is indicated below:—

Year	Total order	Exports through	
		Fabricators (In thousands pairs)	Associates
1969	886·10	478·50	407·60
1970	1202·00	612·00	590·00
1971	1314·00	525·00	789·00
1972	1300·00	640·00	660·00
1973	1100·00	485·00	615·00
1974	625·00	239·00	386·00
1975	1300·00	520·00	780·00
1976	950·00	400·00	550·00
1977 (Oct.)	1090·00	370·00	720·00

(In 1977 USSR buyers introduced two more associates)

3.11. On an enquiry of the Committee how the associates were selected, a representative of S.T.C. informed the Committee during evidence as follows :—

“In 1965, 66 and 67, we were making experiments. more or less, in this direction. Today, we have stabilised and the present method of selecting the associates and the suppliers is like this. We receive applications from different parties in the country. All these applications are scrutinised by us and a technical officer visits the various units and collects all the information in a proforma. These proformas are passed on to a committee consisting of four members, one from DGTD, one from the Ministry of Commerce, one from the Development Commissioner's office and one from STC. This Committee goes through the applications and makes their recommendations on the basis of the machinery available, last performance, etc. The last committee scrutinised 69 applications and they have recommended 39 units which could be considered for enrolment as suppliers. We have decided that as and when we take up any new manufacturer or associate or supplier, we will take from that list according to the rating indicated”.

3.12. On an enquiry of the Committee during evidence of the representatives of the S.T.C. regarding the quantum of export done by S.T.C. on its own and that by its associates, the representative of the S.T.C. stated as follows :—

In the case of our direct turn over for footwear 40 per cent I would say we are directly procuring from the manufacturers and 60 per cent through our so-called traditional associates (among them) . . . two are only merchant exporters, 9 are manufacturing exporters.

For the over-all export of India for footwear, out of 25 crores in 1976-77, merchant exporters account for 5.75 crores—merchant exporters and organised sector together it is nine crores and 16 crores is coming from manufacturing units in the small scale sector.

3.13. In regard to merchant exporters, it was stated by the representative of S.T.C. during evidence as follows :—

“We have only two merchant exporters and these merchant exporters are a legacy that we have accepted. We cannot get rid of them, because the buyers want their goods. We have tried with the Russians, we have tried with other authorities but we have failed. So we have accepted that situation. Our strategy today is to improve direct procurement so that, through better services, we have a bigger share for the manufacturers who are working with us directly.

Manufacturing exporters have also the right to quote, negotiate business, produce and supply. We cannot displace or replace them. That was one of the objects of canalisation.”

3.14. On an enquiry of the Committee during evidence whether it was true that a contract for 1978 was received by the STC from USSR in December 1977 and its distribution was pending till the end of March, 1978. The representative of S.T.C. stated as follows :—

“The entire order that we had negotiated on account of 1978 trade plan has been distributed and the order is under execution.

The portion concerning the Jansewak part was to be executed by NSIC, but the NSIC could not take this job. We, therefore, suggested that the Village & Khadi Commission should take up this job. The trade did not like it. They insisted that we should procure directly from the small scale manufacturers.

Therefore, in May only we could take a decision that we should go for direct procurement from the manufacturers and accordingly we distributed the order. The order is now under execution and 15,000 pairs have been produced.

3.15. A foot wear unit which was an 'Associate' of the STC brought to the notice of the Committee in a Memorandum that one party had received orders in more than one name. A representation of this Unit in his evidence further told the Committee that the party was a firm controlled by one Sardar Jaivand Singh and that he obtained orders in four names.

3.16. During evidence of the representative of the S.T.C., the Committee desired to know the factual position in regard to the above allegation. The representative of the S.T.C. stated as follows :

"I think it is in respect of GDR shoe upper order. Aero Traders is a registered unit with STC from 1964. They have supplied shoes to the Soviet Union and, later on, they started supplying shoe uppers to GDR. Their quality is satisfactory as also delivery. Foreign buyers and experts and the local trade people have visited their units and they have found that this unit is capable of producing export worthy goods. Therefore, an order was placed with this firm.

Regarding Aero Shoes, on the basis of the scheme envisaged in 1967 by the STC and the DGTD, this is one of the two units which imported machines. They have a mechanised factory in Okhla and this is among the best in the small-scale sector. Their representation was on the following lines. It is S.T.C, NSCI and the DGTD have evolved a scheme for mechanisation and you have given us machines on hire purchase system, and we have built this factory, how can it be that you will not utilize our capacity? They made a representation to the STC and to the foreign buyers. They are free to write to anybody. It was felt that this unit is capable of good quality shoes and shoe uppers. The foreign buyers and their experts visited this factory. Later our experts also assessed their capabilities.

As far as Aero Shine is concerned. I have no clear information about it. I also "heard that GDR has placed an order with Aero Shine."

3.17. The representative also stated that the two firms were registered separately with the Director of Industry.

3.18. The value of orders placed with Aero Traders in the last three years was as follows :—

1974	1.10 lakh pairs worth Rs. 42.29 lakhs.
1975	2.33 lakh pairs worth Rs. 103.94 lakhs.
1976	1.70 lakh pairs worth Rs. 81.66 lakhs.
1977	.. .. . Ra. 123.05 lakhs

3.19. The value of orders placed on M/s. Aero Shoes by the STC is as follows:

Value in lakhs of Rs.

Year	Shoe Uppers	Leather shoes	Total
1975-76	10.04	—	10.04
1976-77	29.55	10.48	40.03
1977-78	26.38	23.15	49.53

3.20. According to the information furnished by the STC the following are the Directors/Partners of Aero Traders Pvt. Ltd. and Aero Shoes.

I. Aero Traders Pvt. Ltd.

Directors :—

1. Mr. Jiwand Singh.
2. Mr. Avtar Singh.
3. Smt. Tasbir Kaur.

II. Aero Shoes

Partners :—

1. Mr. Jiwand Singh.
2. Mr. Jamiat Singh.
3. Mr. Avtar Singh.
4. Mr. Man Mohan Singh.
5. Flt. Lt. Gurucharan Singh Sohal.

3.21. A scrutiny of certain files made available to the Committee by the STC, revealed that 'Aero shoes' described themselves as 'Professionals, Manufacturers and Exporters' and 'Aero Traders' as 'Export House'. Both these concerns have given the same Telegraphic and Telex Code viz. 'Aero Shoes' and 3641 Aerond respectively. One Shri Subhas Sinha had signed certain communication on their behalf as Technical and Development Director.

3.22. On an enquiry whether Aero Traders came within the purview of the term 'small scale sector' the representative of STC stated during evidence that :—

"It is in the small scale sector. We have to go by the certificate issued by the Director of Industries."

3.23. On being asked whether in order to secure orders of the S.T.C. these three units, being part and parcel of the same management, have divided themselves and whether this fact had been checked by the STC subsequently from the Director of Industry, the representative of the STC stated :—

"We have not done it we shall take it up with them. and find out how they have registered them as a small scale sector."

3.24. In a note submitted to the Committee after the evidence, it transpired that Aero Traders Pvt. Ltd. though incorporated in 1969, were registered as a small scale industrial unit by the Directorate of Industries Delhi under provisional registration No. RP/SS/110/South Delhi dated 28-1-1973 and that STC had not asked the party for the renewal of this Certificate. The certificate states that "this Registration is valid upto 18-7-1973 and for the following purpose—to avail the facilities of import of machinery through S.T.C."

3.25. Aero Shoes was sponsored by the Director of Industries vide their letter No. Exp-1(49)-76/DI/232/R dated 16-6-1976 as a manufacturing unit of Shoe Uppers and registered by Export Promotion Council for Finish Leather and Leather Manufactures, Kanpur as a manufacturer-exporter.

3.26. The Ministry of Commerce in a note stated the following regarding M/s. Aero Traders Pvt. Ltd :—

"According to information available with STC, they (M/s. Aero Traders Pvt. Ltd.) have also following two sister-concerns as manufacturing units :—

- (i) M/s. Aero Trades,
Gali No. 6 Baldev Bhavan,
Sarai Rohilla, New Delhi-5.
- (ii) M/s. Aero Exports,
Near Sarai Rohilla Station,
New Rohtak Road, New Delhi.

With regard to USSR orders for shoes placed with them they obtain supplies from their own manufacturing sister concerns as well as from other units. STC, however, does not have

details about the share of orders manufactured in their own sister concerns and procurement made from outside.”

3.27. A representative of the STC informed the Committee during evidence that there were 52 cooperative societies functioning under the National Federation of Industrial Cooperative Societies—21 in Delhi and 31 at Agra. He further informed the Committee that virtually no order was placed by the STC with these cooperative societies.

3.28. The STC informed the Committee in March 1978 in a note regarding diversification of export of footwear as follows :—

“For Indian footwear, we have identified Canada as a test market, where we have been doing product development work for the last one year and have recently concluded initial contract for sale of shoes worth Rs. 62 lakhs on an average price of Rs. 100 per pair to establish our product in this market. Based on our success in this market, we shall decide diversification into other market.”

3.29. Stressing the need to diversify exports of shoes the Committee desired to know the steps taken in that direction. The Commerce Secretary deposed :—

“So far as East European markets are concerned, USSR has been buying close shoes. Recently they have tried to see whether they can reduce this and take more uppers. One of the points they raised is that for winter conditions in the USSR our sole leather is not sufficiently good. But the STC’s attempt in recent months has been not to concentrate only on group of markets but to diversify and they have succeeded. They have been able to secure interest in Canada for some high value shoes. They are now exploring other markets like EEC. In addition they will continue to export uppers because it is necessary. So, there is a definite move to diversify their interests. In fact, they are not really concentrating on the so-called canalisation part of it. They are setting up a factory for the manufacture of garments.”

3.30. A representative of the STC informed the Committee that the Private Exporters were exporting footwear to as many as 26 countries.

3.31. The Committee were informed during evidence of the representatives of the STC that in the field of footwear, STC was developing a collection range with their own brand names—‘Ashoka’ and another ‘Janasewak’. STC was also preparing a third collection range where it will not use its name. It would use

the brand name of the importers. The expectation was that by 1979-80, 50 per cent of STC's exports to market other than USSR will be in STC's own brand name. If the initial exercise becomes successful, STC would be able to convert—80 to 85 per cent of exports within the next three years in STC's brand name and 15 per cent in the brand name of importers. STC was in the process of building a 'brand image'.

3.32. According to Audit average realisation per pair of shoes exported to Russia was more or less static during 1970-71 to 1972-73, but thereafter it started rising.

3.33. In the absence of composition of the leather footwear exported by the private exporters and the realisation obtained by them a comparative study thereof with the unit value obtained by the Corporation was not possible.

3.34. The Ministry informed Audit (February, 1975) that the method of calculation of footwear prices for negotiations with USSR has been on the basis of cost plus. As the prices of finished leather, which account for about 80 per cent of the total cost of shoes, were more or less, static during 1969—72, price increases were negotiated from 1973 onwards.

3.35. According to Audit in the matter of exports to the countries other than the USSR there was no direct involvement of the Corporation. Export contracts to these countries are mainly being finalised and executed by the exporters in the private sector as usual with the only difference that these are made on State Trading Corporation's account. The Corporation has not devised any mechanism for ascertaining the competitiveness of the price secured by these exporters, with reference to the price ruling in the importing country. The Ministry intimated Audit (February, 1975) that the visit to export markets and fairs give a reasonable indication as to the prevailing trend.

3.36. It has been stated by the STC that since complete canalisation of footwear for export in November, 1972, the increase in unit realisation from 1972-73 to 1976-77 accounts for 51 per cent. According to World Bank Report No. 814/77 (June 1977) on "Price Prospects for Major Primary Commodities" index of international inflation indicates increase of about 38 per cent in the price level of exports made by developed countries from 1973—76. There is thus a gap of about 13 per cent reflecting real increase in Unit realisation on exports of leather footwear.

3.37. The profit or loss on the execution of the contracts is to the account of 'fabricators' or 'associates.' The Corporation only recovers service charges at the prescribed rates for the services rendered by it.

3.38. Regarding exports against direct contracts secured by the Corporation all normal commercial functions are undertaken by STC. The foreign buyers are located, manufacturing units are helped in preparing samples for submission to the buyers, negotiation are conducted and final contracts are entered into with the foreign buyers by STC on principal to principal basis. There is regular in-process inspection by the technical staff of the Corporation as well as final inspection before despatch of the goods for shipment.

3.39. To an enquiry of the Committee about the volume and value of exports in private sector on STC's account during the years 1972-73 to 1976-77, average realisation per pair and reasonableness of the price secured, the STC submitted the following note :—

“Exports of leather footwear by private sector on STC's account :—

Year	Quantity (Lakh Pairs)	Sale Value (Lakh Rs.)	Average price per pair
1973-74 .	43.91	515.60	11.74
1974-75 .	88.06	1032.70	11.73
1975-76 .	78.89	1149.00	14.56
1976-77	112.02	2002.00	17.33

When private sector exporters bring the export contract for registration they are also normally required to submit ref. samples. Cost assessment is made of the reference samples. The price obtained by the exporter is compared both with the prevailing market price and cost of the sample.

Whenever any officer of the Division visits overseas countries, he ascertains the international trends including prevailing prices of different products. Paris Leather Fair is regularly attended by some technical officer of the Division. We also actively participate in this fair displaying our various products to ascertain the reactions of the buyers with regard to prices quality and design. Further there is *ad hoc* participation in other Fairs like Leipzig (GDR), Plovdiv (Bulgaria), etc.

The prices obtained by private exporters for export of footwear have been found comparable to the prices of similar products in the international markets.”

Deal with M/s. Acme Boot Company of U.S.A.

3.40. According to Audit, the STC entered into contracts from time to time between 1966 and 1970 with M/s. Acme Boot Company, USA for the supply of cow-boy uppers, cut soles, heels, etc. for gaining a foothold in the market of the United States of America. Subsequent to the execution of contracts, prices settled initially were revised from time to time depending upon the market conditions and also on account of change in specifications and decorative linings. Delivery period was also extended from time to time last extension being up to 31st December, 1974.

3.41. In order to execute the contracts, the Corporation had made arrangements with eight private parties for the supply of components at fixed rates. As the cost of the manufacturers was more than the sale price thus fixed, the Board approved in March, 1967 subsidy amounting to Rs. 31.69 lakhs payable to the eight parties. The subsidy worked out to 8.73 per cent of the c.i.f. value.

3.42. A small quantity of cow-boy uppers was also manufactured by the Corporation in its own factory at Madras.

3.43. In connection with the execution of the above contracts, the following observations were made by Audit :—

- (i) As the period of execution was prolonged, the increase in price demanded by the private parties on account of the rise in the cost of raw material was more than the price rise agreed to by the foreign buyers. As a result subsidy borne by the Corporation worked out to 10 to 15 per cent of the c.i.f. value as against 8.73 per cent approved by the Board.

3.44. The Management informed Audit (September, 1973) as follows :—

“By the export of cow-boy uppers, S.T.C. has earned a good name by not only introducing a new item from India but also playing a leading role in export of components from India. The subsidy has been now brought down on this old contract for the balance of the quantity to about 2 per cent. For fresh contracts, no subsidy has been allowed or contemplated.”

3.45. Export of leather components qualified for following assistance as sanctioned by Government from time to time :—

- (a) Import replenishment licences for 15 per cent of the f.o.b. realisations for the import of raw materials, chemicals, etc.

- (b) Subsidy at the rate of 50 per cent of air-freight paid (subject to the limit of 10 per cent of f.o.b. realisation) from 1st February, 1971.

It is not clear whether above concessions were taken into account by the Corporation while finalising the prices with the private parties initially and also agreeing to subsequent increases therein.

- (ii) The foreign buyers have since cancelled the quantities on order under the following contracts :—
- (a) Contract dated 1st February, 1968 in respect of outstanding quantity. (1.36 lakh pairs valued at Rs. 11 lakhs c.i.f.).
 - (b) Contract dated 30th April, 1979 for 4.50 lakh pairs in respect of entire quantity (valued at Rs. 34 lakhs c.i.f.).
 - (c) Contract dated 19th March, 1970 (Rs. 23 lakhs c.i.f.) was limited to a quantity of 1 lakh pairs on 21st February, 1974 which was also cancelled on 29th May, 1974.

The quantity under contract dated 30th April, 1969 for the supply of 9.50 lakh pairs (Rs. 167.30 lakhs).

3.46. It has also been stated by the STC that there was no loss on account of cancellation of the pending quantities on orders by the foreign buyers.

3.47. The Committee enquired the reasons for delay in delivery and prolonging the execution orders. The STC informed the Committee in a note as follows :—

“Cow-boy boot uppers was a completely new item developed for export to USA by Indian leather industry. Creation of capacities took time. Further orders were periodically changing designs, patterns, specifications and materials. The manufacturing units had to carry out necessary alterations in their production processes.”

3.48. To another enquiry why the price rise demanded by the private parties and agreed to by the Corporation was more than the price rise agreed by the foreign buyers, the STC stated as follows :—

“Price rise demanded by the private parties (Indian Small Scale manufacturing units) and agreed to by the Corporation was based on the cost of materials, production costs etc. in India. The foreign buyers could agree to that much increase only as was warranted and could be borne by them in the context

of international competition. Corporation agreed to pay high prices to the local suppliers as an export promotion measure. Indigenous cost of production was higher than what foreign markets could fetch but after subsidising in the initial stages we could break even and thus develop a new line of export."

3.49. In regard to utilisation of airfreight subsidy in this case, it has been stated that :—

"The contract originally entered into did not stipulate shipments by air but by sea. However, by experience, it was found that components if shipped by sea would be disadvantageous both to the buyer as well as to the supplier. The buyer would not get the goods with fresh look whereas the long passage by sea would affect the quality of the goods and suppliers may have to face claims. In view of this situation both suppliers and buyers agreed to share the expenses involved. Under the circumstances granting of airfreight subsidy by Government came in as a big relief and did not confer any monetary advantage to the suppliers to warrant reduction in procurement prices."

3.50. In June 1978, the S.T.C. furnished the following detailed note to the Committee concerning this deal *inter alia* stating the reasons for not fully implementing the contract, its financial implications and burden of airfreight subsidy:—

"The Board of Directors in their meeting held on 20-7-77 had accorded approval to the supply of cow-boy boots and cut components to M/s. Acme and navy shoes to M/s. Oval Industries of the total export value of Rs. 303.60 lakhs with a price differential of Rs. 17.44 lakhs.

Although the contract was finalised in July, 1966 production samples and technical details could be finalised by October, 1966. In the meantime price of leather continued increasing. In the beginning it was anticipated that the upward trend in prices set in after devaluation of Indian Rupee dt. 6-6-1966 would be arrested and the manufactures would be in a position to execute the contract at the agreed prices. Rise in the prices of leather, however, continued and manufacturers found it impossible to undertake deliveries at the prices contracted in July, 1966 which in the context of rising cost of production would have meant considerable loss to them.

The matter was again referred to the Board of Directors who in their meeting held on 23-3-67 accorded their approval to up-

ward revision of purchase price with the manufacturers limiting the total price differential to Rs. 31.69 lakhs.

No price increase was proposed to be given on quantities which were scheduled to be effected by December, 1966. Purchase prices also included $1\frac{1}{2}$ per cent service charges for STC. After making these adjustments, net price differential worked out to Rs. 31.69.

Financial Implications

Finally two contracts for cowboy boot uppers only were implemented. The contracts for 300A type cow boy uppers for infants and children, ranch/willington boots, cut components and for navy shoes had to be cancelled or substituted with additional quantities of cow boy uppers.

The position regarding financial implications was originally estimated as below :—

<i>Contract</i>	<i>Price differential</i>
(i) For 10.68 lakh pairs of cow boy uppers	Rs. 31.26 lakhs.
(ii) For 10.50 lakh pairs of cow boy uppers	Rs. 17.94 lakhs.

As the above contracts were on term with deliveries running upto the end of 1974, prices with M/s. Acme were renewed periodically. Every time some increase in prices was obtained, a part of it was retained by STC and only the balance was passed on to the supplying manufacturers. Further, the benefit of higher realisation due to exchange rates was also retained by STC. As a result of above factors, STC started breaking even in its exports of cow boy uppers to Acme from 1973-74. The amount of price differential borne by STC right from 1967-68 is tabulated below :—

	Rs.
1967-68	2,56,083
1968-69	7,25,561
1969-70	8,53,176
1970-71	4,13,597
1971-72	3,83,918
1972-73	1,24,470
TOTAL	27,56,805

Export of uppers to M/s. Acme during 1973-74 were of the value of around Rs. 1 crore and in 1974-75 of the value of around Rs. 1.12 crores on both of which there was no price differential borne by STC.

Burden of Airfreight Subsidy

It may be stated that when the contracts were concluded in 1966, the delivery terms were CIF by sea. Contracts concluded subsequently also did not formally stipulate shipments by Air. However, as a result of experience gained by initial shipments effected by sea, it was realised both by the buyers (M/s. Acme) as well as Indian manufacturers that it would be in the interest of both the parties if deliveries effected by Air. This would avoid deterioration of the product due to long wet sea voyage and also ensure timely and speedy deliveries. M/s. Acme and Indian manufacturers decided to share the extra cost involved in airfreighting among themselves.

It was only in February 1971 that on representation from Trade and Industry that Government of India agreed to grant airfreight subsidy on all exports of finished leather, leather footwear, components, etc., if deliveries were effected by air on C&F basis.

This grant of airfreight subsidy by Government of India did not confer any positive material benefit on the Indian manufacturers or to M/s. Acme Boot Co. This, however, certainly lessened the burden that was so far being borne by both the parties in the form of higher incidence of airfreight when no such subsidy was available. As already stated in the foregoing paragraphs, the prices of different varieties of cow boy uppers were periodically reviewed with M/s. Acme Boot Co. and refixed after taking into various factors including airfreight incidence."

3.51. During evidence of the representatives of the S.T.C., the Committee were informed in this regard as follows:—

"Acme business was an experiment for us. Prior to that we never knew the shoe-upper business. We had our experience in that and we have not given airfreight, subsidy, but a total subsidy of Rs. 27 lakhs. Before that we had no technology that no idea as to how to produce this type of shoe uppers and components. While implementing a portion of the Acme Contract, we have gained experience and today, because of that, our component export has gone up to Rs. 12 crores from a few lakhs of rupees during the first

year of the Acme contract. If we look it in this way we will find that the experience gained is commensurate with the loss that we have been incurring. The loss is only Rs. 27 lakhs.

It was further stated that—

“When this contract was signed we knew that the prices were not economical. A decision was taken to subsidise the contract which actually amounted to about Rs. 27 lakhs. Even after that, the manufacturers found it difficult to produce the shoes and the buyers desired that the goods should be sent to them by air because the delivery had been delayed. It was then agreed that the airfreight will be shared between the buyer and the manufactures.

We had only one major contract with Acme. That contract we could not fully implement, it has cost us Rs. 27 lakhs in the form of subsidy Subsidy which STC paid was because the cost of uppers and the other components was not economically viable.”

3.52. A representative of a footwear unit who appear before the Committee informed them of what he knew of the officials of the STC who resigned and took up position in private leather sector as follows:—

“I know some people who were working in STC and now they have resigned and are doing something independently. They are Shri Keswani, Shri Duggal and Shri Subhas. Shri Subhas was the Deputy Marketing Manager and he joined Aero Traders, the same firm with four different names. Mr. Duggal, who was the Marketing Manager of STC is now working for messrs. Tochum. There was one Shri Barua, who has resigned recently and joined some leather firm.”

3.53. A non-official witness informed the Committee in his evidence that his personal knowledge corruption was there in the leather section of the STC and that there was no doubt about that. He further stated that one Mr. Gosh resigned from the leather Division and elaborated:—

“I think his designation was marketing Manager or the Chief Marketing Manager or the Commodity Officer or he was holding some top position. He resigned from there after many years of service and started private practice in the same line. They come to know about the very important persons who are connected with the leather industry. Then they resign from the office and start their own agency or dealership. This Gentleman has started consultancy service; and if I am right, if my

information is correct, he is an adviser to a private institution in Andhra Pradesh which is coming up in a big way."

3.54. He continued:—

"I do not know how far the Government rules are there to take action against a particular individual. There was another example in Madras. He resigned his post. He started as an agent of a foreign buyer. So, this is the second instance. To my personal knowledge, if nothing is done to prevent such kind of defection from the Government, it will encourage other persons in the STC, and they will do something to the detriment of the nation and to the detriment of the leather industry. Something should be done in this respect.

3.55. A representative of the STC informed the Committee,—“There is one Mr. Duggal, who was working in STC, he resigned in 1976 and joined Uniroyal Company which is an American Company and that company deals in textiles, shoes and all sorts of consumer goods. Then there is one Mr. Barua, who has resigned and joined Gulmarg.” He added, “We are not dealing with Uniroyal Company. There is one Mr. Subhash Sinha who resigned a few years back and joined Aero Shoes.”

3.56. A statement showing officers of leather Division of STC who resigned/retired whereafter some of them took up private job, as promoted by the STC is reproduced below:—

S. No.	Name of Officer	Date of joining	Post held at the time of resignation	Nature of duty	Date of resignation	Reasons for resignation	Remarks
1.	Sh. Subhash Sinha	16-4-60	DMMS-I	Marketing and procurement in respect of export of leather goods and footwear to East European countries excluding USSR.	22-6-73	Officer of appointment	He joined M/s. Aero traders (P) Ltd., New Delhi who are associate of STC.
2.	Sh. G. K. Duggal	20-1-76	Marketing Manager	Marketing and procurement in respect of export of footwear and components to all markets excluding USSR and East European countries.	26-5-77	Present personal circumstances.	No dealing with STC.
3.	Sh. A. K. Sen	31-10-73	Do.	Posted at Madras Branch. Looking after marketing and procurement for export of finished leather	15-4-78	Personal grounds	After resignation, he joined M/s. Schmingner of W. Germany, who were purchasing finished leather through STC.
4.	Sh. A. Selli.	31-12-76	DMM-I	Preparation of projects and leather garments	29-7-78	No reasons was mentioned in resignation letter, however, on personal interview, he informed that he was resigning for better prospects.	No dealing with STC.

S. No.	Name of Officer	Date of joining	Post held at the time of resignation	Nature of duty	Date of resignation	Reason for resignation	Remarks
5.	Sh. S. K. Barooah	2-8-76	DMM-I	Marketing and procurement of footwear and components for export to Western Europe	5-7-78	Personal reasons	After resignation, he joined M/s. Gulmag of Canada who were purchasing and still continue to purchase shoes through STC.

3.57. In a note submitted to the Committee the STC stated as follows:—

“As for leather footwear is concerned, private exporters are allowed to directly secure export orders from foreign buyers from free economies account STC. STC has been monitoring the prices. The role of private exporters, especially merchant exporters, has not been helpful in promoting capacities and the benefit of better unit realisation has also not percolated down to the manufacturing units. Leather footwear industry is reserved for small scale sector. Our endeavour should be that more and more small scale units should have the facility to offer their product for exports to a centralised public sector agency like STC and merchant exporters who are merely playing the role of a middleman without any state in the industry, are gradually eliminated. A phased programme for the achievement of this objective need to be considered.”

3.58. As regards price of Indian Leather Shoes in foreign countries as compared to the f.o.b. realisation on exports a non-official witness informed the Committee in his evidence as follows:—

“The STC or even the Commerce Ministry should have an indepth study of the present question. I had visited some of the western countries and leather factories and manufacturers in Europe. Regarding pricing, the foreigners are very touchy. There is no doubt there is a vast gap between our selling price and their selling price in their country. For example a shoe from India is sold to Mr. (A) in West Germany at Rs. 100 but that shoe is sold in Germany for not less than Rs. 500. The margin, the gap between our selling price and the final selling price at the consuming point is 400 per cent.”

3.59. It may be worth mentioning here that against total imports of leather footwear of about 224 million pairs into USA in 1975, India's export to this country in 1975-76 were of the order of around 4.5 million pairs only. Similarly total imports of leather footwear into EEC countries in 1975 were of the order of around Rs. 1300 crores whereas India's exports to these countries during 1975-76 were as insignificant as Rs. 1.39 crores only.

3.60. Footwear accounts for more than 80 per cent of leather produced in the world. Manufacture of footwear in our country has been reserved for small scale sector. Its employment potential and the value added through very cheap labour input in the country, need hardly any emphasis. It is a pity that the country's share in the world footwear trade is hardly 1 per cent. This has assumed tremendous significance in view

of the ever increasing need to find employment for our teeming millions and the necessity to raise foreign exchange resource for development financing. One would have therefore expected that the S.T.C. which was in the field of footwear exports since 1956 should have acted as a spur on development of footwear manufacture and its exports. The result is next to nothing.

3.61. The exports of leather footwear (including components) amounted to a mere Rs. 34 crores in 1976-77 even long after canalisation of footwear export through the STC. This was about 11 per cent of the total exports leather and leather goods. The exports through the STC were consistently below the modest target set by itself. The exports were mostly to USSR on a Government to Government basis. Thus the STC has made virtually no impact as yet.

3.62. The export of footwear was done by "Associates" and "Fabricators" through the STC. The former are identified by the foreign buyers and orders are placed on them. Such Associates included two merchant exporters accounting for Rs. 5.75 crores worth of exports out of a total of Rs. 25 crores and the organised sector accounted for Rs. 3 crores. These merchant exporters and the units in the organised sector such as Batas, a multinational company, corner the export subsidies and other incentives. Admittedly, the merchant exporters could not be eliminated owing to the buyers' preference for them. The STC has, however, claimed that the balance of Rs. 16 crores came from small scale sector manufacturing units. This claim also fails on closer scrutiny.

3.63. The Committee were informed that a firm controlled by one Shri Jiwand Singh had received orders in several names—Aero Traders (with two sister concerns, Aero Treads and Aero Export) Aero Shoes, Aero Shines etc. The value of orders placed on Aero Traders, was Rs. 104 lakhs, Rs. 82 lakhs and Rs. 123 lakhs respectively during 1975 to 1977. Though the STC has included this firm in small scale sector, there was no valid certificate of registration with the Director of Industries after 18th July, 1973. The Ministry are unable to say how the footwear was procured by them for export. The orders placed on Aero Shoes were Rs. 10 lakhs, 40 lakhs and Rs. 50 lakhs during 1975-76 to 1977-78. A scrutiny by the Committee of certain files of the STC revealed that Aero Traders and Aero Shoes were one and the same with identical telegraphic and telex codes and that one Shri Subhas Sinha who on resignation from the STC joined the Aero Traders, had been the Technical and Development Director of the Aero Shoes. All this gives an indication of the extent to which manipulation could take place in cornering the benefits accruing out of the STC's operation. The matter, therefore, requires a thorough probe and prosecution should follow if any malpractice is established.

3.64. It is unfortunate that the STC could not develop small scale units and especially cooperative societies in the context of the footwear exports. Although there were 52 cooperatives societies engaged in the manufacture of footwear, functioning under the National Federation of Industrial Cooperatives, 21 in Delhi and 31 at Agra, no order could be placed by the STC on any of them during the year 1977-78.

3.65. An interesting feature that came to the notice of the Committee is that largely the exports bear the brand names of the foreign buyers leaving practically no scope for popularising our products. That this should be so, after two decades of STC's entry in the international market, is deplorable. Curiously the price for the exports to USSR was on a cost (which is negligible in India) plus basis. Until recently, there was no direct involvement by the STC in the exports to countries other than USSR. Export contracts to other countries are even now mainly being finalised and executed by the exporters in the private sector with the only difference that these are made on STC's account. According to Audit, the Corporation has not devised any mechanism for ascertaining the competitiveness of the price secured with reference to the price ruling in the importing country. The Committee were informed that the price in the importing countries was at least four times the price obtained by us. The claim of the STC that the unit value realised has increased by 13 per cent over the period 1972-73 to 1976-77 does not at all impress the Committee.

3.66. A case of export of leather footwear and components to the USA, handled by the STC as commented upon by the Comptroller and Auditor General of India typifies the way the STC functioned. The net result of the deal with the Acme Boot Company of USA was that the STC had to bear as much as Rs. 27.56 lakhs by way of price differential between the price paid to the manufacturers and the price realised by the STC during the period 1967-68 to 1972-73. This does not include the extra expenditure on the air freighting of the consignment since February, 1971 fully subsidised by the Government, which was earlier shared between the manufacturer and the buyer. This is one of the numerous examples of how advanced nations are shedding crocodile tears for the plight of the poorer nations but continue to exploit them with impunity. In fact the Third World is in the grip of severe economic exploitation. Indian authorities have fallen in prey to the slogan 'Export or Perish' and subsidise the far too wealthy nations for their luxury goods at the cost of starving Indian people. This 'Export or Perish' slogan should be done away with forthwith. Export should be made on remunerative prices.

3.67. The Committee are distressed to hear of corrupt practices of various kinds in the Leather Division of the STC. Further, a number of officers have on retirement/resignation, taken up position in private sector having business dealing with the STC. One of them Shri Subhash Sinha is

connected with the Aero Traders which has dubious deals with the STC as already brought out by the Committee. This raises the basic question whether there are no restrictions on commercial employment of executives of public enterprises immediately after their retirement resignation as in the case of Government servants and if so, how such things could happen in the STC. The Committee expect the Government to examine this question and let them know what they propose to do in the matter.

IV

SEMI-PROCESSED HIDES AND SKINS

According to Audit although the Corporation has been associated with the tanneries for a very long time, these were being utilised for the supply of raw materials to the footwear exporting units organised by the Corporation. It was only in 1968-69 that the Corporation began exploring the possibility of exporting semi-processed hides and skins.

4.2. Under the canalisation scheme introduced in December, 1972 export contracts are negotiated and concluded by the exporters with the foreign buyers 'account State Trading Corporation' only. The Corporation is free to examine the terms and conditions of the contracts and its decision regarding acceptance, rejection or modification of the contract is final and binding. All export benefits are to the exporter's account and the Corporation is entitled to a service charge at the rate of 1 per cent of the f.o.b. value.

4.3. In this connection, following observations were made by Audit:—

Export contracts are registered by the Corporation after verification of availability of quota, prices settled, validity of contracts and letter of credit in original in case of expiry of validity of contract. Initially, the price verification was being done generally with reference to the prices secured previously. However, a beginning has been made (April, 1974) for evolving guidelines for assessment of export prices in relation to the international ruling prices.

Trend of export prices before canalisation and after canalisation was as follows:—

(In Rupees)

Pre-canalisation				Post canalisation					
E.I. tanned hides and skins		Chrome tanned hides and skins		E.I. tanned hides and skins		Chrome tanned hides and skins			
1970-71	1971-72	1970-71	1971-72	72-73	73-74	74-75	72-73	73-74	74-75
Rs.		Rs.		Rs.		Rs.	Rs.		Rs.

f.o.b. realisation per kg. 22.83 25.00 17.75 15.12 33.38 47.08 44.00 18.11 32.58 35.00

4.5. The Management informed Audit in December 1974 that the local sale prices per kg. are not available even with the Leather Export Promotion Council. Accordingly, a comparative study of the f.o.b. unit realisations could not be made with reference to the local sale price.

4.6. During evidence of the representatives of the Ministry, the Committee enquired whether the introduction of the quota system did really bring about a shift in export from semi-finished to finished leather and leather goods and whether the Ministry at any time reviewed the quota system in operation. The Ministry informed in a note as follows:—

“Export quotas for semi-finished hides and skins were introduced in 1973 on the recommendations of Seetharamiah Committee. The Committee had recommended that the quantitative restrictions should be so progressively introduced that within a period of 8 to 10 years, the exports of semi-finished leathers would not be more than the level of 25 per cent of the exports of 1971-72.

In 1973 the quota was imposed with limited cut of 10 per cent on skins and 20 per cent on hides. In 1974-75 and 1975-76 there were no cuts on account of leather finishing capacity constraints and representations from trade. In 1976-77 and 1977-78 further quota cuts to the extent of 10 per cent in hides and 15 per cent on skins respectively were introduced.

In the current year Ministry of Commerce has reviewed the whole position of quota system in operation. The export quotas have been re-fixed for each individual exporter on the basis of averages of actual exports in various categories during the last three years which has been further reduced by stipulated percentages.

For the first time this year a system of graded quota system has been introduced enforcing higher burden on the bigger quota holders. Concessions in favour of the small tanners which had continued for the last 5 years have on the other hand been uniformly enlarged in this years quota policy to the extent of 10 per cent in all categories of semi-processed hides and skins.”

4.7. Elaborating on the shift being made from semi-finished leather to finished leather, the representative of the State Trading Corporation of India stated as follows:—

“Government’s policy is to gradually reduce exports of semi-processed leather so that there is conversion to finished leather and end products like footwear. In the case of footwear, there was a bad summer in Europe. About 75 per cent of

our exports is of sandals and chappals which are used only during summer and the summer being bad in Europe, the sales were less. Secondly, there was a bigger inventory during the previous year. So due to these two reasons there was a shortfall in the case of footwear.

Then in the case of finished leather, it was 105 crores in the preceding year and in 1977-78 it is 98 crores. The decrease is again because of bad summer and a high inventory. But in this case the shortfall is not much.

In the case of components, the export has gone up from 6 crores to 10 crores. This is what we want to achieve. Gradually we want to improve the export of finished goods. In the case of shoe-uppers, we have achieved this from six crores, it has gone to ten crores. In the case of leather goods compared to 1976-77 we are short by three crores. This is again due to bad summer and high inventory.

By 1980 we have to bring down semi-processed leather export to 25 per cent of 1972 exports. We can make it up by two ways; one is by increasing the exports of finished goods and for that we have to build up infrastructure. This cannot be done in a year or two; it takes a long time. Simultaneously, we have to get the confidence of the foreign buyers.

4.8. On an enquiry of the Committee during evidence that quota for export of semi-finished leather had been consistently higher than the quantity available for exports, the representative of the STC stated as follows:—

“The quota fixed during 1973-74 was for 690 lakh pieces. As against that, the export was 572 lakh pieces. In the following year, that is, 1976-77, there was again a cut and from 690 pieces, the quota came down to 601 lakh pieces and the actual export was 365 lakh pieces. In 1977-78, again it was cut to 525 lakh pieces and the actual export was 317 lakh pieces. For the first quarter of 1978-79, the figure is not available.

4.9. Regarding fixing of quota for the individual exporters, it was stated that—

“There are two types of exporters. One is the job tanners for them 10 per cent of the total quota is reserved. This is done by the STC. The remaining 90 per cent is controlled by the JCI.”

Semi processed leather business is very big. The quota has been issued to the tanners or the exporters on the basis of their best performance from 1968 to 1972, that is, for five years. Now when the quota is allotted to these tanners or the exporters, it is sometimes learnt that some quota holders are not exporting their product but are selling their quotas. It is therefore quite possible that if a quota is given originally to a party in Madras the export takes place from Bombay or from Calcutta."

4.10. It was also stated that each exporter was given a quota, based on his best export for the previous years. These people were already in the field. STC's role was minimal. It only monitored things. It did not participate in the export.

4.11. The Committee were also informed that—

the new years' quota policy seeks to correct some of the imbalances noticed in the past and the concession to the small man has been enlarged by 10 per cent. In place of 25,000 pieces for goat and sheep skins, it is now according to the revised criteria, 27,500 pieces. For them there has been no quota cuts. Secondly, at the time when the quota was fixed, the decision was that 90 per cent of the global quota fixed would be administered through CCIE, and 10 per cent of that quota was kept reserved for being administered by STC. STC was giving this quota to non-exporting tanners and job tanners who, at that time, were in business and were non-exporting. In these 5 years, these people have become exporters through STC."

4.12. In this connection, the Commerce Secretary informed the Committee during evidence as follows:—

"So far as the future is concerned, we propose to fix the quota on the basis of the capacity of the finishing industry that has been set up in this country. In other words, we will estimate the surplus of hides and skins at any point of time in relation to the needs of the finishing industry. We will fix the quota on that basis. This is the recommendation of the Task Force which has submitted its report some time ago. So, we will proceed on this basis, so far as the quota restrictions are concerned. This is the first point which I wished to submit.

We have also given certain incentives. This is given in the form of 'cash compensatory support' for finished leather and leather manufacturer. This will operate up to 31-3-1979. A review regarding the quantum of these incentives has been

undertaken now and this, as finalised now, will become effective from 1-4-1979."

4.13. The Commerce Secretary went on to say:—

"The Sitaramaiah Committee also observed that within 8 to 9 years we should reduce it to 25 per cent of the previous export we have made. In future, our present aim is to regulate cuts depending upon the commissioning of the finishing capacity in the country so that all the finishing units in the country should be able to utilise 80 per cent of their capacity.

4.14. Asked about the considerations that led to the non-canalisation of finished leather exports, the Ministry of Commerce stated in a note:—

"Exports of finished leather was never canalised through the State Trading Corporation. It is only semi-finished leather that has been canalised through the STC w.e.f. 14.11.1972".

4.15. The Committee learnt that whereas the International Inflation Index suggested an increase of 40 per cent between the period 1973—76, the unit realisation in respect of semi-finished leather had shown during this period only an increase of 19 per cent, which indicated fairly wide-spread under invoicing. Asked whether this aspect was ever critically examined by the Ministry of Commerce the Ministry informed the Committee in a note as follows:—

"There are two broad categories of semi-finished leather; (I) EI Hides and Skins and (II) Wet Blue Hides and Skins. As per the export statistics compiled by DCI&S, it is only in respect of EL Hides and Skins that unit realisation has increased by 19 per cent from 1973-74 to 1976-77 whereas it has increased by 69 per cent in respect of Wet Blue Hides and Skins.

It may be stated that there are six items both in EI Hides and Skins and Wet Blue Hides and Skins. An average unit realisation on the basis of clubbing together of all the six varieties can at best give a very rough idea about the behaviour of prices. Further there are 3/4 grades of Hides and Skins in each variety and there can be differences in their composition in exports from year to year. Full details in this regard are not available. Further exports statistics compiled by DCI&S in terms of Kilograms do not give an accurate idea about the behaviour of prices in terms of sq/ft per pc.

As per the export statistics compiled by STC in terms of pieces, it is observed that the average unit realisation in respect of EL

Hides and Skins, has increased from about Rs. 25.62 per piece in 1973-74 to about Rs. 42.96 per piece in 1976-77. This gives an increase of 68 per cent as against 19 per cent worked out on the basis of exports statistics compiled by DCI&S.

Ministry of Commerce had held inter-ministerial meetings on the question of unit value realisation in various categories of leather exports, held discussions with customs authorities in major ports—Madras, Calcutta, Bombay, with officers of the Revenue Intelligence Department etc. The matter is kept under review."

4.16. During evidence the Committee pointed out that as per the statistics made available to them the export of semi-finished leather had gone down and that of the finished leather had gone up. The Committee desired to know which agency was to determine whether it was really finished leather. The Commerce Secretary stated: "We were conscious of this. While the Customs will have to check this at the time of export, because of the large number of processes involved in finishing, this matter was gone into and in 1977 the ISI gave a very precise specification of finished leather which is now being followed." A representative of the Ministry of Commerce confirmed that the scrutiny was solely left to the customs authorities.

4.17. It was stated by a representative of the STC in his evidence that during the last few years STC noticed 11 contracts which were below cost level and as such they were not registered. The facts of the case as furnished by the STC in a note are reproduced below:—

File No. STC/KPP/ESKAY—Part file containing papers regarding footwear contracts, registration of which was refused by STC during 1977-78, is enclosed.

The facts of the case are briefly enumerated below:—

- M/s Eskay Leather Industry of Kanpur presented 11 contracts for registration to STC's Kanpur branch in November, 1977.
- Kanpur Branch of STC consulted Export Promotion Council for Finished Leather and Leather Manufacturers, Kanpur, who also opined that the costing submitted by M/s. Eskay Leather Industry, Kanpur appeared to be "below average".
- Kanpur branch further, referred the cases, alongwith samples to Head Office. The technical officer of STC in Letherware Division in HO after examination of cost sheets submitted by the party, also

found that prices for two items appeared to be on lower side compared to the prices for similar items being exported by other private parties.

- Kanpur branch of STC originally returned all the 11 contracts to the party including 3 contracts pertaining to that item on which HO had not made any comments. This was evidently an inadvertent omission.
- No further representation from the party 3 contracts relating to items on which H.O. had not made any comments and one contract relating to Item No. 16—243 were registered by Kanpur Branch.
- Thus 7 contracts of the party were ultimately refused registration. It may further be noted that:—
- Branch Officers are fully empowered to examine each and every contract brought to them for registration by private parties and then entertain or refuse their registration on the merit of each case. It is only in exceptional situations that a contract may be referred to the Head Office.
- In addition to 7 cases, mentioned about, the Letherware Division in HO and STC's branches in other towns like Kanpur, Agra, Bombay, Calcutta and Madras might have refused registration of contracts prices of which were found on the lower side but full details of such cases are not available as the contracts brought by the parties for registration were returned to them in original explaining orally that the prices did not appear to be economically viable.
- Export of footwear has since been decanalised w.e.f. 1-4-78 except export of closed shoes below specified prices which will be subject to clearance by and canalised through STC. In future, all relevant particulars of contracts both for semi-processed leather and footwear where the registration is refused will be recorded and kept in the file for record and reference.

4.18. The Director, CLRI informed the Committee in his evidence that the STC's "knowledge of the export markets will be useful to check on the international prices of leather and the like commodities, and to what extent, the private sector is getting the maximum realisation through exports. This is a very important point on which the STC has not come out with full reports and full intelligence so far.

4.19. A Task force assessed the utilization of the availing of finishing capacity as 60 per cent. A representative of the STC put it at 50 per cent

in his evidence. He further stated that "unless, we stop the export of semi-finished product in leather, the tanneries will not switch over to finished products". He added: "Later on, we have to stop the export of finished leather also."

4.20. One of the objectives of canalisation was to bring about an order in the price mechanism. The Committee desired to know whether any guidelines were issued by the Ministry to the STC as to how to check the prices in respect of canalised items of export. It came out when representatives of the STC tendered evidence before the Committee that the STC had not kept the details of the rejection of contracts in respect of which the prices were found to be underquoted, which was a serious lapse. The Committee therefore desired to know what instructions would the Ministry issue in this regard. The Ministry of Commerce furnished the following note in reply:

"No detailed guidelines were issued by the Ministry to STC for checking prices in respect of semi-processed leather etc. STC on the basis of its market intelligence collected through its overseas offices and other sources has been scrutinising the prices obtained by private shippers in the light of international price level/trends and had in some cases rejected the registration of contracts as the prices secured by the parties were considered to be uneconomical.

Regarding STC having not kept the details of all the contracts in respect of which registration was not allowed due to prices being on the lower side, it is reported that STC had done so in the interests of smooth and steady movement of exports when they had felt, in their commercial judgment that there was no intention of deliberate under-invoicing by any party and had thought it proper and expedient to explain the position orally to the representatives when they came with the contracts for registration so that if feasible they might renegotiate the prices with the foreign buyers without any loss of time; get the contract registered with STC and effect shipments. Customs authorities also check prices of export commodities at the time of actual shipment. Ministry of Commerce keep a watch on the export prices of semi processed leather and footwear, canalised through STC and the matter is kept under review."

4.21. To another enquiry of the Committee whether it was not time now to ban the export of semi-finished leather and bring about a quota

system for the export of finished leather to largely finished leather goods, the Ministry informed the Committee in a note as follows :

"The Task Force on Leather and Leather Manufacturers appointed by this Ministry has recommended in its Interim Report that the approach should now be to regulate the system of export quotas for hides and skins so that the balance domestic availability left after meeting the requirements of finishing industry (on the standard of 80 per cent capacity utilisation) is taken as the basis for refixation of the quotas. The Ministry is generally inclined to accept this approach in principle. It does not think that the stage has come as yet for an immediate ban on the export of semi-finished leather or to introduce a quota for the export of finished leather. Constraints and bottlenecks in the manufacture and export of leather manufactures are being gone into by the Task Force. Government would be awaiting the final recommendations of the Task Force."

4.22. At the instance of the Committee, the Ministry of Industrial Development furnished the following note stating the capital investment that will be needed in the year 1978-79 to put the additional finished capacity:—

"According to a recent estimate, the availability of raw hides and skins in the country is of the order of 32.3 million numbers and 67.4 million numbers respectively. The present finishing capacity available in the country is of the order of 26.12 million numbers of hides and 36.81 million numbers of skins. Permission has also been given for creation of additional finishing capacity to the extent of 3.89 million pieces of hides and 26.29 million pieces of skins. Out of this, a capacity of 1.28 million pieces of hides and 4.95 million pieces of skins which is covered by Industrial Licences are likely to be implemented soon. Statewise details of the additional capacity covered by Industrial Licences are as follows :—

Name of the State	Capacity covered	
	Hides	Skins
	(In million Nos.)	
Assam	0.06	..
Andhra Pradesh	0.33	2.70
Bihar	0.36	0.60
Maharashtra	0.08	..
Tamilnadu	..	1.65
Uttar Pradesh	0.45	..
	1.28	4.95

An investment of about Rs. 5 crores would be required on plant and machinery alone for implementing the above capacity.”

4.23. The export of semi-finished leather was rightly brought under Export Control Order with effect from December, 1972 and was canalised through the STC with a quota system to restrict its export, to obtain a better price and to go in for increased finished goods export. However, according to Audit, the STC was not in a position to compare the local sales price with the unit value realisation on its exports. In the absence of canalisation of finished leather export, it was difficult to determine whether the quota restriction on export of semi-finished leather was circumvented by individual exporters by passing out of the country semi-finished leather in the guise of finished leather. It was left solely to the customs authorities to check this and it was only in October, 1977 detailed guidelines were issued by the ISI and enforced by Government.

4.24. The points mentioned in the foregoing paragraph assume significance in the light of the fact that the export of semi-finished leather was always considerably less than the quota fixed in the aggregate. The conclusion that either the quota as fixed and operated did not bring about the desired shift in export or there was large scale misdeclaration by exporters, in collusion at some level with the foreign buyers, is inescapable. The latter is a certainty. In fact the finishing capacity in the country has been utilised only to the extent of 50 per cent. In this connection it is also worth mentioning that although international inflation index suggested an increase of 40 per cent between 1973 and 1976 the unit value realisation in respect of EI Hides and Skins has increased only by 19 per cent according to the statistics compiled by the DCI&S. This brings out the extent of possible under invoicing indulged in by the exporters.

4.25. To check the invoice manipulation it was vital to have a systematic watch on the international prices. However, according to the Director, Central Leather Research Institute, the STC had not come out with full reports and intelligence so far. The Ministry of Commerce further informed the Committee that no detailed guidelines were issued to the STC for checking the prices. What is worse is that the STC has not kept on record details of cases where the prices were found to be low.

4.26. The Committee have no doubt that the scheme of canalisation has not been implemented properly. They would call upon the Government to explain why there was no comprehensive look at the problems at the time of bringing the semi-finished leather under Export Control Order.

4.27. In view of substantial unutilised capacity for finishing of leather, the Committee feel that a time has come to ban as speedily as possible the

export of semi-finished leather taking utmost care to see that no hardship whatsoever is caused to the workers who should be trained before hand and absorbed in leather finishing or leather goods manufacturing industry. Further the export of finished leather should also be brought under a quota system to progressively take the country forward as a major exporter of leather footwear and other leather goods. In doing so, the Committee expect that the Government will take a lesson from the past experience and ensure that there is no loophole or deficiency is allowed to remain in the system.

DEVELOPMENTAL EFFORTS OF THE STC

The following schemes were initiated by the State Trading Corporation from time to time to help the selected technically competent and export-oriented units:—

- (a) A scheme for mechanisation of small scale export-oriented units was mooted in August, 1968. A Pilot Committee constituted for the purpose recommended in September, 1968 the names of 16 units (Associates) to the National Small Industries Corporation for purchase of machinery under hire purchase scheme. The latter processed the applications of 5 units and orders for the machines were placed in four cases. None of the machines ordered had been installed till February, 1975. In spite of the initiative and effort made by the STC significant progress could not be achieved due to lack of response from the parties and the scheme was shelved.
- (b) In June, 1972 the Corporation approved a scheme for running an equipment and materials bank of imported machinery, chemicals, decorative materials, etc. at an estimated cost of Rs. 50 lakhs for promoting exports of leather goods, particularly to West Europe and U.S.A.

5.4. The details of the scheme were approved by the Inter-departmental Committee of the Ministries of Finance and Foreign Trade, the Director General of Technical Development and the Chief Controller of Imports and Exports in August, 1972 but the scheme could not be implemented as the industry was not willing to give the undertaking to surrender their replenishment licences for adjustment of these imported machines.

5.5. Canalisation of exports of semi-processed hides and skins through the State Trading Corporation of India was intended to provide the institutional frame work for implementation of Government's policy both in regulatory and development spheres, for the realisation of the following objectives:

- (a) gradual reduction in the exports of semi-processed hides and skins, and corresponding increase in the exports of finished leathers and leather manufactures;
- (b) accelerating the pace of modernisation and diversification of leather industry, so that the semi-processed hides and skins are further processed into finished leathers and used for manu-

facturing leather goods, instead of being exported to other countries in semi-processed form:

- (c) provision of assistance to manufacturers of footwear and leather goods in the small-scale sector;
- (d) ensuring availability, at a fair price, of raw-materials required by manufacturers of footwear and leather goods in the country.

5.6. The main justification for canalising exports of this commodity through S.T.C. is that this organisation would be able to regulate the exports as a part of an overall strategy to develop leather finishing industry in the country according to a time bound programme.

Leather Development Fund

5.7. The export of semi-processed leather was canalised through STC with effect from 14th December, 1972. The service charge of STC is 1 per cent on the FOB value of export. There was a demand from the Leather Trade for reduction in the levy of service charge by STC. After informal consultations with the Commerce Ministry, it was agreed that the services might be retained at 1 per cent on FOB. The consideration that had weighted in taking this view was that either the STC or the Leather Export Development Corporation which was proposed to be set up as a subsidiary of STC would be required to assist in the development of leather industry in a big way and the funds generated by collection of service charge could be used for such an assistance programme. The Ministry of Commerce expressed the view that 3/4th of the service charges collected by STC with respect to export of semi-processed hides and skins might be constituted into a separate fund earmarked for the purpose of development of leather industry and that this fund might be made over to the proposed Leather Export Development Corporation when it was established.

5.8. On the basis of the suggestion made by the Ministry during September, 1973, the Management of STC approved in October, 1973 the creation of the Leather Development Fund by appropriating 3/4th, of the service charges received on the export of semi-processed leather for the purpose of export development of leather industry.

5.9 The purpose for which Leather Development Fund may be used as was decided and communicated to STC in March 1975 by the Commerce Ministry is given below:—

	Rs. in lakhs
1. Five common facility centres	125
2. On shoe upper facility centre, Agra	25
3. One unit sole plant	10
4. One central and four regional testing labs	6
5. One designing cell	2
	<hr/>
	168
	<hr/>

5.10. Even though the fund is created and is being continuously fed by apportionment of 0.75 per cent of STC's service charges the expenditure therefrom is always governed by the allocation already given or to be given by the Commerce Ministry for the development of the Leather Industry.

Funds Position

5.11. The accretions to the fund and the expenditure therefrom with the balance available yearwise are given below from the year of inception 1973-74 upto 1977-78 (the year upto which accounts have been audited):—

Year	Receipts (Rs.)	Expenditure (Rs.)	Balance available (Rs.)
1973-74	101,20,406·96	..	101,20,406·96
1974-75	81,81,654·87	..	81,81,654·87
1975-76	103,52,832·17	1,28,268·85	102,24,563·32
1976-77	114,04,874·63	101,14,875·38	12,89,999·25
1977-78	89,24,017·12	34,15,673·14	55,08,343·98
	<u>489,83,785·75</u>	<u>136,58,817·37</u>	<u>353,24,968·38</u>

5.12. The details of expenditure incurred so far are as follows:—

Machines for:

States	101,68,904·10
Upper Facility Centre	18,41,692·55
Unit Sole Plant .	8,92,685·93
Laboratory	5,04,673·43
Design Cell	1,13,490·40
Design Cell Expenses .	1,37,370·96
	<u>136,58,817·37</u>

5.13. During the course of evidence of the representatives of the State Trading Corporation of India Ltd. the Committee were informed in this regard as follows:—

“The scheme which we had as far back as 1968-69 and the one we had in 1972 failed. It is true that there was not enough response from the parties. It was the NSIC which was responsible for importing machines and for providing the facility

of hire-purchase, and STC was there, originally, only to co-ordinate. Both the schemes failed and we accept the failure. But in 1976 we evolved another scheme. The salient features of the scheme are that we take 10 per cent application money and 20 per cent when the documents are handed over. We finance at a very low rate of interest viz. 6 per cent. As the scheme was quite attractive, 20 units have taken advantage of it for building infrastructure, initially for the shoe uppers..... twelve of them have already installed machines and in five cases, machines have been installed but power connection is not there. So in short, out of 20, seventeen have installed the machinery and twelve have gone into production. (the value of imports is Rs. 33 lakhs). As a result of this, we have been able to export 8 crores of shoe uppers.

Under this scheme we have also financed nine tanneries—two in the public sector and seven in the medium-scale private sector (Rs. 135 lakhs). As a result of this, we could generate the export of another 7 crores. This is on the basis of the STC's own scheme where STC alone is involved.

Regarding the scheme for leather development we got from the Ministry of Commerce sanction to spend Rs. 1.68 crores, out of which Rs. 2 lakhs were to be spent on developing the Design and Research Station, which we have done. The industry is now taking the advantage of this Design and Research Unit.

Another thing is about five laboratories at five centres. Out of them, two have already been organised and another two will go into operation in a period of two to three months.

The third thing is the common facility centres in the States of Andhra Pradesh, Bihar, West Bengal, Tamil Nadu and U.P. All the machines have come and have been installed. The Leather Development Corporation has taken over the charge to organise it.

The fourth thing is a common facility centre for shoe uppers and a unit sole plant."

5.14. To an enquiry of the Committee whether the Government was satisfied with the functioning of the Leather Development Fund, the Commerce Secretary explained the activities financed by the STC out of the fund and informed the Committee during his evidence as follows:—

* * * * *

"The STC shall also organise two workshops for discussing the problems of small industries. One of the proposals is to take up schemes to use balance of the Leather Development Fund.

Some tentative proposals have come. We are awaiting for the report of the Task Force. I think the Government will decide upon the utilisation of this fund after we receive the report of the Task Force."

5.15. In a subsequent note furnished to the Committee, the Ministry of Commerce, Civil Supplies and Cooperation stated as follows:—

"Leather Development Fund with the STC was created out of service charges realised on export of semi-processed leather as a result of canalisation through the S.T.C. The Fund has been mainly to finance developmental and other projects for infra-structural creation etc. Initially, the idea was that STC would play a much bigger role in development of infrastructure. Later, Government decided that this role would be primarily performed by the Bharat Leather Corporation which came to be set up in September, 1976, under Ministry of the Industrial Development. However, some projects have already been financed out of proceeds of Leather Development Fund by the STC".

So far as the setting up of 5 common Facility Centres is concerned, STC has imported necessary machines for the concerned leather Development Corporations in the States of Tamil Nadu, Andhra Pradesh, West Bengal, Bihar and U.P. It will be the responsibility of these Corporations to set up and administer the working of these Common Facility Centres. STC would be willing to offer them any necessary technical guidance in this regard. The machines have already been imported for upper facility centre, unit sole plant, testing laboratories and Design and Research Cell. It has been decided that all these production facilities will be set up and administered by STC itself.

The land has already been allotted and STC have taken up for setting up of shoe upper facility centre and the unit sole plant at Agra.

Regarding Testing Laboratories, STC has already established one testing laboratory at its Head Office in New Delhi and one regional testing laboratory at Agra. Steps are being taken for the establishment of three more regional testing laboratories, one each at Bombay, Calcutta and Madras. The Design and Research Cell of the STC at its Head Office in New Delhi has been strengthened and an extension centre has also been established at Agra.

Regarding utilisation of the fund for need based research, it may be stated that testing laboratories and design cell established by STC out of the fund undertake research work in these fields."

5.16. Region-wise machines of following value have been imported for individual units and Common Facility Centres:—

Distribution of imported machines—region-wise. (Rs. in lakhs)

	Total	Calcutta	A.P.	Madras	U.P.	Bihar	Punjab	Delhi
Individual Tanneries	87.11	42.20		36.30			8.61	
Individual shoe Units	32.39				32.39			
Common Infrastructural Facility Centre	142.91	21.05	16.88	23.57	53.88	22.37		5.16

5.17. A representative of one of the Footwear Units which received certain machinery imported by the STC deposed before the Committee as follows:—

“I placed an order, I entered into an agreement with STC on 3rd January, 1977 for the import of machinery. But I was saddled with machinery which was ordered as long ago as 10-9-76. These machines were thrust on me, which actually did not belong to me. But, in order to maintain good relation with STC, I have taken them. But I may point out that these are not the types of machines I ordered. I did not want them. What I wanted was general machines, sewing machines, which are an important part of upper-making. But STC did not place any order for them. That is what they told me recently.”

5.18. The representative further informed the Committee that although his unit was an “Associate” of the STC, no orders were given to it after 1977 and that it was forced to go into liquidation because some senior officers of the STC wanted to favour people of their choice.

5.19. Import purchase of machines under STC’s scheme for development of leather industry was on the following basis:—

“A Committee was formed consisting of the following members:—

1. Shri C. B. Rau Joint Secretary, Ministry of Industri Development.
2. Shri S. L. Atal Chairman, Bharat Leather Corporation.
3. Shri R. Thanjan Development Officer, DGTD
4. Shri P. Seth Executive Director, STC

*The STC furnished the following updated statement after the presentation of the R.O. but before its printing:—

**Final position in respect of region-wise distribution of imported machines is as under ,

(Rs. In lakhs)

Total	Calcutta	AP	Madras	UP	Bihar	Punjab	De hi
151.68	40.58	—	89.33	—	11.77	10.00	—
34.60	1.54	—	—	32.12	—	—	1.03
167.22	26.00	25.00	26.00	62.22	25.00	—	3.00

The Committee visited Europe from 11th to 26th September, 1976 and identified suitable machinery on the basis of discussion with experts, examination and by seeing the machines in operation themselves. A list of such machines was drawn out and the intending users were given option to select machines from the list suitable for their requirement".

—A price discount ranging from 5 per cent to 13 per cent was obtained as special price to STC.

—After-sale-service.

—Guarantee against defects in the materials and manufacturing.

—Warrantly for one to two years performance.

—M/s. Repcon International, 1003 Akashdeep, Barakhamba Road, New Delhi are the representative of M/s. Charvo SA, 38100 Grenoble France and Torielli Rag Pietro & Co., of Italy.

5.20. During the course of examination of the STC the Committee learnt that files pertaining to import purchase of machinery out of the Leather Development Fund were currently with the CBI. On an enquiry as to why the files were taken away by the CBI and what was the nature of the complaint, the STC informed the Committee in a note as follows:—

"CBI is conducting an enquiry against an officer who is alleged to have entered into a criminal conspiracy with the local firm with a view to cause pecuniary advantage to himself. In furtherance of this conspiracy a foreign firm was allegedly influenced to change their local representative through whom several orders for import of machinery were placed without calling proper competitive quotations and adopting proper procedure."

In this connection in a letter dated 18-4-1979, the STC informed the Committee as under:—

"The name of the STC officer involved in CBI enquiry, in connection with the import of machinery under the Leather Development Fund/STC's own schemes for development of Leather Industry is Shri Prem Seth, who was the Executive Director of STC. He is now no longer in STC. We may also inform you that the CBI enquiry report has not yet been furnished to us."

5.21. The purchase orders for these machines were placed during the period 30-8-1976 to 18-4-1977.

5.22. There are 1291 small scale units engaged in the production of footwear, finished leather and leather goods according to the information furnished by the State Trading Corporation of India Ltd. as compiled with the assistance of Small Industries Development Organisation (Ministry of Industrial Development). The regionwise break-up of these units is as follows:—

	Foot- wear	Finished Leather	Leather Goods	Total
1. Madras Region .	28	37	37	102
2. Northern Region (Delhi, Haryana, Agra, Kanpur and Punjab)	242	15	13	270
3. Calcutta Region .	68	98	113	279
4. Bombay Region .	310	90	240	640
				1291

5.23. The Ministry of Commerce in a written note stated *inter alia* as follows:—

Import of leather finishing, footwear and other leather goods machine had been brought under OGL.

The tanneries have been allowed to automatically convert capacities for semi-finished leather into finished leather without applying for any licence for the purpose.

In 1978, for encouraging the technological upgradation of the leather industry for export purposes import duty on a large number of tanning machines has been reduced from 40 per cent to 25 per cent. Recently in November, 1978, on the recommendations of the Task Force nearly 40 additional footwear making machines, have been placed under OGL.

5.24. One of the manufacturing firms stated in a Memorandum submitted to the Committee that "very rarely have we received any enquiries from the foreign offices of the STC which have emanated from their own initiative". A representative of the STC stated in his evidence that there were not many enquiries received by the Corporation. A statement received in this connection is reproduced below:—

Statement indicating enquiries received for Footwear from STC's Overseas Offices for the last three years.

Sl. No.	Branch	No. and date of Enquiry	Buyer	Item	Business Qty.	Generated value	Remarks
1.	Paris	Mag. No. 2/106 dt. 2-6-76	ETS-PDC	Moccasin	2,100 prs.	Rs. 96,000/-	
2.	Paris	L/C No. 3/0644 dt. 30-11-76	GAMA-SA	Buggy Bots	3,500 prs.	Rs. 3,50,000/-	
3.	Paris	Order dt. 20-10-76	SOUBIRAG	Riding Boot	420 prs.	Rs. 64,000	
4.	Paris	Order No. 00024 dt. 10-10-77	INTERCO/ GHAUSSEUROPE	Chappals Inter-laced shoes.	42,000 prs. 2,800 prs.	Rs. 7,00,000 Rs. 2,60,000	
5.	Paris	Mag. No. 2/106 dt. 20-9-76	ERAM	Chappal/Sandals	17,400 prs.	US \$ 29,268	
6.	Paris	Mag. No. 13/6, dt. 29-10-79	JEAN CHARLES REBEYOL	Chappal/Sandals	320 prs.	US \$ 2,180/-	
7.	Frankfurt	P/1 No. STC/LW/FT/53, dt. 22-11-77.	OTOM BV	Ladies Sandals - Kolhapuri Chappals.	1,152 prs. 1,080 prs.	Rs. 35,000/- Rs. 10,000	
8.	Sydney	MP-1-7, dt. 28-12-77	A. J. MUIR	Moccasin shoes	3,312 prs. 8,330 prs. 3,000 prs.	Rs. 3,15,000/- Rs. 8,26,000/- Rs. 90,000/-	
9.	Kuwait	Cable dt. 8-8-76 dt. 2-12-77.	MAHALLAT BHASIN	Shoe Uppers	3,640 Prs.	US \$ 6,468/-	
10.	Kuwait	L/C No. 7/13098 dt. 26-1-78	Do.	Shoes	3,400 prs.	Rs. 2,41,000/-	
11.	London	Letter dt. 4-8-77	ARKAY PANGCONTINENTAL	Children shoes Sports shoes		..	Business did not materialise because of unworkable offer.

5.25. The Chairman, STC, stated:—

“There was a little bit of wooliness in the beginning, but we have put Mr. Misra as Director of Branch Operations about four or five months back. He is in charge now and has the task of organising and putting together the whole effect.”

5.26. Asked about the publicity measures of the STC, the Director CLRI stated before the Committee:—

“I think, that is the effort which they should introduce. There are not many show rooms, there is not a lot of effort by way of advertisement, propaganda as of now. They should have some sort of liaison with similar organisations, public or private in other countries. They are not having the machinery.”

5.27. The Chairman of Leather Export Promotion Council stated in his evidence on the possibilities of opening retail shops or Emporia:—

“Of course the Government agencies, if they can plan the marketing properly it can be done. There is no doubt about it. I think for individuals, with limited resources, it will be very difficult. Opening of the Emporiums or coming into direct agreement with the retailers abroad on a long term basis can be done much more effectively by a Governmental Agency than the private sector.”

5.28. A representative of the S.T.C. informed in his evidence on 21st September, 1978 that the STC did not have any show rooms in other countries nor did it have any sales depot.

5.29. As there was precious little of export promotion abroad by STC whose foreign offices contributed practically nothing by way of export orders, the Committee desired to know what improvement the Minister would suggest and whether the Ministry is contemplating to set up equipment and material bank.

The Ministry submitted the following note in reply:—

“According to STC’s report, there are 20 offices located in the important trading centres of the world. These are in New York, London, Frankfurt, Tokyo, Kuwait, Berlin, Colombo, Hong-kong, Budapest, Moscow, Jeddah, Dacca, Paris, Milan, Nairobi, Singapore, Bagdad, Sydney, Belgrade and Dar-e-Salam.

These foreign offices have been established to look after the export business of various exportable items from India and find out new business for the Corporation and also to actively support and expand on-going business of the Corporation.

As regards, leather, the role of the STC before 1973 was limited: mostly to the exports of footwear to East European countries and especially to USSR. However, with the introduction of New leather policy by Government from 1973, the State Trading Corporation of India was made a canalising agency for export of (a) some finished leather; and (b) footwear of all types and to all destinations. It is therefore, since 1973 that the STC has been called upon to play an important role in the leather export trade of the country. According to STC their new offices have been able to generate export business from India of handbags and other leather goods. Similarly Berlin office in Germany played an active role in promoting the export of footwear uppers and in 1977-78 secured orders for about Rs. 10 crores. STC's office in Australia has also been able to promote exports of leather based Sports Goods and leather shoes. Besides, through these offices the State Trading Corporation has been trying to explore possibilities of new marketing opportunities for Indian Leather goods including proposals for joint ventures to manufacture sophisticated type of leather products such as leather garments with a view to export to a third country.

STC reviews the performance of foreign offices on a continuous basis and takes necessary steps in connection with Ministry of Commerce."

5.30. As regards setting up of an equipment and material bank the Ministry stated:—

"There is no such proposal under consideration of the Government at present."

5.31. Dealing with the concept of raw material bank and how STC could better its performance the Director, CLRI stated in his evidence as follows:—

"STC is at present buying the footwear or leather goods and then exporting them. They are merely acting as a sort of marketing agents. But on the other hand, the STC could do a little more effort. They could have the raw material banks whether both type of leather should be sold to the small scale manufacturers and particularly the fitting and the machinery could be sold to them and they could place orders with them on the basis of the orders they get from the other countries. More importantly, they must be able to feed-back the small scale manufacturers with the type of information which can be collected from the foreign intelligence. This feed-back is a

very important thing. In all these fields, the STC could do much better than what they are doing now."

5.32. The Associates of STC for the export of footwear are concentrated in Delhi and Agra. Asked why this should be so the Commerce Secretary stated:—

"Associated were selected by USSR themselves. They export in their own brand names. STC's involvement in the case of associates is less than in the case of groups."

5.33. Asked further about the steps taken to have a fair dispersal in the country a representative of the Ministry went on to say:

"There was some kind of regional concentration. Regarding regional development and other factors, these claims have to be taken into account. There is a committee constituted for the purpose which includes Commerce representatives; they go round various places and assess these things, both on all-India basis and also on regional basis."

5.34. As regards cancellation of exports of chappals and sandals the representatives of the Ministry informed the Committee as follows:—

"It is not that. Much of the reason for this lies in the fact of who is exporting from where. It is not that any particular step was taken by Government to promote any area. 80 per cent of the footwear as a whole have been low value chappals and sandals. 80 per cent of our total footwear export is accounted for by them. Kolhapuris and all that. The Bombay region has been specializing in them for a long time, and exporting them. They are popular as beach-wear in Western countries. There are some other good footwears *i.e.* slippers which have come up from Bombay. Bata is sending from Faridabad and Calcutta. Faridabad products would come under Delhi. Otherwise there is no steps taken to see a particular region gaining advantage. Take the case of leather industry as such. 70 per cent of the total exports today are from the Madras region. It is because exporters are there. Some of them have been there for a hundred years. A part of it is in Kanpur, part in Calcutta and another part in Bombay. Some changes are taking place. Neither STC nor Government has taken any steps to discourage them."

5.35. Under the scheme of canalisation, the STC was expected to provide an institutional framework not only in regulatory sphere but also

in developmental arena. Three fourth of the service charge of 1 per cent of the FOB value of export of semi-finished leather was to be credited to a Development Fund to be utilised for development of leather industry. The Fund was, however, established only a year after the canalisation and it took nearly another year and a half for the Government to decide about the utilisation of the Fund. Out of a total accretion of Rs. 4.9 crores as at the end of March, 1978, the amount spent was only Rs. 1.37 crores. Further utilisation of Fund is yet to be decided upon. A study group of the Committee which visited a number of places connected with leather and leather goods industry heard numerous complaints from small scale manufactures on the utilization of fund. This is a sad commentary on the way of the Ministry functioned.

5.36. The meagre expenditure out of the Development Fund was mainly an import of machinery for five Common Facility Centres. It is doubtful whether the STC is monitoring the working of these Centres. Further the Committee were informed that the CBI is conducting an enquiry against Shri Prem Seth, formerly Executive Director of the STC who is alleged to have entered into a criminal conspiracy with a local firm with a view to cause pecuniary advantage to himself. In furtherance of this conspiracy, a foreign firm was allegedly influenced to change their local representative through whom several orders of import of machinery were placed without calling for proper competitive quotations and adopting proper procedure. The Committee would await the outcome of the investigation and the action taken on the basis thereof. The progress of the investigation by CBI is very slow and it should be expedited as at this rate corruption cannot be checked.

5.37. Earlier a scheme for mechanisation of small scale export oriented units mooted in August, 1968 and another scheme for running an equipment and materials bank of imported machinery, chemicals and decorative materials etc. formulated in June, 1972 by the STC, failed. Under yet another scheme of concessional financing evolved in 1976, STC could only help importing machines (value Rs. 33 lakhs) for 20 units of which 12 have been installed generating export of only Rs. 8 crores of shoe uppers and a machinery (value Rs. 135 lakhs) for 9 tanneries generating export of another Rs. 7 crores. One of the footwear units which received certain machinery was thrust on it and that thereafter no orders were placed on it for export of its products. The allegations of the manufacturer require a probe to find out why no orders could be placed on him. The Committee strong suspect some corrupt practice of the officers of the STC behind this. It is an economic waste to import capital goods for an export oriented unit if it is not going to generate exports. What is worse is that when the capacity of imported machines remain unutilised further imports take place allowing the foreign suppliers to exploit us.

In view of what has been stated above and in view of liberalisation of imports of capital goods by private sector, it is absolutely necessary to watch the performance of the units which are allowed to import machinery in order to apply the correctives promptly. The Committee would also urge that the idea of starting a material bank should be revived to cater to the needs of small sector which has at present 1291 units.

5.39. Developmental efforts do not merely consist of assisting in the procurement of capital goods and in building up of infrastructural facilities; the latter is not much to speak of. It is also equally necessary to launch an effective drive for sales promotion abroad. This is where the failure of STC is even more glaring. Its foreign offices numbering 20 have done previous little in this regard. It is certainly not a creditable performance that the STC could receive only 11 enquiries from its foreign offices which generated business to the extent of about Rs. 30 lakhs during a period of three years. The Chairman of the STC admitted this unsatisfactory position in his evidence before the Committee. It also came out that there is neither a show room nor a sales depot of the STC in any country abroad.

The Committee are firmly of the opinion that for profitable sale of Indian products or produce, like leather and leather goods, tea, coffee, tobacco, engineering goods etc. it is absolutely necessary that the authorities should start Show-Room-cum-Sales-Centres in important cities in Europe, Britain, North America, Gulf Countries, Japan and other important markets. This job could well be undertaken by the STC itself as part of their foreign offices which number twenty.

5.41. Considering the employment potential of the industry, the Committee are conscious of the requirement that there has to be a fair dispersal of the industry all over the country. Unfortunately, it is not the position today. The Associates of STC for the export of closed footwear are concentrated in Delhi and Agra only. The export of chappals and sandals is concentrated in Bombay and Delhi regions. Government attributing these to process of natural development displayed an utterly complacent attitude. As the STC is charged with the responsibility of developing leather industry in a manner and export in particular, the Committee desire that through its instrumentality or otherwise Government ought to bring about a balanced regional development in the leather sector. This would incidentally reduce infructuous and avoidable expenditure on transport of raw materials to manufacturing centres. The Committee further recommend that Technical Training schools should be started in all the regions especially for imparting training in shoe making for boys coming from cobblers' families with a view to improve quality of production.

VI

INCENTIVES/SUBSIDY FOR EXPORT PROMOTION

Different types of incentives are currently available on exports of leather, leather footwear and leather goods. The incentives are meant for manufacturing units to enable them to improve their capabilities and to make them competitive. Chiefly the incentives are in the form of (i) cash compensatory support as a percentage of FOB value; (ii) air freight subsidy (iii) duty draw back rates and (iv) replenishment licences.

6.2. Apart from this, the STC extends for the associated exporters of shoes to USSR pre-shipment and post-shipment export finance at concessional rate of interest as below :—

- 80 per cent of the invoice value of the goods on warehousing in India.
- 10 per cent after shipment of the goods and submission of shipment documents.

6.3. The Ministry of Commerce informed the Committee in a note that the proposal to grant air freight subsidy to finished leather and leather goods and footwear was initiated in 1970. The request for air-freight subsidy by the leather industry was based on the fact that the products going to fashionable markets in western countries could offer competition and acceptance only if such exports reached within the shortest possible time and effected by air. After consideration air freight subsidy scheme was introduced by Government from 1971. In March 1973 the subsidy was restricted to those exporters who sent the goods by National Flag Carriers. On the recommendations of the Dr. Sitaramayya Committee the rates were revised downwards. In 1976 it was decided to continue the revised rates till the year 1978-79.

6.4. With the introduction of quota restrictions on the exports of semi-tanned hides and skins and imposition of the export duty on such exports, there was need to augment creation of necessary infrastructure in the country by the leather industry to manufacture finished leather and leather goods for export purposes. In the circumstances it was considered essential that the manufactured leather goods for export purposes should be provided with certain rates of cash incentives. Hence this cash compensatory support scheme was introduced in 1975. The scheme as at present would be available upto 31-3-1979.

6.5. Under the Duty Drawback Scheme, the export of leather and leather goods are compensated to the extent of import duty element paid on the imported material going into the finer leather products for export purposes. Thus duty drawbacks are refund of duties already paid by the manufacturers on their imported items used in the end product meant for ultimate exports. It is not considered as direct subsidy.

6.6. The scheme of Import Replenishment covers all items which are not available indigenously or if available are not quality products to the exporters of leather and leather manufacturers.

6.7. The following details about Cash Compensatory Support were furnished by the STC in a note submitted to the Committee in March, 1978 :—

Cash Compensatory Support :

Following rates of cash compensatory support were announced by the Government of India w.e.f. 1-10-1975:—

Item	Cash compensatory rate on FOB value of exports
(a) Leather Shoes/garments	15%
(b) Leather chappals/sandals	5%
(c) Leather shoe uppers, shoe linings and components and other leather manufactures (excluding (a) and (b) above	10%
(d) Finished leather	5%

With effect from 1-5-1976 the cash compensatory rates in respect of finished leather was raised from 5 per cent of FOB value to 10 per cent of FOB value.

With effect from 1st of July, 1976 the cash compensatory rate in respect of exports of leather shoe uppers, shoe linings and components was raised from 10 per cent on FOB value to 12.5 per cent of FOB value.

6.8. On an enquiry of the Committee, the Ministry of Commerce furnished the following note concerning import replenishment—giving the entitlements accruing to the exporters during the last three years and how this replenishment has been utilised by them in importing items connected with leather industry :—

“The rate of import entitlement against the export of leather and leather goods is given in Product Group ‘D’ in the import policy for Registered Exporters.

The value of REP licences issued during the last three years against the export of leather and leather goods falling under Product Group ‘D’ is indicated below:—

1975-76	Rs. 8.32 crores
1976-77	Rs. 16.57 crores
1977-78	Rs. 21.67 crores

The information with regard to the items actually imported by the licence holders is not available. The statistics of imports is not maintained licence-wise or importer-wise.

It may, however, be mentioned here that before 1977-78, REP licences used to have a list of items which could be imported. In 1977-78, there was no list as the licences could be utilised

for import of items as per the general provisions made in the policy. In 1978-79, the shopping list against various export products has been re-introduced, and the licences will carry a list of items as given in column 4 against the relevant export products."

6.9. Details on the total amount of air-freight subsidy that might have been availed of by exporters of finished leather, leather footwear, footwear components and leather goods are not available with the STC. However it has been stated that airfreight is one of the elements of cost. While making offers to foreign buyers, the exporters of shoes do include likely airfreight charges in their sale price. Full information as available for the last two years is tabulated below* :—

Post of shipment	1975-76		1976-77	
	Qty. in prs.	Air freight in Rs.	Qty. in prs.	Air freight in Rs.
Delhi	56,850	4,88,383	1,41,190	9,64,832
Bombay	5,81,009	41,32,611	6,82,457	54,93,820
Calcutta	21,756	1,02,324	49,598	3,94,498
Madras	22,220	63,094	3,337	18,903
	6,81,835	47,81,412	8,76,582	68,72,0513

6.10. The Committee also enquired as to what was the necessity to export shoes by air and the Government paying the airfreight subsidy. In this connection the Ministry of Commerce furnished the following note:—

"The quality of India Leather, particularly sole leather, which is vegetable tanned, is prone to fungus growth during long sea

*The STC furnished the following updated statement after the presentation of the Report, but before its printing—

Data regarding export of leather footwear by Air during the year 1975-76 and 1976-77 was given in March, 1978 on the basis of whatever information was immediately available at that time.

The question of air-freight subsidy paid on exports of leather footwear was raised again in the evidence held on 14, 15 and 16th June, 1978. Efforts were consequently made to collect footwear information and make as far estimates as possible about the element of Air freight subsidy on exports of leather footwear and some further data was furnished in reply to question no. 17 (page 321-323). The table given at page 82 (para 6.9) may be accordingly amended as below:—

Port of Shipment	1975—76		1976—77	
	Qty. in prs.	Air freight in Rs.	Qty. in prs.	Air freight in Rs.
Delhi	2,06,015	17,54,971	3,41,608	20,52,781
Bombay	5,81,009	41,32,611	6,82,457	54,93,820
Calcutta	21,756	1,02,324	49,598	3,94,496
Madras	22,220	63,094	3,337	18,903
	8,31,000	60,53,000	10,77,000	72,60,000**

voyage. Not only shipment by sea takes long time it also consumes time in sending goods to port towns, particularly from the centres of production which are located in Agra, Delhi and Kanpur. Besides, when the goods arrive at Port town, in most of the occasions there is likelihood of waiting for the sailings which are the most available fortnightly. All put together, shipment by sea of goods produced for example in Agra can arrive destination only after one and a half months as against only a week by air. The payment of airfreight subsidy is necessitated in view of the high airfreight cost which cannot be absorbed in the cost of production economies of the small scale sector.

Besides, market conditions for Finished Leather and Leather goods dictated that these must reach the importers in developed countries before the fashion changed in footwears and leather products in developed markets. It was with this specific problem that air-freight subsidy on export of leather footwear etc. was granted to the leather industry as below:—

- (i) Before October 1975 export assistance to the extent of 50 per cent of the air freight but limited to 10 per cent of the f.o.b. value was given on the export of leather footwear and components;
- (ii) the above air freight rates were reviewed and in consultation with the Finance Ministry and on the basis of data information presented to Government by Export Promotion Council on Finished Leather and Leather Products, the rates were revised and with effect from October 1975 the following rates were introduced:

Leather footwear/components	40% of the air freight paid but limited to 7% of the f.o.b. value.
Finished leather & leather goods	40% of the air freight but limited to 10% of the f.o.b. value.

6.11. To a further enquiry as to the actual expenditure incurred on account of air-freight subsidy, the Ministry of Commerce furnished the following note:—

“The details of actual expenditure during the last five years regarding amount of air-freight subsidy paid by Government are not readily available. However, a statement showing details of

actual expenditure on account of total subsidy i.e. cash compensatory support and air-freight subsidy finished leather and manufactures is as under :—

		Rs. (In lakhs)	
Year		F.O.B. value of exports	Cash assistance paid including air freight
1974-75	. . . . .	1702.55	95.28
1975-76	. . . . .	5836.80	301.58
1976-77	. . . . .	22535.96	1354.98
1977-78	. . . . .		2292.48 "

6.12. The Ministry of Commerce appointed a Task Force Leather and Leather Manufactures and one of its terms of reference was "to make a review of the incentives/concessions in the light of the above and make recommendations".

6.13. Although an Interim Report has been submitted, recommendations of the Task Force on this particular reference has been held over for the Final Report. The Interim Report has however touched upon some issues relating to duty drawback :—

- (10) The existing flat drawback rate of 3.6 per cent on the f.o.b. value of finished leather exports does not provide sufficient incentives for upgradation of lower grade leathers. The drawback rates and the pattern thereof need to be reviewed.
- (11) The present duty drawback system is not providing adequate incentives for making high value shoes. The drawback rates and the pattern thereof need a review.

6.14. During the evidence of the representatives of the State Trading Corporation of India Ltd., the Committee were informed as follows :—

"Footwear leather goods are fashion item. If the material does not reach during the season for which it is intended, then there will be no sale, and if we send it by steamer, then the minimum period is 5 weeks—3 weeks is the voyage period. Then on Bombay and Calcutta Ports, there will be a backlog. But the point is can we afford to wait for five weeks? If it goes by air, it takes maximum of one week. There were occasions when there had been bottlenecks. But by and large, we have seen that the period is only for one week.

We want that our material should reach the destination within a short time, say, a week or so."

6.15. It was further stated that:—

"For a pair of shoes that we export to the Soviet Union—they go by sea the cost is about Rs. 2½ to Rs. 2 per pair of shoes. If it goes by air, Rs. 12.

We want to build more infrastructure at the airports and everywhere to have more jobs for the people. The buyer in USA or UK or anywhere else says: I want my goods within a week and by air."

6.16. The representative went on to say:—

"In the case of the Soviet Union, we always send it by sea. In the case of other countries, West Europe and USA, the buyer insists that we should send it by air.

Secondly if it goes by air, the product reaches the destination almost fresh and has therefore greater saleability. Thirdly it provides quicker realisation of funds and it saves interest. The chances of being affected by the humid sea weather are less and we earn a little more of foreign exchange by way of freight."

6.17. In case of sending the consignment by sea, it was stated that there was congestion in the port in Bombay and then, from Agra to Bombay and Agra to Calcutta, they have to be transported either by truck or by rail. Quite often they go by rail. In case of USSR there was no proposal to airlift the shoes.

6.18. The Committee were also informed that the subsidy of air freight was allowed from February 1971 in respect of all contracts and prior to that air-freight paid used to be shared by the sellers and the buyers. They were further informed that the subsidy proposed was initiated simultaneously by the STC, Leather Export Promotion Council and the DGTD.

6.19. Asked whether any scientific assessment has been made to ascertain the impact of different subsidies given, the representative of the STC stated that:—

"We have not made any scientific analysis as such. But the Ministry of Commerce from time to time ask for certain information and certain consultations took place.... as a result they

came to the conclusion that unless some subsidy is granted, the Indian product in the foreign market will not be competitive. It is because of this, the Government agreed to extend certain assistance in the form of cash incentive, duty drawback and air freight subsidies."

6.20. During the evidence of the representatives of the Ministry of Commerce, the Committee enquired as to how these incentives worked in actual practice and have these incentives gone to the primary producer. The Commerce Secretary stated :—

"The export incentive is in the form of a cash compensatory support, plus replenishment import licensing scheme, as in the case of several other commodities. And the export incentives have definitely boosted the export of finished leather over a period of years. I will give you the figures. This cash compensatory support was given in 1975 for finished leather and leather goods. Since then the export of these items have gone up from Rs. 56 crores to around Rs. 152 crores.

The whole objective of giving incentives is to see that the goods become competitive in foreign market. The incentives are given to the exporters not to export but to buy goods at a relatively high price and still market them abroad. Where the operations are done through the STC, the STC has a specific arrangement by which this incentive benefit is passed on to the manufacturer supplier."

The Commerce Secretary further added that:—

"Except the marketing forces which are operating and they have incentives to pass on, this will be reflected in their bargaining position. Secondly the export has gone up after the cash support was given. So, the volume of goods which enter the export has gone up, which means more goods are delivered for export after the incentives which in fact means, in some form or the other, that this has generated bigger sector than otherwise would have taken place.

* * * * *

"The main object of this export incentive is to give support to the exporter, otherwise this export would not take place. It is not with a view to increasing the total profit. In other countries all duties are refunded there, we do not refund that. Anyhow, we shall make a study and let the Committee know about it."

6.21. In a note on the evaluation of the impacts of these incentives submitted to the Committee the Ministry of Commerce, after showing the increase in the quantum of export of different items under leather, have stated—"the air-freight subsidy to Indian exporters helped them to a great extent. . . .the cash compensatory support has greatly contributed to increase the competitive strength in the international market."

6.22. To another query regarding the total amount of incentives given to the exporters and benefit thereof passed on the manufacturers, particularly in the small scale sector during the last five years, the Ministry informed the Committee in a note as follows :—

"As had been submitted to the Committee in so far as STC is concerned all export incentives made available by the Government are passed on by STC to the suppliers. Government have however, no readily available information regarding the benefits of the total export incentives given on exports of leather and leather products to the exporters which might have been shared in some measure or the other with the manufacturers in the small scale sector. While the export benefits are given to actual exporters only, it would be difficult to collect information as to in what manner they may be passing on these benefits to the manufacturers in the small scale sector etc. It may be stated as a general premise that because of the export incentives the exporters would find it possible to give a better price to the manufacturers and as the incentives and the scales thereof are widely known, the small scale manufacturers etc. can bargain for a better price keeping these incentives in account while supplying to other exporters."

6.23. As regards the evaluation of the impact of the incentive scheme the Ministry further stated :—

"The Ministry is generally of the view that the incentives have positively stimulated the export of finished leather and leather manufacturers.

The Task Force is reviewing the entire scheme of incentives and concessions for leather and leather manufacturers."

6.24. In a note submitted to the Committee the STC stated as follows—

"All types of export incentives made available by the Government are passed on by STC to the suppliers. In fact, these incentives are meant for manufacturing units to enable them to improve their capacities and also to make competitive offers."

6.25. The Government seems to have relied mainly on controls and subsidies to bring about the development of finished leather goods and their exports. As the Committee have pointed out earlier, control could work only if the enforcement machinery is well equipped and effective, which is not the case today. A system of export subsidies is justified only if the cost of production in the country is adverse against the ruling international price for the relevant product, which again is not the case. In the prevailing situation, the subsidies in the form of cash compensatory support and the air freight subsidy have largely benefited the middlemen in the country and the affluent consumers abroad. Although these and the duty draw back as well as the import replenishment allowance were mainly intended to improve the capacity of genuine manufacturers, no scientific study of the impact of the incentive scheme seems to have been undertaken by Government. In any case incentive schemes impose a severe strain on the exchequer.

6.26. Even without export subsidies/concessions there has been transfer of surplus from the poor to the rich within the country and from this poor country to the affluent ones of the world. Annually the cost of import replenishment and the cash compensatory support inclusive of air freight subsidy, work out to Rs. 50 crores. The Committee have no figures of duty draw back allowance. A task force is stated to be reviewing the entire scheme of incentives and concessions for leather and leather manufactures. The Committee desire that the task force should take into account the issues raised in this report. They would await the outcome of the review. The concept of "export at any cost" of the tax payers in the country and the slogan of "export or perish" have to be abandoned forthwith. Certainly in the case of leather and leather goods, the Committee see no reason why it should be in the buyers market. A time has therefore come to critically review the export strategy.

6.27. The Committee find that a number of Task Forces/Committees have been constituted in recent years. The composition of these are such that either they have hardly any first hand and intimate knowledge of the subject or have some vested interest. The Committee do not therefore like proliferation of such devices to delay or scuttle right decisions

VID

COORDINATION AMONG DIFFERENT GOVERNMENT AGENCIES

At present the following Government agencies are involved in one way or the other with the leather industry in the country:—

1. State Trading Corporation of India Ltd (Leather Division).
2. Bharat Leather Corporation Ltd., Agra
3. Tannery and Footwear Corporation Ltd., Kanpur.
4. Central Leather Research Institute, Madras.
5. Leather Development Corporation at the State Levels.
6. Small Scale Industries Development Organisations at the State levels.
7. Directorate General, Technical Development.
8. Khadi and Village Industries Commission.

7.2. Two Promotion Council viz. Leather Export Promotion Council, Madras and Export Promotion Council for Finished Leather and Leather Manufactures Kanpur are also concerned with exports.

7.3. The Bharat Leather Corporation Ltd. was registered on 30-3-1976 to serve as an apex body for the development of leather industry on sound lines and create suitable infrastructure for the purpose in the country. It started functioning from October, 1976.

7.4. The Ministry of Industrial Development has informed the Committee in a written note that the Bharat Leather Corporation is concerned with all aspects of leather development with specific reference to growth in small scale sector. It was conceived to act as a catalyst for hastening the process of growth through creation of suitable infrastructure for this purpose either on its own or through the agency of State Leather Development Corporations. The Corporation has already initiated activities, which are both developmental and commercial.

7.5. On an enquiry whether the Bharat Leather Corporation has actually started functioning the representative of the Ministry informed the Committee on 19-10-1978 as follows:—

“It has started functioning. In fact there is a proposal to set up a common facility centre in Kanpur. A plan has already been

drawn up and it will start functioning before the end of this year. Secondly, to provide marketing facilities to small and cottage units, a leather emporium is being opened in Connaught Place (New Delhi). The site has already been chosen. It will start functioning from next month. Similarly there is a proposal to set up these emporia in other metropolitan centres also. They will act firstly as a show window for the products of the cottage and small units. Secondly, they will provide retail outlets, if they want to keep their products there for sale. Facilities will be provided by these emporia for this purpose. Thirdly they will help in the exports and in marketing them in the domestic market also."

7.6. The Tannery and Footwear Corporation of India Ltd., Kanpur was incorporated on 22nd February, 1969 to take over and run the Cooper Allen North West Tannery Branches from M/s. British India Corporation Ltd., Kanpur on socio-economic considerations. These units were transferred on 23rd May, 1969 under an agreement signed with the British India Corporation Ltd.

7.7. TAFCO engaged in production of leather. Leather footwear and leather goods including DMS boots for Defence Services.

7.8. Regarding performance of TAFCO, the representative of the State Trading Corporation of India Ltd. informed the Committee during evidence on 21-9-78 as follows:—

"Its performance is unsatisfactory. They requested us to give them first preference. We did give them the first preference. So far we have given them seven orders. They returned 3/4 orders after keeping them for a few weeks. And out of the four other orders, they had asked for extension of time. Now it is very embarrassing for us to go to a foreign buyer every now and then for extension of time just because it is a public sector undertaking."

7.9. On being asked whether TAFCO was exporting directly, the representative of the STC replied:—

"It may not be more than four to five per cent. Last year they signed a memorandum of understanding. With a company in America-CITC, which says that TAFCO will manufacture 5000 pairs of shoes per day for a period of five years and they

will be lifted or imported by that company and that company will give advance technology quality control personnel, etc. But it did not materialise, as TAFCO has yet to take a decision. So in effect, there was no export."

7.10. The Central Leather Research Institute, Madras which is one of the chain of national laboratories under C.S.I.R., was established in the year 1953. The main objective of the Institute is to develop appropriate technology and transfer it to the leather industry in addition to building up of technical manpower through effective and purposeful training programme.

7.11. During evidence of the representatives of the Central Leather Research Institute, Madras, the Committee enquired whether the State Trading Corporation had at any time sponsored need oriented research by the CLRI, the Director of the Institute explained as follows:—

"They (STC) have not yet sponsored any need-oriented research by the CLRI. But I must express that they have been coming to us quite often to have discussions and we are exploring the possibilities of having some projects from the STC. But as of now no project has been initiated by them. I think there is a big necessity of sponsored research and this is one factor where certainly the STC and CLRI can collaborate in having projects particularly the need based projects."

7.12. On an enquiry of the Committee if the Leather Development Fund maintained by the STC could be utilised for problem-oriented research and extension relevant to participants in exports through the STC., the Director of the Institute replied:—

"As far as the R&D is concerned, I would not say that we are inhibited for want of funds. But I must say there are some constraints. After all we cannot go beyond 1½ per cent plus or minus from the previous years, budget. If new projects are to be taken up, more funds will be necessary and in circumstances like that, I think, sponsored project of an organisation like STC would go a long way and here a particular project which I would recommend and about which I was talking to the people from STC also was that STC could to some extent help us in the Technical Training Programmes...This is the field where they can certainly help us in addition to helping the Institute with some latest machinery."

7.13. On another enquiry whether there was any standing arrangement between the STC and the CLRI in this regard, the Director, CLRI stated as follows:—

“There is no established arrangement. There has not been any direct help from STC so far, except a little bit of consultancy.”

7.14. It was revealed during evidence that the Central Leather Research Institute compiled statistical bulletins on India's foreign trade in leather and leather products. Asked whether these publications were being passed on to the STC and whether these publications were being then passed on to the SAC and whether there was a dialogue with them based on the publications, the Director, CLRI, stated that:—

“We have not had that type of dialogue. We are distributing the bulletins to many organisations. we consult them, but not in this particular business of statistics being exchanged and their feeding us back with information.

7.15. The Director CLRI suggested:

“I would suggest close collaboration with the Central Leather Research Institute both for testing leather and for footwear, so that we are able to tell them whether it is good enough for export. This sort of collaboration is not taking place now.

* * * * *

They (STC) have been testing so far whether they are exporting themselves. So, if they get a clearance from CLRI I think they would be on much more firmer ground than they are on today. We have testing facilities and we welcome STC to make CLRI one of the Institutes for testing their products.”

7.16. On an enquiry of the Committee during the evidence of representatives of the State Trading Corporation of India Ltd. regarding the relationship of the STC and the CLRI, the representative of STC stated as follows:—

“In 1960-61, we had some problem of fungus growth in the shoes that we were exporting to Soviet Union. We gave this problem to CLRI. They had given certain solutions. We were not much satisfied about it.

If we need service, we will certainly avail of it. We have our own laboratories in Delhi and Aera. We will be having more in Calcutta, Madras and Bombay.”

7.17. They representative went on to say:

“We need a report within two hours. We cannot afford to send it to the CLRI and wait for six weeks. We get it done in our laboratory. When some basic research is required, we give it to the CLRI.”

7.18. In regard to coordination among different agencies, the Ministry of Industrial Development stated in a note furnished to the Committee as follows:—

“The Bharat Leather Corporation has been set up to serve as an apex body responsible for the development of leather industry on sound lines and create, suitable infrastructure for this purpose. The Corporation is expected to function essentially as an extension agency concerned with almost all aspects of the leather development with specific reference to the growth in the small scale and cottage sector. At the time of the formation of the Corporation Government had considered the desirability of having a unified agency for looking after the entire amount of the leather industry including exports and decided that the new Corporation should establish suitable working relationship with the State Trading Corporation of India to take full advantage of the expertise and facilities in effecting export of leather and leather products. In order to achieve functional coordination between the Bharat Leather Corporation and the State Trading Corporation of India, Government are considering the question of associating a representative of the State Trading Corporation of India on the Board of Management of the Bharat Leather Corporation.

The Tannery and Footwear Corporation of India Limited, Kanpur is a production unit and functions like any other production unit in the private sector. In order, however, to achieve a measure of coordination between the Tannery and Footwear Corporation of India Limited, Kanpur and the Bharat Leather Corporation, Government have appointed a common part-time Chairman in respect of both these undertakings. A representative of the STC is already associated on the board of Management of TAFCO.”

7.19. On a query of the Committee whether there was any overlapping in the activities of the State Trading Corporation of India, in as far as

leather industry was concerned, and the Bharat Leather Development Corporation, The Commerce Secretary stated during-evidence as follows:—

“So much has to be done. There is a plenty of scope for work by all organisations. My own perception of the situation is that the basic work which will include proper collection of hides and so on, will have to be done by the State Leather Corporation. The STC will concentrate mainly on the export sector and work with close liaison with these organisations. Having regard to the widespread nature of industry, the work of this industry is necessarily decentralised. I think the primary responsibility will rest with the State Leather Corporation supported and given assistance by the Bharat Leather Corporation as an apex body to have commercial, technical and other functions.”

7.20. Asked about the activities of the Leather Export Promotion Council, its Chairman informed the Committee in his evidence as follows:—

“Now, we are principally engaged in getting the market information in getting the finished leather market reports, circulating the reports to the various members and also participating in a number of fairs showing the finished leather that are being produced by our tanners and trying to bring into contacts the ultimate consumers of the exporters of this side. We are practically doing almost the same thing as Finished Leather Council at Kanpur is doing. We have asked a number of times this question as to why there should be two Councils and why not the two should be merged into one Council? The suggestion was mooted four years ago. Even Dr. Shetharamiah Committee suggested that these two Councils should be merged together and we should have one organisation to promote the export of finished leather and leather products. But later on, the problem arose on account of allocation of this item. Madras produces nearly 70 per cent of the semi-finished leather and the introduction of quota system, conversion of semi-finished to finished leather goods for export purposes would need all the technical know-now and support and they contended that the headquarters should be at Madras and since there was no accommodation in Delhi, there was also a feeling that the headquarters should be at Calcutta. I think there was a difficulty and they could not come to an agreement on this point and this matter was kept

in abeyance for some time. But I feel that there is a compromise formula acceptable to the leather industry as a whole throughout the country that the headquarters at a central place like Delhi will definitely help the leather industry as a whole to overcome the duplication of the work."

7.21 The Committee pointed out the need to have organised tannery for the working class. The STC in a note stated that:

"STC has set up a full fledged Research and Design Centre Head Office and an Extension Centre at Agra. Both the Centres extended assistance and guidance to small scale manufacturers and their workers in creation of designs and preparation of samples.

In order to impart training to the technicians of small scale sector, STC also organised in August, 1976 a Footwear Designers' Refresher Course of a short duration with the following objectives:

- A study of anatomical structure of human foot and its effects on scientific last making.
- Basic principles of Modern Designing by different methods. Relative advantages and disadvantages of each system so as to establish a given system for the future.
- Import and understanding on different raw-materials, their characteristics and specifications and behaviour.
- Guidelines for designing to meet specific needs of different construction; machine/mandmade manufactures.

STC has a plan to conduct such other courses in future also depending upon response from the trade and industry.

As directed by Chairman of the Committee on Public Undertakings during the oral evidence on 14th and 15th June, 1978, STC would also take up with the Government and other connected organisations like Bharat Leather Corporation; Development Commissioner, Small Scale Industries for opening training schools for giving intensive training to boys from the working class i.e. children of workers who are currently engaged in the manufacture of leather footwear."

7.22. The institutional framework for development of leather and leather goods industry and its exports is very weak and diffused. There are a number of agencies engaged in this task often duplicating each others efforts. These are also under different Ministries viz. Ministry of Commerce, Ministry of Industry etc. The maladies pointed out by the Com-

mittee in this report are largely on account of unplanned proliferation of un-coordinated agencies, which are the outcome of motivated people within the country and outside who have their own way and Government's inability to judge and formulate correct policies.

7.23. There is undoubtedly overlap between the State Trading Corporation, Bharat Leather Corporation of India, Central Leather Research Institute and Directorate General of Technical Development. The public sector Tanneries & Footwear Corporation has given a miserable account of itself and the Committee would require thorough probe into its working. On the basis of the impressions gathered by a Study Group of the Committee and information received it is clear that it has been thoroughly mis-managed. The Committee could not have a detailed examination owing to paucity of time. The Committee are, therefore, firmly of the opinion that an immediate probe should be instituted into its working by persons who are unconnected with it or by the Ministry itself.

7.24. The BLC has yet to start functioning fully as an Apex body for leather sector. Its activities should be extended to all States early. Not all the States have constituted leather corporations. There is no coordination between the STC and the CLRI either in the matter of need based research or in exchange of statistical information on trade. According to the Chairman of Leather Export Promotion Council, Madras, his council and the Export Promotion Council for Finished Leather and Leather Manufactures, Kanpur have lost their relevance to exist as two distinct entities. Lack of agreement on the Headquarters of unified council alone seems to stand in the way of the merger.

7.25. The position stated in the foregoing paragraphs is very distressing. It is no wonder that the leather sector has hardly developed not to speak of the country not taking its rightful place in the world trade. The Committee strongly feel that the Government should urgently consider setting up a unified institutional arrangement in the form of a Leather Board on the lines of Commodity Boards like the Coffee Board to take care of regulatory, developmental and marketing aspects. In view of the export potential of the leather sector, the Committee recommend that this Board should be under the Ministry of Commerce.

JYOTIRMOY BOSU,

Chairman,

Committee on Public Undertakings.

NEW DELHI;

April 19, 1979

Chaitra 29, 1901 (S)

APPENDIX

SUMMARY OF CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS CONTAINED IN THE THIRTY FIFTH REPORT

S. No.	Reference to Para No. in the Report	Summary of conclusions/recommendations
(1)	(2)	(3)
1	2.14 and 2.15	<p>Traditionally the leather sector offered immense scope for a rapid expansion of employment and substantial earnings of foreign exchange with comparatively lesser capital input. Unfortunately, the comparative advantage that the country possessed, was hardly exploited; instead highly capital intensive industrialisation was embarked upon, justified partly if not wholly, by export possibilities. Although STC was in the field of export of leather and leather footwear for a long time, it made virtually no impact. A belated attempt was made in 1972 in constituting a committee to go into leather exports. Since then, a few more committees and task forces have gone into one aspect or the other of the industry. A system of export controls and subsidies was evolved as if it was the panacea for all ills that afflicted the industry. The Committee are positive that the control was not effectively enforced and that the subsidies went to benefit the rich middleman in the country and the affluent consumers abroad more and more. The real problem lies in the country's incapacity to obtain proper price for our products in the international markets owing to malpractices by the trade as well as lack of proper institutional framework to check these malpractices and an imaginative sales promotion abroad not to mention development of skills or</p>

infra-structural facilities in the country for value added finished leather goods exports.

The Annual Report of the Ministry of Industry for the year 1976-77 claimed that the export of leather and leather goods would be of the order of Rs. 600 crores by the terminal year of the Fifth Plan which in the opinion of the Committee was easily achievable. However this has not been realised even to the extent of 50 per cent. The Annual Reports for the subsequent years, are silent about the target, although the nation has a right to know what was responsible for the failure. One would have expected that the Ministry would bring out the performance against the target and explain the short-fall. A deliberate attempt to avoid exposure of the costly failure is abundantly clear. The Annual Reports hiding vital information placed before Parliament as a ritual year after year amounts to evasion of responsibility. In such a situation accountability of the executive to Parliament can hardly be ensured. Government should, therefore, take a serious note of this and see that the Annual Reports bring out all relevant facts to have a proper assessment of performance.

2.16. A package of measures, regulatory and developmental and an effective marketing strategy with a proper unified or well coordinated institutional arrangement were needed to achieve the desired objective. The Government was, however, dragging their feet all alone. The failure to achieve the target has to be viewed against this background. The Committee have dealt with rather elaborately the ineffective operation of the STC, inadequate or distorted developmental efforts and the almost complete lack of coordination between different agencies connected with the leather and leather goods industry in the succeeding sections of this Report.

1	2	3
2	3.60 and 3.62	<p>Footwear accounts for more than 80 per cent of leather produced in the world. Manufacture of footwear in our country has been reserved for small scale sector. Its employment potential and the value added through very cheap labour input in the country, need hardly any emphasis. It is a pity that the country's share in the world footwear trade is hardly 1 per cent. This has assumed tremendous significance in view of the ever increasing need to find employment for our teeming millions and the necessity to raise foreign exchange resource for development financing. One would have therefore expected that the S.T.C. which was in the field of footwear exports since 1956 should have acted as a spur on development of footwear manufacture and its exports. The result is next to nothing.</p>

The exports of leather footwear (including components) amounted to a mere Rs. 34 crores in 1976-77 even long after canalisation of footwear export through the STC. This was about 11 per cent of the total exports leather and leather goods. The exports through the STC were consistently below the modest target set by itself. The exports were mostly to USSR on a Government to Government basis. Thus the STC has made virtually no impact as yet.

The export of footwear was done by "Associates" and "Fabricators" through the STC. The former are identified by the foreign buyers and orders are placed on them. Such Associates included two merchant exporters accounting for Rs. 5.75 crores worth of exports out of a total of Rs. 25 crores and the organised sector accounted for Rs. 3 crores. These merchant exporters and the units in the organised sector such as Batas, a multinational company, corner the export subsidies and other incentives. Admittedly, the merchant exporters could not be elimi-

nated owing to the buyers' preference for them. The STC has, however, claimed that the balance of Rs. 16 crores came from small scale sector manufacturing units. This claim also fails on closer scrutiny.

- 3 3.63 The Committee were informed that a firm controlled by one Shri Jiwand Singh had received orders in several names—Aero Traders (with two sister concerns, Aero Trader and Aero Export) Aero Shoes, Aero Shines etc. The value of orders placed on Aero Traders was Rs. 104 lakhs, Rs. 82 lakhs and Rs. 123 lakhs respectively during 1975 to 1977. Though the STC has included this firm in small scale sector, there was no valid certificate of registration with the Director of Industries after 18th July, 1973. The Ministry are unable to say how the footwear was procured by them for export. The orders placed on Aero Shoes were Rs. 10 lakhs, 40 lakhs and Rs. 50 lakhs during 1975-76 to 1977-78. A scrutiny by the Committee of certain fields of the STC revealed that Aero Traders and Aero Shoes were one and the same with identical telegraphic and telex codes and that one Shri Subhas Sinha who on resignation from the STC joined the Aero Traders, had been the Technical and Development Director of the Aero Shoes. All this gives an indication of the extent to which manipulation could take place in cornering the benefits accruing out of the STC's operation. The matter, therefore, requires a thorough probe and prosecution should follow if any malpractice is established.
- 4 3.64 It is unfortunate that the STC could not develop
and small scale units and especially cooperative societies
3.65 in the context of the footwear exports. Although
there were 52 cooperative societies engaged in the
manufacture of footwear, functioning under the
National Federation of Industrial Cooperatives, 21

in Delhi and 31 at Agra, no order could be placed by the STC on any of them during the year 1977-78.

An interesting feature that came to the notice of the Committee is that largely the exports bear the brand names of the foreign buyers leaving practically no scope for popularising our products. That this should be so, after two decades of STC's entry in the international market, is deplorable. Curiously the price for the exports to USSR was on a cost (which is negligible in India) plus basis. Until recently, there was no direct involvement by the STC in the exports to countries other than USSR. Export contracts to other countries are even now mainly being finalised and executed by the exporters in the private sector with the only difference that these are made on STC's account. According to Audit, the Corporation has not devised any mechanism for ascertaining the competitiveness of the price secured with reference to the price ruling in the importing country. The Committee were informed that the price in the importing countries was at least four times the price obtained by us. The claim of the STC that the unit value realised has increased by 13 per cent over the period 1972-73 to 1976-77 does not at all impress the Committee.

- 5 3.66 A case of export of leather footwear and components to the USA handled by the STC as commented upon by the Comptroller & Auditor General of India typifies the way the STC functioned. The net result of the deal with the Acme Boot Company of USA was that the STC had to bear as much as Rs. 27.56 lakhs by way of price differential between the price paid to the manufactures and the price realised by the STC during the period 1967-68 to 1972-73. This does not include the extra expenditure on the air freighting of the consignment since February, 1971 fully subsidised by the Government, which was earlier shared between the manufacturer and the

buyer. This is one of the numerous examples of how advanced nations are shedding crocodile tears for the plight of the poorer nations but continue to exploit them with impunity. In fact the Third World is in the grip of severe economic exploitation. Indian authorities have fallen in pray to the slogan 'Export or Perish' and subsidise the far too wealthy nations for their luxury goods at the cost of starving Indian people. This 'Export or Perish' slogan should be done away with forthwith. Export should be made on remunerative prices.

- 6 3.67 The Committee are distressed to hear of corrupt practices of various kinds in the Leather Division of the STC. Further, a number of officers have on retirement/resignation, taken up position in private sector having business dealing with the STC. One of them Shri Subhash Sinha is connected with the Aero Traders which has dubious deals with the STC as already brought out by the Committee. This raises the basic question whether there are no restrictions on commercial employment of executives of public enterprises immediately after their retirement/resignation as in the case of Government servants and if so, how such things could happen in the STC. The Committee expect the Government to examine this question and let them know what they propose to do in the matter.

- 7 4.23 The export of semi-finished leather was rightly
 to brought under Export Control Order with effect from
 4.25 December, 1972 and was canalised through the STC
 with a quota system to restrict its export, to obtain
 a better price and to go in for increased finished
 goods export. However, according to Audit, the
 STC was not in a position to compare the local sales
 price with the unit value realisation on its exports.

In the absence of canalisation of finished leather export, it was difficult to determine whether the quota restriction on export of semi finished leather was circumvented by individual exporters by passing out of the country semi finished leather in the guise of finished leather. It was left solely to the customs authorities to check this and it was only in October, 1977 detailed guidelines were issued by the ISI and enforced by Government.

The points mentioned in the foregoing paragraph assume significance in the light of the fact that the export of semi finished leather was always considerably less than the quota fixed in the aggregate. The conclusion that either the quota as fixed and operated did not bring about the desired shift in export or there was large scale misdeclaration by exporters, in collusion at some level with the foreign buyers, is inescapable. The latter is a certainty. In fact the finishing capacity in the country has been utilised only to the extent of 50 per cent. In this connection it is also worth mentioning that although international inflation index suggested an increase of 40 per cent between 1973 and 1976 the unit value realisation in respect of EI Hides and Skins has increased only by 19 per cent according to the statistics compiled by the DCI&S. This brings out the extent of possible under invoicing indulged in by the exporters.

To check the invoice manipulation it was vital to have a systematic watch on the international prices. However, according to the Director, General Leather Research Institute, the STC had not come out with full reports and intelligence so far. The Ministry of Commerce further informed the Committee that no detailed guidelines were issued to the STC for checking the prices. What is worse is that the STC has not kept on record details of cases where the prices were found to be low.

-
- | 1 | 2 | 3 |
|---|---|---|
|---|---|---|
-
- 8 4.26 The Committee have no doubt that the scheme of canalisation has not been implemented properly. They would call upon the Government to explain why there was no comprehensive look at the problems at the time of bringing the semi-finished leather under Export Control Order.
- 9 4:27 In view of substantial unutilised capacity for finishing of leather, the Committee feel that a time has come to ban as speedily as possible the export of semi finished leather taking utmost care to see that no hardship whatsoever is caused to the workers who should be trained before hand and absorbed in leather finishing or leather goods manufacturing industry. Further the export of finished leather should also be brought under a quota system to progressively take the country forward as a major exporter of leather footwear and other leather goods. In doing so, the Committee expect that the Government will take a lesson from the past experience and ensure that there is no loophole or deficiency is allowed to remain in the system.
- 10 5.35 Under the scheme of canalisation, the STC was expected to provide an institutional framework not only in regulatory sphere but also in developmental arena. Three fourth of the service charge of 1 per cent of the FOB value of export of semi-finished leather was to be credited to a Development Fund to be utilised for development of leather industry. The Fund was however, established only a year after the canalisation and it took nearly another year and a half for the Government to decide about the utilisation of the Fund. Out of a total accretion of Rs. 4.9 crores as at the end of March, 1978, the amount spent was only Rs. 1.37 crores. Further utilisation of Fund is yet to be decided upon. A study Group of the Committee which visited a number of places connected with leather and leather goods industry heard numerous complaints from small scale manufactures

1

2

3

on the utilization of the fund. This is a sad commentary on the way of the Ministry functioned.

- 11 5.36 The meagre expenditure out of the Development Fund was mainly an import of machinery for five Common Facility Centres. It is doubtful whether the STC is monitoring the working of these Centres. Further the Committee were informed that the CBI is conducting an enquiry against Shri Prem Seth, formerly Executive Director of the STC who is alleged to have entered into a criminal conspiracy with a local firm with a view to cause pecuniary advantage to himself. In furtherance of this conspiracy, a foreign firm was allegedly influenced to change their local representative through whom several orders of import of machinery were placed without calling for proper competitive quotations and adopting proper procedure. The Committee would await the outcome of the investigation and the action taken on the basis thereof. The progress of the investigation by CBI is very slow and it should be expedited as at this rate corruption cannot be checked.
- 12 5.37 Earlier a scheme for mechanisation of small scale
and 5.38 export oriented units mooted in August, 1968 and
 another scheme for running an equipment and materials bank of imported machinery, chemicals and decorative materials etc. formulated in June, 1972 by the STC, failed. Under yet another scheme of concessional financing evolved in 1976, STC could only help importing machines (value Rs. 33 lakhs) for 20 units of which 12 have been installed generating export of only Rs. 8 crores of shoe uppers and a machinery (value Rs. 135 lakhs) for 9 tanneries generating export of another Rs. 7 crores. One of the footwear units which received certain machinery was thrust on it and that thereafter no orders were placed on it for export of its products. The allegations of the manufacturer require a probe to find out why no orders could be placed on him. The Committee strongly suspect some corrupt practice of the

officers of the STC behind this. It is an economic waste to import capital goods for an export oriented unit if it is not going to generate exports. What is worse is that when the capacity of imported machines remain unutilized further imports take place allowing the foreign suppliers to exploit us.

In view of what has been stated above and in view of liberalisation of imports of capital goods by private sector, it is absolutely necessary to watch the performance of the units which are allowed to import machinery in order to apply the correctives promptly. The Committee would also urge that the idea of starting a material bank should be revived to cater to the needs of small sector which has at present 1291 units.

43

5.39
and
5.40

Developmental efforts do not merely consist of assisting in the procurement of capital goods and in building up of infrastructural facilities; the latter is not much to speak of. It is also equally necessary to launch an effective drive for sales promotion abroad. This is where the failure of STC is even more glaring. Its foreign offices numbering 20 have done precious little in this regard. It is certainly not a creditable performance that the STC could receive only 11 enquiries from its foreign offices which generated business to the extent of about Rs. 30 lakhs during a period of three years. The Chairman of the STC admitted this unsatisfactory position in his evidence before the Committee. It also came out that there is neither a show room nor a sales depot of the STC in any country abroad.

The Committee are firmly of the opinion that for profitable sale of Indian products or produce, like leather and leather goods, tea, coffee, tobacco, engineering goods etc. it is absolutely necessary that the authorities should start Show-Room-cum-Sale-Centres in important cities in Europe, Britain,

North America, Gulf Countries, Japan and other important markets. This job could well be undertaken by the STC itself as part of their foreign offices, which number twenty.

- 14 5.41 Considering the employment potential of the industry the Committee are conscious of the requirement that there has to be a fair dispersal of the industry all over the country. Unfortunately, it is not the position today. The Associates of STC for the export of closed footwear are concentrated in Delhi and Agra only. The export of chappals and sandals is concentrated in Bombay and Delhi regions. Government attributing these to process of natural development displayed an utterly complacent attitude. As the STC is charged with the responsibility of developing leather industry in a manner and export in particular, the Committee desire that through its instrumentality or otherwise Government ought to bring about a balanced regional development in the leather sector. This would incidentally reduce infructuous and avoidable expenditure on transport of raw materials to manufacturing centres. The Committee further recommend that Technical Training schools should be started in all the regions especially for imparting training in shoe making for boys coming from cobblers' families with a view to improve quality of production.
- 15 6.25 The Government seems to have relied mainly on
 and controls and subsidies to bring about the development
 6.26 of finished leather goods and their exports. As the
 Committee have pointed out earlier, control could
 work only if the enforcement machinery is well
 equipped and effective, which is not the case today.
 A system of export subsidies is justified only if the
 cost of production in the country is adverse against
 the ruling international price for the relevant pro-
 duct, which again is not the case. In the prevailing

situation, the subsidies in the form of cash compensatory support and the air freight subsidy have largely benefited the middlemen in the country and the affluent consumers abroad. Although these and the duty draw back as well as the import replenishment allowance were mainly intended to improve the capacity of genuine manufacturers, no scientific study of the impact of the incentive scheme seems to have been undertaken by Government. In any case incentive schemes impose a severe strain on the exchequer.

Even without export subsidies/concessions there has been transfer of surplus from the poor to the rich within the country and from this poor country to the affluent ones of the world. Annually the cost of import replenishment and the cash compensatory support inclusive of air freight subsidy, work out to Rs. 50 crores. The Committee have no figures of duty draw back allowance. A task force is stated to be reviewing the entire scheme of incentives and concessions for leather and leather manufactures. The Committee desire that the task force should take into account the issues raised in this report. They would await the outcome of the review. The concept of "export at any cost" of the tax payers in the country and the slogan of 'export or perish' have to be abandoned forthwith. Certainly in the case of leather and leather goods, the Committee see no reason why it should be in the buyers market. A time has therefore come to critically review the export strategy.

16

6.27

The Committee find that a number of Task Forces/Committees have been constituted in recent years. The composition of these are such that either they have hardly any first hand and intimate knowledge of the subject or have some vested interest. The Committee do not therefore like proliferation of such devices to delay or scuttle right decisions.

-
- 17 7.22 The institutional frame work for development of leather and leather goods industry and its exports is very weak and diffused. There are a number of agencies engaged in this task often duplicating each others efforts. These are also under different Ministries viz. Ministry of Commerce, Ministry of Industry etc. The maladies pointed out by the Committee in this report are largely on account of unplanned proliferation of un-coordinated agencies, which are the outcome of motivated people within the country and outside who have their own way and Government's inability to judge and formulate correct policies.
- 7.23 There is undoubtedly overlap between the State Trading Corporation, Bharat Leather Corporation of India, Central Leather Research Institute and Directorate General of Technical Development. The public sector Tanneries and Footwear Corporation has given a miserable account of itself and the Committee would require thorough probe into its working. On the basis of the impressions gathered by a Study Group of the Committee and information received it is clear that it has been thoroughly mis-managed. The Committee could not have a detailed examination owing to paucity of time. The Committee are, therefore, firmly of the opinion that an immediate probe should be instituted into its working by persons who are unconnected with it or by the Ministry itself.
- 18 7.24 The BLC has yet to start functioning fully as an Apex body for leather sector. Its activities should be extended to all States early. Not all the States have constituted leather corporations. There is no coordination between the STC and the CLRI either in the matter of need based research or in exchange of statistical information on trade. According to the Chairman of Leather Export Promotion Council, Madras, his council and the Export Promotion

1

2

3

Council for Finished Leather and Leather Manufactures, Kanpur have lost their relevance to exist as two distinct entities. Lack of agreement on the Headquarters of unified council alone seems to stand in the way of the merger.

19

7.25

The position stated in the foregoing paragraphs is very distressing. It is no wonder that the leather sector has hardly developed not to speak of the country not taking its rightful place in the world trade. The Committee strongly feel that the Government should urgently consider setting up a unified institutional arrangement in the form of a Leather Board on the lines of Commodity Boards like the Coffee Board to take care of regulatory, developmental and marketing aspects. In view of the export potential of the leather sector, the Committee recommend that this Board should be under the Ministry of Commerce.

© 1979 BY LOK SABHA SECRETARIAT

PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT
OF BUSINESS IN LOK SABHA (SIXTH EDITION) AND PRINTED BY THE
GENERAL MANAGER, GOVERNMENT OF INDIA PRESS,
MITO ROAD, NEW DELHI.