C. P. U. No. 420

COMMITTEE ON PUBLIC UNDERTAKINGS (1980-81)

(SEVENTH LOK SABHA)

THIRTEENTH REPORT

Action taken by Government on the recommendations contained in the Thirty-fifth Report of the Committee on Public Undertakings (Sixth Lok Sabha)

ON

Export of Leather and Leather Goods by the State Trading Corporation of India Limited.

MINISTRY OF COMMERCE

(DEPARTMENT OF COMMERCE)

Presented to Lok Sabha
Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
NEW DELHI

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The Thirteenth Report on Action Taken by Government on the recommendations contained in the Thirty-fifth Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Export of Leather and Leather Goods by the State Trading Corporation of India Ltd.

Page	Para	Line	For	Read
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*Elected w.e.f. 28-11-1980 in the vacancy caused by appointment of Shri P. A. Sangma as Deputy Minister.

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(1980-81)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 13th Report on Action Taken by Government on the recommendations contained in the 35th Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Export of Leather and Leather Goods by the State Trading Corporation of India Ltd.

2. The 35th Report of the Committee on Public Undertakings was presented to Lok Sabha on 20 April, 1979. Replies of Government to all the recommendations contained in the Report were received by 15 September 1980. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 13 February 1981. The Report was finally adopted by the Committee on Public Undertakings on 19 February 1981.

3. Analysis of Action Taken by Government on recommendations contained in the 35th Report of Committee is given at Appendix.

NEW DELHI;
March 23, 1981
Chaitra 2, 1902 (*S*)

BANSI LAL,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Thirty-fifth Report (Sixth Lok Sabha) of the Committee on Public Undertakings on Export of Leather and Leather Goods by the State Trading Corporation of India Ltd. which was presented to Lok Sabha on the 20th April, 1979.

2. Action Taken notes have been received from Government in respect of all the recommendations contained in the Report. These have been categorised as follows:—

(i) *Recommendations/observations that have been accepted by Government.*

Serial Nos. 1, 5—7, 9—12, 14, 17 and 18.

(ii) *Recommendations/observations which the Committee do not desire to pursue in view of Government's replies.*

Serial Nos. 4 and 16.

(iii) *Recommendations/observations in respect of which Government's replies have not been accepted by the Committee.*

Serial Nos. 2, 3, 8, 15 and 19.

(iv) *Recommendation/observation in respect of which final reply of Government is awaited.*

Serial No. 13.

3. The Committee will now deal with the action taken by Government on some of their recommendations.

A. *Development of leather and leather goods industry*

(i) General

Recommendation S. No. (1) (Paragraphs 2.14 to 2.16)

4. The Committee had pointed out that 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.

5. The Government, in their reply, have noted the general comments of the Committee regarding the potentiality for development of leather industry and have pointed out that it would not, however, be correct to say that highly capital intensive industrialisation was embarked upon in leather and leatherware industry. In fact, the industry, specially leather footwear and other leather manufactures suffered from acuite paucity of investment in modern machine and equipment. So far as leather finishing was concerned, it was basically a capital intensive industry. In this connection, it has been stated that STC had helped nine units in investing in machines to the extent of Rs. 152 lakhs. Additionally, STC imported machines valued at about Rs. 172 lakhs for common infrastructural facilities like leather finishing centres, testing laboratories and for units sole plant and shoe upper facility centre.

The Committee wish to clarify that they did not grudge the investment in the leather and leatherware industry. What they pointed out with regret was that the comparative advantage that the country possessed in this industry with its vast potential for employment and exports was not fully exploited as part of planned development from the beginning, although highly capital intensive industrialisation was embarked upon partly justified by export possibilities in other industrial sectors. The Committee trust that at least in future the leather and leatherware industry would receive the attention that it deserves.

(ii) Export of leather and leather goods

7. The Committee had also *inter alia* pointed out that 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 had not been realised even to the extent of 50 per cent. The Annual Reports for the subsequent years, were 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 shortfall.

8. In their reply, the Government informed the Committee that the export target of Rs. 600 crores which was indicated in the

Annual Report of the Ministry of Industry for 1976-77 was based on the assessment made by the Development Council for Leather and Leather Goods Industry and the conclusions of the seminar on exports of Leather and Leather Goods Industry, keeping in view the anticipated rise in the world prices. It has been explained that this figure could at best be taken as indicative of the trend in exports rather than as a firm target. In the subsequent reports for the years 1977-78 and 1978-79 of the Ministry of Industry, the actual exports of leather and leather goods during the preceding years were shown.

9. The Committee note the explanation of the Government that the export target of Rs. 600 crores, which was mentioned in the Annual Report of the Ministry of Industry for 1976-77, which was not achieved to the extent of even 50 per cent, could at best be taken as indicative of the trends in exports rather than as a firm target. They desire that in future the plan projections for the export of leather and leather goods should be compared with the actuals and shortfalls explained in the Annual Reports.

B. *Export of leather footwear*

(i) General

Recommendation S. No. (2) (Paragraphs 3.60 to 3.62)

10. The Committee had observed that footwear accounted for more than 80 per cent of leather produced in the world. Manufacture of footwear in our country had been reserved for small scale sector. Its employment potential and the value added through very cheap labour input in the country, needed hardly any emphasis. It was a pity that the country's share in the world footwear trade was hardly 1 per cent. This had 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 1956 should have acted as a spur on development of footwear manufacture and its exports. The result was next to nothing.

11. 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 S.T.C. This was about 11 per cent of the total exports of leather and leather goods. The exports through the S.T.C. were consistently below the modest

target set by itself. The exports were mostly to USSR on a Government to Government basis. Thus the STC had made virtually no impact.

12. In their reply Government have *inter alia* stated that the development of export of leather footwear was handicapped primarily due to industry's structural and organisational deficiencies. Footwear units find it very hard to get steady supply of quality upper leather in required colours and shades for export production of classical closed shoes. There was still greater difficulty for bottom materials like soles and heels. Indian buff hides being water absorbant do not suit the climatic conditions of western countries. Quality bottom material at reasonable prices was also not indigenously available.

13. It has been further stated that footwear industry is reserved for small scale sector, which is primarily unorganised and suffers from non-standard heterogeneous craftsmanship. Consequently, it has not attracted entrepreneurs and there is acute deficiency of capacities capable of collaboration/participation in export programme. Whatever handful of units there are, they are also overwhelmed by their organisational and financial problems. Consequently, export of footwear suffers not so much from lack of commercial or marketing skills and facilities as from production problems relating to supply of raw materials and production techniques/capacities.

14. STC's functions are primarily commercial. In addition to marketing, involving, *inter alia*, location of buyers and centralised/coordinated negotiations, STC has been offering assistance and guidance in designing and product development. Export of footwear like chappals and sandals has been moving in moderate volume from India through established trade channels. STC primarily concerned itself with the development of export of closed shoes. But due to handicaps explained above, STC could not achieve any tangible success other than exports of shoes to USSR and Canada.

15. The Committee are unable to appreciate that Government's reply which is only in the nature of explaining the existing position in regard to the pitifully low valume of exports of footwear through the STC. The STC's function in this regard cannot be regarded as merely commercial. The export of footwear was fully canalised through the STC w.e.f. 14 November 1972. The Corporation was expected to play a major role in regulation and development of export particularly when our country's share in the world if footwear

trade is hardly 1 per cent. It should, therefore, be the endeavour of the Corporation to see that before long the country takes its rightful place in the world trade of footwear.

(ii) Procurement of Footwear by STC for exports

Recommendation S. No. (3) (Paragraph 3.63)

16. 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 Traders 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 had 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 were unable to say how the footwear was procured by them for export. 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 gave an indication of the extent to which manipulation could take place in cornering the benefits accruing out of the STC's operation. The Committee, therefore felt that required a thorough probe and prosecution should follow if any malpractice was established.

17. The Government, in their reply, informed the Committee as follows:—

"Initially, Shri Jiwand Singh, proprietor of Aeroplane Shoe Factory, used to supply footwear through STC as one of the manufacturing units. In 1966, Aeroplane Shoe Factory were given the status of Associate by USSR Buyer. Later on, this firm formed into a Private Limited Company under the name of Aerotrader Pvt. Ltd., and, since then they are working as one of the Associates as merchant exporters while they have also got manufacturing units of their own namely M/s. Aero Traders and M/s. Aero Exports through whom they manufacture the goods and export them. In addition to this, they, as merchant exporter, also procure goods from others. Placing of orders on the Associates was sole discretion of the foreign buyer and STC had no say in such matters. Buyers used to indicate name of the associates in the contract indicating item numbers, quantities and prices. This Company had grown through these years through the support and patronage of the foreign buyer and STC as a canalising agency had to accept the position.

In 1976, the proprietor of Aerotraders Pvt. Ltd., in partnership with others had formed a new company namely M/s. Aeroshoes for the export of shoes uppers and shoes. It was a mechanised unit and mechineries were imported by the company themselves and upgraded the infrastructure. Buyers like GDR and USSR selected this unit for placing of orders for shoe uppers and shoes. This was rated as one of the best units with modern machinery, equipment and other facilities to manufacture shoes and shoe uppers to match the requirements of the foreign buyers. Shri Subhash Sinha, an ex-employee of STC, who resigned from STC in June, 1973, joined this Company. STC neither have any hand in his selection nor any say for his appointment in Aeroshoes."

18. The Committee had made out a case for a probe into the interlocking of various concerns engaged in production of leather footwear and exports especially in view of the fact that there was no valid certificate of registration with the Director of Industries after 18 July 1973 in the case of one of the concerns, namely, Aero Traders. From the reply of the Government it appears that Aero Trader Pvt. Ltd. were only merchant exporters. Unfortunately no probe of the kind suggested by the Committee appears to have been made by the Government. The Committee, therefore, reiterate that there is need for a probe. The matter should be taken up by the Ministry of Finance also.

C. *Canalisation of semi-finished leather*

Recommendation S. No. (8) (Paragraph 4.26)

19. The Committee observed that the scheme of canalisation of semi-finished leather had not been implemented properly. They called 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.

20. The Government, in their reply, have stated that export of all categories of semi-processed hides and skins including EI tanned and chrome hides and skins and crust leather had been canalised through State Trading Corporation w.e.f. 14th December, 1972.

21. On the recommendation of Dr. Seetharamiah Committee, which, *inter alia* examined the question of exports of semi-processed hides and skins recommended measures for speedier switch over of exports from semi-processed hides and skins to finished leather and leather goods, Government had decided to place quantitative restrictions on the exports of semi-processed hides and skins. This was done by introduction of a quota system with effect from April 1, 1973. For working out the basis for fixation of quotas, Government appointed a Group comprising representatives of the Ministry of Commerce, Chief Controller of Imports and Exports and State Trading Corporation and the Secretaries of the two Leather Export Promotion Councils, Madras and Kanpur. On the basis of the recommendations of this Group, Government had finalised the details of the quota scheme for the year 1973-74. In fixing the quotas Government had kept in view the interests of all *viz.*, the small exporters, the non-exporting tanners, and the manufacturer exporters.

22. The Government have further stated that the above policy of the Government has been quite successful in achieving its objectives. The intention of the Government was to gradually reduce the quota of exports of semi-tanned hides and skins in order to promote manufacture of finished leather.

23. The Government have also pointed out that the international leather market was quite complex and was also in the grip of recession at present. The objective of increasing the share of value added items in the export product mix can be achieved only over a period of time. In due course, it should be possible to substantially augment the share of leather goods in our export product mix as well. Meanwhile, the export policy, including the canalisation aspect, is reviewed from time to time, keeping the market situation and other aspects in view.

24. The Committee still feel that it was not enough to have merely canalised the exports of semi-finished leather under quota restriction. A package of measures, regulatory and developmental, and an effective marketing strategy for finished leather and leather goods with a proper unified and well coordinated institutional arrangement was needed to achieve the desired objective. The Committee had already pointed out that there was lack of proper institutional framework to check malpractices in trade. It was left solely to the customs authorities to find out mis-declaration of exports and it was only belatedly, in October 1977, detailed guidelines were issued by the ISI and enforced by Government. In this connection, the Committee

note that these guidelines have been further revised by the ISI so that semi-finished leather cannot be exported in the garb of finished leather. There was no effective monitoring of prices ruling in the importing countries. Taking all this into account, it cannot be said that there was comprehensive look at the problems at the time of bringing the semi-finished leather under export control order. The Committee, however, trust that there would be no loophole left in future.

D. *Incentives/subsidy for Export Promotion*

Recommendation S. No. (15) (Paragraphs 6.25 and 6.26)

25. The Committee had observed that the Government seemed to have relied mainly on controls and subsidies to bring about the development of finished leather goods and their exports. The Committee pointed out that control could work only if the enforcement machinery was well equipped and effective, which was not the case. A system of export subsidies was justified only if the cost of production in the country was adverse against the ruling international price for the relevant product, which again was not the case. In the prevailing situation, the subsidies in the form of cash compensatory support and the air freight subsidy have largely benefitted the middlemen in the country and the affluent consumers abroad. Although these and the duty drawback as well as the import replenishment allowance were mainly intended to improve the capacity of genuine manufacturers, the Committee pointed out that no scientific study of the impact of the incentive scheme seems to have been undertaken by Government and that a time had therefore come to critically review the export strategy in the context of incentives and subsidies.

26. The Government informed in their reply that they were continuously reviewing the incentive scheme on the basis of date. collected from time to time from the Export Promotion Councils and STC. India may have an advantage in respect of basic raw material in the form of raw hides and skins. But due to standardisation and use of sophisticated chemicals and components, grinderies and decoratives, etc. by developed countries, quality and price-wise, the Indian leather industry is behind and it will not be correct to say that it is not in need of special export incentives in the form of cash compensatory support, duty drawback, airfreight subsidy, etc. Our industry has to be strengthened and developed.

27. The Government have further stated that 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, however, be generally stated 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 and all these benefits could not have been appropriated by middleman or importers abroad.

28. The Government have also stated that there was a regular review of the various export incentives and the Task Force in its Report recently submitted to the Ministry had recommended constitution of working groups for recommending graded structure of incentives, concession biased towards conversion of the industry to production and export of superior quality finished leather and leather goods. The Ministry had already appointed one working group for considering the formulation of export incentives on finished leather on the basis of different sophisticated varieties.

29. The export incentives, whatever form they might take, are mainly intended to improve the competitive capacity of genuine manufactures. A scientific study of the impact of incentive schemes was, therefore, necessary. The Committee do not agree with the Government that it would be difficult to collect information as to in what manner the export benefits are passed on by the exporters to the manufacturers in small-scale sector. They reiterate that this should be gone into while deciding the future pattern of export incentives.

E. *Unified institutional arrangement*

Recommendation S. No. (19) (Paragraph 7.25)

30. The Committee observed that the position as prevailing was very distressing. It was no wonder that the leather sector had hardly developed not to speak of the country not taking its rightful place in the world trade. The Committee strongly felt 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 exports potential of the leather sector, the Committee recommended that this Board should be under the Ministry of Commerce.

31. In their reply the Government informed that the Bharat Leather Corporation had already been established as an apex body under the administrative control of Ministry of Industrial Development for the overall development of leather industry, covering all the aspects right from the arrangements for collection of hides and skins in the country-side, development of infrastructure, internal marketing avenues, etc. This Corporation had started functioning. Various states have also established Leather Development Corporation for their respective States. In view of these developments, Government did not consider it necessary to go in for setting up of a statutory board on the lines of Coffee Board, Tea Board, etc.

32. The Committee still feel that no coordinated and planned development of the leather and leather goods industry would be possible under the existing circumstances of having different institutions under different Ministries for dealing with production, research and development, marketing, export promotion and regulation in public sector. They are of the view that a unified institutional arrangement, like the Coffee Board, is necessary for leather and leather goods industry. The Bharat Leather Corporation could perhaps provide a nucleus for this unified arrangement and the other institutions or their activities should be brought within its purview and the Corporation could then function under the Ministry of Commerce in view or export potential of the industry.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation S. No. 1 (Paragraphs 2.15 to 2.16)

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 infrastructural 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.

A package of measures, regulatory and developmental and an effective marketing strategy with a proper unified or well coordinated institutional arrangement were a 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.

Reply of the Government

The general comments of the Committee regarding the potentiality for development of leather industry are noted. It will not, however, be correct to say that highly capital intensive industrialisation was embarked upon in leather and leatherware industry. In fact, the industry, specially leather footwear and other leather manufactures suffers from acute paucity of investment in modern machine and equipment. So far as leather finishing is concerned, it is basically a capital intensive industry. STC had helped nine units in investing in machines to the extent of Rs. 152 lakhs. Additionally, STC imported machines valued at about Rs. 172 lakhs for common infrastructural facilities like leather finishing centres, testing laboratories and for units sole plant and shoe upper facility centre.

While there is huge scope for promoting exports of leather and leatherware and organisations like STC have to go a long way in achieving the desired objectives in this direction, some impact has already been made and the country's exports of finished leather and leatherware have been looking up for the last couple of years. Besides developing a sustained and regular market in USSR for closed shoes manufactured mainly in the small scale sector, STC has been making consistent efforts for diversification of its exports of closed shoes to other markets. STC has also succeeded in developing some exports to a sophisticated market like Canada where average unit realisation is over Rs. 100 per pair.

Regarding the average unit realisation on exports, a comparison with general international trends in prices for the period 1973—76 indicates that, barring E.I. hides and skins unit realisation in respect of other items like Wet Blue Hides and Skins and finished leather and leather footwear have increased at a rate faster than the average increase in the international prices.

As already indicated to the Committee, the export target of Rs. 600 crores which was indicated in the Annual Report of the Ministry of Industry for 1976-77 was based on the assessment made by the Development Council for Leather and Leather Goods Industry and the conclusions of the seminar on exports of Leather and Leather Goods Industry, keeping in view the anticipated rise in the world prices. This figure could at best be taken as indicative of the trend in exports rather than as a firm target. In the subsequent reports for the years 1977-78 and 1978-79 of the Ministry of Industry. the actual exports of leather and leather goods during the preceding years were shown. It would, therefore, not be correct to say that a deliberate attempt was made to conceal the short-fall in exports.

The Task Force on Leather and Leather Manufactures appointed under the Chairmanship of the Additional Secretary of the Ministry of Commerce has also observed that the time is now opportune for taking fresh and bolder policy initiatives to enable the industry and its export sector attain new heights. While the Sixth Plan projection envisages an export target of leather and leather goods of Rs. 1895 crores for the entire plan period, *i.e.*, an average of annual export figures of Rs. 379 crores, the Task Force has projected an export target of Rs. 550 crores per annum by the end of Sixth Plan. The actual achievements during 1978-79 and 1979-80 have been of the order of Rs. 330.37 crores and Rs. 187.37 crores (April-Aug) respectively. A new package of policy measures has been recommended by the Task Force and these are under process.

[Ministry of Commerce and Civil Supplies (Department of Commerce) O.M. No. 2/7/79-EP(LSG) dated 17-5-1980 and No. 2|7|78-EP (LSG) dated 22-7-1980]

Comments of the Committee

Please see paragraphs 4 to 9 of Chapter I.

Recommendation Sl. No. 5 (Paragarph 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 manufactures and the price realised by the STC during the period 1967-63 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 remunarative prices.

Reply of the Government

In 1965-66, STC received an enquiry for Cowboy Boot uppers from USA. It was a new item of export. In consultation with DGTD, it was, however, reckoned that the indigenous cost of production at that time was higher than prices offered by the foreign buyers. In the interest of developing a new line of exports, it was decided that STC should devise ways and means of financing these exports. The enquiry was subsequently enlarged to cover 9 varieties of cowboy boot uppers, cowboy boots, cut components, navy shoes and a small quantity of finished leather. In their meeting held in March, 1967, STC's Board of Directors accorded their approval to the deal involving net price differential of Rs. 31.69 lakhs.

Inspite of intensive efforts at shop-floor level at various units, commercial production capacities could not be developed for navy shoes, cowboy boots and cut components.

Subsequently, three additional contracts for 300-A type infact and children boot uppers were also concluded, involving no-price-differentials. Barring partial implementation of the first contract, commercial production for 300-A type cowboy boot uppers could also not be developed.

The contracts for cowboy boot, cut components, navy shoes and 300-A type cowboy boot uppers had to be cancelled or substituted with additional quantities of cowboy boot uppers. After cancellation/substitution of various items of production of which could not be developed, two main contracts for cowboy boot uppers emerged, the financial implications of which were originally estimated as below:

Contract	Price differential
	Rs. lakhs
(i) For 10.63 lakh prs. of cowboy uppers	31.26
(ii) For 10.50 lakh prs. of cowboy uppers	17.94

As the above contracts were long-term with deliveries running upto the end of 1974, prices with USA buyers were reviewed periodically. As and when 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 cowboy boot uppers to USA from 1973-74. The amount of price differential actually borne by STC right from 1967-68 in tabulated below:

	Rs.
1967-68 . .	2,56,083
1968-69 . .	7,25,561
1969-70 . .	8,53,170
1970-71	4,13,597
1971-72	8,83,918
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.

It may further be stated that in respect of leather and leatherware, this was the first and the last deal of export in which STC took the conscious decision of subsidising exports in the interest of development of new export lines.

It may also be stated that the initial experience gained in the development of production and export of cowboy boot uppers helped STC in deversifying exports of high-value shoe uppers to other markets like GDR, Hungary and Denmark, Bulgaria without any price subsidy. STC's total exports of components in 1978—79 have been estimated around Rs. 11 crores and the target for 1979-80 is Rs. 15 crores.

Regarding 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 were effected by Air as 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 air freighting among themselves. It was only in February, 1971, on representation from Trade and Industry, that the Govt. 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 was done as a measure of export promotion. As already stated in the foregoing paragraphs, the prices of different varieties of cowboy uppers were periodically reviewed, with M/s. Acme Boot Co. and refixed after taking into various factors including airfreight incidence.

[Ministry of Commerce & Civil Supplies (Department of Commerce)
O.M. No. 2|7|79-EP (LSG) dated 17-5-1980]

Recommendation Sl. No. 6 (Paragraph 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 restriction 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.

Reply of the Government

STC has since incorporated the following clause in their offer of appointment in the case of Managers: "On the contact of service coming to an end, for any reason whatsoever, he shall not thereafter engage himself in any manner whatsoever in any activity prejudicial or detrimental to the interests of the corporation. Further he shall not, for a period for two years from the date of the contract of service coming to an end, due to any reason whatsoever, without the prior written permission of the Corporation engage/associate himself either directly or indirectly in any business like that of the Corporation on his own account or as a partner or in service under another employer in any like business."

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2|7|78-EP(LSG) dated 27-7-1980]

Recommendation S. No. 7 (Paragraphs 4.23 to 4.25)

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 exports, 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 leather is 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 1978 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 RCl & 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.

Reply of the Government

Regarding procedure for assessment of export price of semi-processed leather in relation to international ruling prices, the following factors are to be taken into consideration:

From India, exports of semi-processed leather are categorised under two main varieties:

A. EI tanned leather which is predominantly produced from southern region.

B. Wet Blue leather from south and other regions.

EI tanned leathers are having exclusive characteristics of tannage which are not found in other parts of the World, whereas in the case of Wet Blue, since it is a mineral tannage it is adopted all over the world.

The port towns where the contracts are being registered with STC by numerous quota holders, the corporations officers there are able to judge the prevalent prices by comparison of the various contracts that have been received during a particular period. This applies to both E.I. Tanned as well as Wet Blue Leathers. Whereas in addition to the above, in the case of E.I. Tanned Leather, the Leather Export Promotion Council, which represents these E.I. tanners has evolved a method by which it publishes weekly price bulletin covering export prices of various grades and varieties of E.I. Tanned Leathers being exported, giving a specific price range of any particular commodity or variety of leather conforming to the price prevalant during a particular period. The range normally covers the highest and lowest depending upon the consumer's preference for a particular brand of leathers. This also serves as an additional index.

Additionally, through regular visits to export markets and participation in international fairs/exhibitions, managers of the Corporation are also in a position to make a fairly dependable assessment of international trends and in that context, prices being secured by different tanners for different type/combination of semi-processed hides and skins.

As regards the possibility of circumventing quota restrictions on export of semi-finished leather by passing out of the country, semi-finished leather in the guise of finished leather, it will not be correct to say that there were no broad specifications or guidelines for differentiating semi-finished leather from finished leather by the customs authorities. Certain norms/specifications were fixed and were being enforced by the customs authorities on the basis of guidelines indicated in the Workshop held at the instance of CLRI, Madras, in 1972. The matter was reviewed and more stringent and restrictive guidelines defining finished leather for export purposes have been drawn up by ISI in consultation with CLRI and other concerned agencies which were enforced w.e.f. 1-10-77.

These have been further revised by the ISI so that semi-finished leather cannot be exported in the garb of finished leather.

Export quotas for semi-finished hides and skins were introduced in 1973 on the recommendations of Seetharamiah Committee, which had recommended that the quantitative restrictions should be so progressively introduced that, within a period of 8—10 years, exports of semi-finished leathers would not be more than the level of 25 per cent of exports in 1972. Established exporters were given a period of 5 years, *viz.*, from 1968 to 1972 to select any best year of their export performance for any particular individual variety of semi-finished hides and skins. Overall export quotas were, however, pegged at a level after applying 10 per cent cut in the 1972 exports of semi-finished skins and 20 per cent cut in respect of export of semi-finished hides. Quotas of individual exporters were accordingly fixed on pro-rata basis. It was on these basis that total quota for semi-processed hides and skins initially worked out to about 690 lakh pieces. 1974-75 and 1975-76, there were no cuts on export quotas 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 which brought down the total quota for the year 1976-77 to about 600 lakh pieces of hides and skins and in 1977-78 to about 525 lakh pieces of hides and skins. In the year 1978-79, the operation of the quota system was reviewed in detail and it was decided to refix the new quotas on the basis of average actual performance of the exporters during the last three years and further making the cuts more progressive, *i.e.*, the higher the rate of the cut for the higher bracket of quota holders. As a result, the total quota for 1978-79 worked out to about 352 lakh pieces of hides and skins only. Exports during all the years have no doubt been below the total export quotas fixed for each year but it would not be correct to say that the system did not bring about the desired shift from production and export of semi-finished leather to production and export of semi-finished leather and leather goods. The quota system made a very wholesome psychological impact both on the Indian tanners as well as on the foreign importers in the sense that it made very clear to both the parties that the Government of India was determined to gradually phase out the exports of semi-finished hides and skins and increasingly promote the export of finished leather and leatherware.

Further, the cuts on quotas applied for the year 1979-80 are still more progressive, bringing down the total quantity of quotas to about 234 lakh pieces of hides and skins only as against the actual export of about 247 lakh pieces in the year 1978-79.

Regarding the point about improvement in unit realisation in the export of E.I. hides and skins during 1973—76 being much less than the international inflation index, it may be stated that the average unit realisation on the basis of clubbing together 6 different varieties of E.I. hides and skins in semi-processed form 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, export 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 piece. As per the export statistics compiled by STC in terms of pieces, it may be observed that the average unit realisation in respect of EI hides and skins has increased from about Rs. 25.65 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 export statistics compiled by DCI & S.

Regarding under invoicing, the matter is under constant review with the authorities concerned.

STC does not bring out any regular reports on international trends and prices in respect of leather and leatherware. It may, however, be stated that these are essentially consumer oriented items, not easily amendable to staple gradations. There are scores of varieties in each category-quality varying with variations in the grain colour and finish of leather; stitching and designing etc. In the context of this situation, it is not feasible to prepare any standard intelligence reports, especially for making comparison of the prices of the products being marketed in a particular region from different sources of supply.

However, by regular visits by the officers of the Corporation to export markets, by participation in international fairs and exhibitions and by feed back from foreign branches it is possible for the marketing managers of the Corporation to have a general assessment of the international trends to ensure that the prices negotiated and secured by different parties in respect of canalised items of export are not at great variance giving cushion for indulging in malpractices like under-invoicing.

STC did not keep the details of the contracts in respect of which registration was not allowed due to prices being on the lower side in the interest of smooth and steady movement of exports. The Corporation satisfied itself that there was no deliberate intention on the part of the concerned exporter to indulge in the malpractice of under-invoicing. In the interest of exports and by applying its commercial judgement, STC considered it more expedient to explain the position orally to the representatives when they came with the contract for registration so that, if feasible, they might re-negotiate the prices with the foreign buyer without any loss of time, get the contract registered with STC at proper price and effect the shipments.

It may also be stated that Customs Authorities also check prices of export commodities at the time of actual shipments.

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2|7|79-EP(LSG), dated 17-5-1980]

Recommendation S. No. 9 (Paragraph 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 leathergoods. In doing so, the Committee expect that the government will take a lesson from the past experience and ensure that ther is no loophole or deficiency is allowed to remain in the system.

Reply of the Government

The Committee's views are noted. The policy of the Government is to reduce the exports of finished leather progressively and to replace them by exports of leather goods and leather manufactures. In doing so, the stage of development of the leather products industry in the country has to be kept in view. The Task Force appointed by the Ministry of Commerce to look into the export problems relating to leather and leather industry, has recommended that quotas for export of semi-finished hides and skins may be fixed each year with reference to leather finishing capacity developed within the country, the board formula being retention of hides/skins within the country to the extent of 80 per cent leather finishing production capacities. The Task Force has also recommended that for giving a new thrust towards accelerated conversion of the industry and for production and exports of high value leather and leather manufactures, it is essential that the system of incentives/concessions itself should be so tailored to achieve this end. In the above exercise, the first task was to review and re-classify finished leather for export purpose with regard to ISI guidelines. The ISI has since revised their guidelines and these have been made effective from 1st January, 1980.

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2/7/79-EP(LSG), dated 17-5-1980]

Recommendation S. No. (10) (Paragraph 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 manufacturers on the utilization of the fund. This is a sad commentary on the way of the Ministry functioned.

Reply of the Government

The decision to constitute a development fund for the leather industry was taken in 1973 and was not conterminous with canalisation. It was decided to allocate 0.75 per cent of the service charges to the leather development fund.

The fund is to be utilised for developing Common Infrastructural Facilities for the leather industry, particularly the small and cottage units which cannot on their own afford to set up their own modern machines and equipments, an institutional machinery has now been established in the form of an Advisory Committee for drawing up projects to be financed out of the fund and to monitor the progress of such schemes Government is making all efforts to utilise these funds expeditiously and effectively for the development of the leather industry.

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2/7/79-EP(LSG), dated 17-5-1980]

Recommendation S. No. (11) (Paragraph 5.36)

The meagre expenditure out of the Development Fund was mainly on import of machinery for five Common Facility Centres. It is doubtful whether the STC is monitoring the working of these Centeres. Further 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.

Reply of the Government

STC was entrusted with the responsibility of bulk import of machines and to hand them over to the concerned authorities in the states (in West Bengal, Bihar, Tamilnadu, Andhra Pradesh and UP), who are responsible for setting up/administering the leather finishing common facility centres, especially for the benefit of small tanneries who on their own cannot afford to set up the finishing plants. Follow up action and monitoring of the operation of the centres is to be done by the Department of Industrial Development which is the administrative ministry. However, STC has been trying to keep in touch with the State Leather Corporations to ascertain the progress made in setting up and commissioning of the centres.

Regarding conducting an enquiry against Shri Prem Seth, is stated that the CBI have sent their report intimating that there is not sufficient evidence to launch prosecution against Shri P. Seth. They have also intimated that Regular Departmental Action is also not feasible as Shri Seth has terminated his contract of service with the State Trading Corporation.

[Ministry of Commerce & Civil Supplies (Department of Commerce O.M. No. 2/7/78-EP(LSG), dated 22-7-1980]

Recommendation S. No. (12) (Paragraphs 5.37 and 5.38)

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 strongly suspect some currupt 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.

Reply of the Government

Regarding non-implementation of schemes evolved in 1968 and 1972, it may be stated that it was mainly due to very lukewarm response from the trade and industry. The scheme formulated in 1976 exclusively by STC and liberally financed out of its own funds, was found attractive by the industry and consequently about 20 small scale footwear/upper manufacturing units availed of this facility and imported the machines required by them under the scheme. Most of these units were engaged in exports of leather shoes to USSR and the import of upper stitching machines by them was the objective of improving their efficiency and craftsmanship for manufacturing standardised quality shoes for export. Additionally, they could also engage themselves in the production and export of shoe uppers as components. Total exports of STC in this item (shoe uppers) have gone up to cover. Rs. 8 crores in 1977-78 and Rs. 11 crores in 1978-79. It may be made clear here that the contribution of exports of shoe uppers valuing about Rs. 8 crores as mentioned in oral evidence as well as in written replies, was not exclusively due to the units which imported the machines under the scheme. It was STC's total exports in this item in the year 1977-78.

Regarding the complaint that the imported machines were thrust upon one unit, it appears that the committee refers to M/s. Shoespo (Regd.). It may be stated that the 5 pre-fabrication machines of Torielli make given to the party under the scheme were according to the particulars, make and model indicated by them in the list of their requirements furnished along with their application. The agreement signed with the party also contains the list of the machines and the 5 pre-fabrication machines given to the party were the same as listed in the agreement. At no stage starting from submission of application through transfer of title to the party, receipt of the machines survey of the machines at the premises of the party; signing of agreement, did M/s. Shoespo raise any objection to the machines being not according to their requirements. This aspect was raised by the party only when STC, Agra demanded from them the payment of first instalment and interests as per the agreement.

M/s. Shoespo were inducted as an associate by USSR buyers (M/s. Raznoexport) in 1974 for import of shoes. Since then they have been getting orders from USSR for export of shoes. During 1977, the USSR buyers had placed an order for 20,000 pairs on the party. 10,000 pairs were to be delivered as per the contract, by 31-3-1977 which was completed by them in November, 1977. However, no deliveries were made against the balance 10,000 pairs which were contracted to be delivered by 31-7-1977.

Further, the performance of the unit in terms of quality has also been steeply going down. For instance, the percentage of quality claims in 1975 had risen to 7.2 against 0.7 per cent in 1974. In 1976, it was 7.2 and, in 1977, 14 per cent.

The USSR, therefore, did not place any order with M/s. Shoespo in 1978 due to:

—delayed deliveries and non-performance of the balance 10,000 pairs of 1977 order;

—heavy quality claims against 1975, 1976 and 1977 supplies;

—non-acceptance of their samples by USSR buying delegation in 1978.

Regarding watch on the export performance of the units for whom the machines have been imported, it may be stated that STC's agreement entered into with them stipulates yearly export performance upto 5 times of the value of the assistance given in the import of machines, failing which even penalty is leviable by STC.

The Committee's recommendation regarding revival of the idea for starting a material bank for catering to the needs of the small sector has been noted.

[Ministry of Commerce and Civil Supplies (Department of Commerce) O.M. No. 2/7/78-EP (LSG) dated 22-7-1980].

Recommendation S. No. 14 (Paragraph 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 sandles 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.

Reply of the Government

STC had taken over the footwear activity from National Small Industries Corporation working under Ministry of Industry in February, 1965. NSIC had establ'shed procurement centres at Delhi, Agra, Calcutta, Bombay and Madras in 1956 and enrolled manufacturing units of these centres for the procurement of shoes against USSR shoe contract. Although manufacturing units at these centres were getting equal facilities regarding rendering of techn'cal guidance, financial assistance and managerial expertise for the manufacture of footwear, except Agra and Delhi, all the manufacturing units of other centres could not come up to the expectations of the foreign buyers in regard to quality and delivery schedule. Localisations/specialisations of industry depend on skill craftsmanship, strong internal marketing facilities and raw material sources for the manufacture of goods. Agra and Delhi were h'storically famous for the manufacturing of shoe and all raw material inputs like leather shoe accessories, sundries in addition to the skilled craftsmanship, wh'ch is a potential factor for localisation of industry.

STC, however, is making all out efforts to develop a balanced growth of footwear industry in other regions. It had formed a Committee in 1977 and made survey of export-oriented units which have come up in other regions like Calcutta, Bombay, and Madras and prepared a merit list for enrolment as an associate of STC for participating in the export programme. Four/Five manufacturing units of Bombay had already been enrolled for the export of footwear to USSR and other countries. Likewise an unit in Calcutta is already exporting shoe uppers against STC's contracts.

In the perspective plan which has been drawn up by the Bharat Leather Corporation, it is envisaged that the Corporation would work out a scheme for the training of rural artisans in manufacturing footwear and other leather goods, etc., in consultation with the State Leather Corporations. In regard to higher level footwear and leather goods technology, training centres are proposed to be set up by B.L.C. so that the benefits of foreign technology are made available to the small units also. The trainers nominated by the KVIC, etc., would be trained and they could, in turn, take up the training of craftsmen, etc., in their respective areas.

[Ministry of Commerce and Civil Supplies (Department of Commerce) O.M. No. 2/7/78-EP (LSG) dated 22-7-1980].

Recommendation S. No. 17 (Paragraphs 7.22 and 7.23)

The institutional framework for development of leather and leather goods industry and its export is very weak and diffused. There are a number of agencies engaged in this task often duplicating each other efforts. These are also under d'fferent 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 profferation 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.

There is undoubtedly overlap between the State Trad'ng 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 Comm'ttee 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 mismanaged. 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 inst'tuted into its working by persons who are unconnected with it or by the Ministry itself.

Reply of the Government

The observations of the Committee are noted. It may, however, be stated that the Institutional framework for development of leather and leather goods industry was weak because there was no apex organ'sation at the national level to chalk out a coordinated programme covering various development aspects of the industry. This deficiency has since been made up by establishing the Bharat

Leather Corporation Ltd. 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. Various State Government, especially where there is concentration of leather and leatherware industry, have also established State Leather Development Corporations. The primary responsibility for the development of the industry will have to rest with these Corporations.

Roles of State Trading Corporation, Bharat Leather Corporation of India, Central Leather Research Institute and the Directorate General of Technical Development are quite clearly defined. While every effort is made to avoid overlapping between the functions of these organisations, it may also be mentioned that their roles are complementary.

TAFCO is a manufacturing unit and has to function like any other production firm and in competition with them in any export field. It was originally a unit in the private sector and subsequently taken up by central government as one of the sick units. It is under the administrative control of the Department of Industrial Development.

Though the working of TAFCO has not been quite satisfactory and it has been incurring heavy losses year after year, several measures have been taken during the last few months to revive and revitalise the Undertaking. These include appointment of a new Chairman-*cum*-Managing Director, proposal to reconstitute the Board of Directors to make it broad-based, making efforts to procure orders to ensure optimum utilisation of the installed capacity of the Corporation, updating and revision of the Corporate Plan of the Corporation to ensure quick investment decision in regard to the replacement of old and obsolete machine. With the proposed implementation of the revised Corporate Plan, it is expected that the Corporation will turn the corner.

The Department of Industrial Development is also planning to undertake a study of the working of TAFCO by a team of experts to be drawn from Management, Labour and Government so as to recommend ways and means for making the Corporation economically viable. In view of this, it is not considered necessary at this stage to order a probe into the working of TAFCO.

[Ministry of Commerce and Civil Supplies (Department of Commerce) O.M. No. 2/7/78-EP (LSG) dated 22-7-1980].

Recommendation (S. No. 18 Paragraph 7.24)

The Bharat Leather Corporation 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 Head-quarters of unified council alone seems to stand in the way of the merger.

Reply of Government

As an apex body for the leather industry, Bharat Leather Corporation is extending its activities both in the developmental and promotional areas and the marketing field. A Perspective Plan (1979—84) has been drawn up by the Corporation after discussion with the concerned State Leather Development Corporations and other organisations. Initially, it will concentrate on those activities and areas which have not been covered by any other existing organisation. Keeping in view the limited resources at the disposal of the BLC and the activities of the State Leather Development Corporations, it may neither be desirable nor possible for the BLC to extend its activities to all the States immediately. It will, however, act as a catalyst in accelerating the development and promotion of the leather industry in the States where leather industry is predominately concentrated.

At present, STC is not bringing out any regular material in the form of statistical data or market intelligence for exchange with or distribution to other organisations. In the field of need-based research, STC has got its own Laboratories and Research and Design Section for testing of Leather and also develop new ideas/designs for creation of new markets and sustain the existing markets abroad. Laboratory facilities for testing purposes have been established at Agra and Delhi regions.

2. It may be mentioned that STC has assisted in setting up Common Facility Centres in Tamil Nadu, Andhra Pradesh, Bihar, West Bengal and UP and under this programme STC imported machineries and same have been handed over to the States con-

cerned for establishing Common Facility Centres for the manufacture of leather meant for domestic as well as for export. Under this project small tanners may require technical expertise of CLRI for developing a particular type of leather required for the domestic as well as foreign markets. CLRI can play an important role in extending their technical know-how to develop this leather and in this project both STC and CLRI and the State Govt. can collaborate.

The Leather Export Promotion Council, Madras, is concerned with export of semi-finished leather and the Export Promotion Council for Finished Leather and Leather Manufactures, Kanpur, is concerned with export of finished leather and leather goods. The question of the merger of the two councils is under consideration of the Government.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce)
O.M. No. 2/7/78-EP(LSG) dated 22-7-1980]

CHAPTER III

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

Recommendation (S. No. 4 Paragraphs 3.64 and 3.65)

It is unfortunate that the STC could not develop small scale units and especially cooperative societies in the context of the foot-wear 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.

Reply of the Government

STC served the Cooperative Societies engaged in the manufacture of footwear in the small and cottage sector through National Federation of Industrial Cooperatives Ltd., which is an apex body of all these cooperative societies at Agra and Delhi. NFIC was registered with STC for the export of shoes to USSR since 1969 and they have been getting allocations out of USSR shoe orders under Jansevak brand on the basis of their performance.

USSR is progressively reducing their purchase of hand made shoes from India due to increase of their internal production and high percentage of quality claim. In 1978, USSR had placed an order of 60,000 pairs on Jansevak samples out of which they released only 32,000 pairs for distribution of 24 small and cottage manufacturing units working under Jansevak brand. Out of this, NFIC was placed with an order of 1500 pairs and they could make only 97 pairs which were also rejected by the foreign buyers experts due to non-conforming quality. Although, all efforts had been made by STC to extend technical and marketing help to small units and also to cooperative societies for export of footwear, due to stringent and exacting quality requirements and delivery schedule, buyers express their regret to accede to STC's request to accommodate units, which are not able to match their required standard.

STC's exports of leather footwear have mainly been to USSR. Exports of Leather footwear to USSR bear either STC's brand names 'Jansevak' Ashoka or the brand names of the associates.

It is in respect of export of leather footwear to other countries especially USA and West Europe that the foreign buyers insist upon the use of their brand names. It may, however, be mentioned that most of the merchandise does bear the stamp 'Made in India' even though the foreign buyers brand name may also be stamped alongwith it.

In addition to its brand names 'Jansevak'—Ashoka which are used for export of leather footwear to USSR, STC has been developing other ranges of samples especially for free economics under the name "Ashoka". STC could no doubt try to push up the sales under its own brand names but rigidity of approach in this regard will not be conducive for development of exports. Foreign buyers have been evincing interest in evolving arrangements for making India a supply base for their requirements but they proceed very cautiously and are not willing to take the risk of importing footwear under Indian brand names which are not yet popular in their countries. For the present, they insist not only upon the use of their brand names but also seek arrangements whereunder they have say in the selection and alignment of suitable production units and be as much in close contact with them as possible. Building up of brand image is a slow and gradual process and to make its use an issue will only thwart the export promotion.

The practice of preparing quotations for export of leather footwear to USSR on a cost plus basis does not mean that it is divorsed of any consideration of international trends in prices. In fact, the cost of various materials including finished leather which go into the manufacture of leather footwear move in sympathy with trends in the international market, *viz.*, if there is boom for finished leather in the international market, prices in the internal market will also move upward and *vice versa.* Further, even while working out quotations on cost plus basis, due weightage is given and cushions provided in building up the quotations, if warranted by the market intelligence assessment of the officers who make periodical visits abroad/participate in fairs/exhibitions.

Regarding STC's ineffectiveness in developing exports of leather footwear to countries other than USSR, it may be stated that, barring exports of closed shoes to USSR through STC, country's exports comprise mainly open type footwear, like chappals and sandals. These have been moving through established trade channels. STC primarily concerned itself with the development of export of closed shoes which, however, due to basic handicaps in the field of quality raw material and infrastructural deficiencies could not meet any tangible success in markets other than USSR.

Regarding competitiveness of the prices secured for exports, when private exporters brought the contract to STC for registration, they were also normally required to submit reference samples. Technical officers of STC used to make cost assessment of the reference samples and compare the same with the prices obtained by exporters. Prevailing international market trends were also kept in view. During their periodic visits abroad, officers of STC ascertain the international trends including prevailing prices of different products. They also remain abreast with international trends through participation in important fairs like Paris Leather Fair, Leipzig Fair, etc. There is also feed back from foreign branches. The prices obtained by private exporters for footwear were found comparable with the prices of similar poducts in the international markets.

Regarding India's (average) unit realisation on exports of leather footwear, the position as per export statistics compiled by DGCI&S emerges as below:

Year	Total Exports from India		Average Unit Realisation
	Quantity (Lakh Pairs)	Value (Lakh Rs.)	(Rs. per pair)
1973-74	79.53	1041.85	13.10
1976-77 . . .	130.41	2575.02	19.75

Average unit realisation has thus in creased by 51 per cent, from Rs. 13.10 per cent in 1973-74 to Rs. 19.75 per pair in 1976-77.

According to World Bank Report No. 814.77 (June '77) on "Price Prospects for Major Primary Commodities", index of international inflation indicates increase of about 40 per cent in the price level of exports made by developed countries from 1973—76. It is on the basis of above analysis that STC's unit realisation export of leather footwear is reckoned to have improved in real terms during 1973—1976.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce) O.M. No. 2/7/78-EP(LSG) dated 22nd July, 1980]

Recommendation (S. No. 16 Paragraph 6.27)

The Committee find that a number of Task Force/Committee 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.

Reply of the Government

The main committee constituted by government of India to look into the development and export promotion of leather and leather-ware industry in recent year was in 1972 under the Chairmanship of Dr. Seetharamiah, the then Director-General of Technical Development. It was on the recommendations of the committee that the policy measures like banning of exports of raw hides and skins, bring ing the export of semi-finished hides and skins under quantitive quota restrictions and incentives like cash compensatory support were adopted by the Government of India during the last couple of years beginning from 1973-74. Thereafter, it was only in June, 1978, that a Task Force on leather and leather manufactures was constituted by the Commerce Ministry to make a thorough review of the different aspects of the industry covering, *inter-alia,* supply position of hides and skins, working of export quota system for semi finished hides and skins, progress of conversion in the industry from raw hides and skins to finished leather and leather ware, review of incentives/concessions etc. The Committee appointed in 1972 was represented by senior officers of the concerned Ministries/Departments and representatives of trade and industry. Similarly, the Task Force constituted in 1978 comprised senior officers of the Government of India, representatives of Export Promotion Councils and representatives of trade industry. The members of the Committee had first hand knowledge of the subject and the wide range of expertise represented in these committees ensured that in all the problems in the development of the industry were gone into.

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2|7|79-EP(LSD) dated 17-5-1980]

CHAPTER IV

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

Recommendation No. 2 (Para Nos. 3.60 to 3.62)

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.

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 S.T.C. This was about 11 per cent of the total exports of leather and leather goods. The exports through the S.T.C. 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 S.T.C. 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.

Reply of the Government

Development of export of leather footwear is handicapped primarily due to industry's structural and organisational deficiencies. Footwear units find it very hard to get steady supply of quality upper leather in required colours and shares for export production of classical closed shoes. There is still greater difficulty for bottom materials like soles and heels. Indian buff hides being water absorbant do not suit the climatic conditions of western countries. Quality bottom material at reasonable prices is also not indigenously available.

Footwear Industry is reserved for small scale sector, which is primarily unorganised and suffers from non-standard heterogeneous craftsmanship. Consequently, it has not attracted entrepreneure and there is acute deficiency of capacities capable of collaboration/participation in export programme. Whatever handful of units there are, they are also overwhelmed by their organisational and financial problems. Consequently, export of footwear suffers not so much from lack of commercial or marketing skills and facilities as from production problems relating to supply of raw materials and production techniques/capacities.

STC's functions are primarily commercial. In addition to marketing, involving, *inter alia*, location of buyers and centralised/co-ordinated negotiations, STC has been offering assistance and guidance in designing and product development. Export of footwear like chappals and sandals has been moving in moderate volume from India through established trade channels. STC primarily concerned itself with the development of export of closed shoes. But, due to handicaps explained above, STC could not achieve any tangible success other than exports of shoes to USSR and Canada.

Realising the basic weaknesses of the industry. STC selected another line of export of boot/shoe uppers. This was completely a new line of export taken up by STC in 1966 immediately after a full-fledged division was created in 1965 and footwear procurement activity was also transferred from NSIC to STC.

Recognising the long-term potential of export of uppers, STC took a conscious decision of subsidising the exports initially as the cost of production was reckoned to be higher than the international prices then available. Contribution of STC in the development of exports of upper/sin which it still continues to be the single largest exporter in the country, cannot be overemphasised. Initially, exports were developed in low/medium quality cow boy boot uppers to USA. The elevent of subsidy was eliminated in 1973-74. Exports were also diversified by taking up sophisticated shoe uppers for markets like GDR, Hungary and Denmark. STC has made noteworthy progress in exports of uppers as the trend in the following table would indicate:—

Year	Exports (Lakh Rs.)
1976-77	40 0
1977-78	826
1978-79	1100

STC has also offered facilities for bulk import of machines on liberal credit terms and twenty small scale units have already imported and installed the machines.

STC has continued making efforts for developing markets for closed shoes. Some initial success has been achieved in developing exports of shoes to Canada

The terms "Associates" and "Fabricators" are used in respect of USSR shoe orders. Associates are those suppliers on whom USSR buyers place specific orders on their selected items. Full particulars of these orders giving quantity, article number, price, etc., are indicated in the principal contract signed by USSR buyers with STC. Associates use their own brand names in their supplies. One consolidated order is placed on samples selected out of the Jansevak range prepared and tendered by STC.

Prior to transfer of procurement activity to STC in 1965, Jansevak orders were allocated among manufacturers, who were designated as fabricators, by NSIC. Associates were F.O.B. suppliers whereas fabricators used to effect ex-godown supplies of naked shoes only. This procedure and practice had continued till 1969 when willing fabricators were allowed to form themselves into Limited Companies to pool their resources and acquire the status of F.O.B. suppliers. They were termed as groups.

Prior to negotiation of 1978 contract, all the associates and groups were allowed to use their option and submit their own samples and acquire the status of Associates by getting specific orders for their items.

For Jansevak range of samples, the old procedure was re-introduced to enhance on the one hand the involvement of STC and on the other to spare the small fabricators of the responsibilities of F.O.B. suppliers.

In 1978 order, there were 11 Associates out of which only two were merchant exporters. It may be reiterated that, on the part of STC, although efforts are made to prevail upon the foreign buyers to let STC exercise as much discretion as possible in the allocation or the orders to the Indian suppliers and thereby give due preference to actual small scale manufacturers, the preferences of the foreign buyers, if any, have to be accommodated when they insist upon supplies from specific sources.

Regarding sector-wise share in country's exports of leather footwear, the position during 1976-77 was broadly as follows:—

As per DGCI&S statistics, total exports of leather footwear in 1976-77 were valued at Rs. 25.75 crores. There were about 220 merchant exporters with their exports aggregating about Rs. 5.75 crores. These are the parties which did not own any footwear manufacturing unit and played the role of middleman only. Many of them were small operators, each with an export turnover below Rs. 1 lakh. There were about 14 parties, each with an export turnover of over Rs. 10 lakhs, including one who has an export turnover of over Rs. 1 crore.

Organised units borne on the register of DGTD had a share of about Rs. 3.8 crores, including export of about Rs. 37 lakhs by Tafco. Batas were the main exporters in this category, accounting for Rs. 312 lakhs.

The balance export turnover of Rs. 16.20 crores was accounted for by parties which owned manufacturing units not borne on the register of DGTD. Some of these exporters, in addition to supplies from their own units, did make procurement from other sources also, details of which are however not available. Total export of over Rs. 16 crores by these parties can be taken as the share of small scale sector. In fact, even the supplies of Rs. 5.75 crores procured by merchant exporters were from small scale sector. However, their role being purely of middlemen, the same has been categorised separately.

[Ministry of Commerce & Civil Supplies (Department of Commerce O.M. No. 2/7/78-EP(LSG) dated 22-7-1980].

Comments of the Committee

Please see paragraphs 10 to 15 of Chapter I.

Recommendation S. No. 3 (Paragraph 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 Traders 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.

Reply of Government

USSR was principal buyer of leather footwear since 1956. Footwear to USSR is being supplied through (i) Bulk Associates, who are organised exporters, and (ii) Manufacturers, who were exporting shoes through STC under direct procurement of Jasevak brand. Initially, Shri Jiwand Singh, propriator of Aeroplane Shoe Factory, used to supply footwear through STC as one of the manufacturing units. In 1966, Aeroplane Shoe Factory were given the status of Associate by USSR Buyer. Later on, this firm formed into a Private Limited Company under the name of Aerotraders Pvt. Ltd., and, since then they are working as one of the Associates as merchant exporters while they have also got manufacturing units of their own namely M/s. Aero Traders and M/s. Aero Exports through whom they manufacture the goods and export them. In addition to this, they, as merchant exporters, also procure goods from others. Placing of orders on the Associates was sole discretion of the foreign buyers and STC had no say in such matters. Buyers used to indicate name of the associates in the contract indicating item numbers, quantities and prices. This Company had grown through these years through the support and patronage of the foreign buyer and STC as a canalising agency has to accept the position.

In 1976, the proprietor of Aerotraders Pvt. Ltd., in partnership with others had formed a new company namely M/s. Aeroshoes for the export of shoes uppers and shoes. It was a mechanised unit and mechinaries were imported by the company themselves and upgraded the infrastructure. Buyers like GDR and USSR selected this unit for placing of orders for shoe uppers and shoes. This was rated as one of the best units with modern machinery, equipment and other facilities to manufacture shoes and shoe uppers to match the requirements of the foreign buyers. Shri Subhash Sinha, an ex-employee of STC, who resigned from STC in June, 1973, joined this Company. STC neither have any hand in his selection nor any say for his appointment in Aeroshoes.

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2/7/78-EP(LSG), dated 22-7-1980]

Comments of the Committee

Please see paragraphs 16 to 18 of Chapter I.

Recommendation S. No. 8 (Paragraph 4.26)

The Committee have no doubt that the scheme of canalisation has 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.

Reply of the Government

Export of all categories of semi-processed hides and skins including EI tanned and chrome hides and skins and crust leather had been canalised through State Trading Corporation w.e.f. 14th December, 1972.

On the recommendation of Dr. Seetharamiah Committee, which, *inter-alia*, examined the question of exports of semi-processed hides and skins recommended measures for speedier switch over of exports from semi-processed hides and skins to finished leather and leather goods, Govt. had decided to place quantative restrictions on the exports of semi-processed hides and skins. This was done by introduction of a quota system with effect from April 1, 1973. For working out the basis for fixation of quotas, Government appointed a Group comprising representatives of the Ministry of Commerce, Chief Controller of Imports and Exports and State Trading Corporation and the Secretaries of the two Leather Export Promotion Councils, Madras and Kanpur. On the basis of the recommendations of this Group, Government had finalised the details of the quota scheme for the year 1973-74. In fixing the quotas Government had kept in view the interests of all, *viz.*, the small exporters, the non-exporting tanners, and manufacturer exporters.

It can be stated that the above policy, of the Govt. has been quite successful in achieving its objectives. The intention of the Govt. was to gradually reduce the quota of exports of semi-tanned hides and skins in order to promote manufacture of finished leather. With a view to effecting a smooth shiftover, a press note was issued during September, 1973, permitting the existing industrial licence holding units for manufacture of finished leather to import necessary capital goods without prior permission from the Govt. A number of existing units were permitted to expand their capacity for the manufacture of finished leather and a number of new units were also sanctioned.

Prior to implementation of quota system on the export of semi-tanned hides and skins and canalising the same through STC, the export preformance during 1971-72 of all types of leather and leather goods was about Rs. 99.35 crores comprising of Rs. 86.04 crores of semi-tanned hides and skins, Rs. 3.56 crores of finished leather and about Rs. 9.75 crores of leather goods, including leather footwear. Exports of leather and leather goods have reached a level of about Rs. 425 crores during 1979-80 comprising of Rs. 88.54 crores of semi-tanned hides and skins, Rs. 266 crores of finished leather and about Rs. 69.44 crores of leather goods, including leather footwear.

It may, however, be pointed out that the international leather market is quite complex and is also in the grip of recession at present. The objective of increasing the share of value added items in the export product mix can be achieved only over a period of time. As will be seen from the preceding paragraph, there has been a substantial increase in the exports of finished leather over the past few years. Exports of leather goods are also on the increase. In due course, it should be possible to substantially augment the share of leather goods in our export product mix as well. Meanwhile, the export policy, including the canalisation aspect, is reviewed from time to time, keeping the market situation and other aspects in view.

[Ministry of Commerce & Civil Supplies (Department of Commerce) O.M. No. 2/7/78-EP(LSG), dated 15-9-1980]

Comments of the Committee

Please see paragraphs 19 to 24 of Chapter I.

Recommendation Sl. No. 15 (Paragraphs 6.25 and 6.26)

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 drawback 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 manufacturers. 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 abondoned 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.

Reply of the Government

Government has been continuously reviewing the incentive scheme on the basis of date collected from time to time from the Export Promotion Councils and STC. India may have an advantage in respect of basic raw material in the form of raw hides and skins. But due to standardisation and use of sophisticated chemicals and components, grinderies and decoratives, etc. by developed countries, quality and price-wise, the Indian leather industry is behind and it will not be correct to say that it is not in need of special export incentives in the form of cash compensatory support, duty drawback, air freight subsidy, etc. Our industry has to be strengthened and developed. Prices are a matter of commercial negotiation and the comparative strength of the buyer and the seller. It may not be correct to say that the affluent consumers abroad are exploiting our industry, as, otherwise, our exports in leather footwear and other leather goods would have certainly increased by now manifold if the terms of trade have really been so much favourable to the foreign buyers.

Similarly, 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, however, be generally stated 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 and all these benefits could not have been appropriated by middlemen or importers abroad.

Export incentives/concessions are instruments adopted by the Government of India only for promoting of export of finished leather and leatherware. There are other countries, which, by offering attractive packages of export incentives, shifted within a couple of years from the position of a producer and exporters of hides and skins to that of a manufacturers and exporters of sophisticated varieties of finished leather and leatherware.

Government of India has been continuously reviewing the incentive scheme on the basis of data collected from time to time from the Export Promotion Councils and STC. Further, the question of export subsidies/concessions on export of finished leather and leather manufactures, if viewed in totality after taking into account the revenue accruing to the Government on account of export duty on exports of semi-finished hides and skins would not lead to the conclusion that it causes any net transfer of surplus from India to the affluent countries of the World.

Imports allowed under replenishment scheme do not involve any expenditure on the part of the Government. This is primarily to allow replenishment of stocks of those imported items which are used in the manufacture of goods meant for export. It is no doubt an element of expenditure in terms of foreign exchange but as it is available only upto a certain percentage of the value of exports, and are related to production for exports, it cannot be considered a net drag on the foreign exchange resources of the country.

As already stated in the beginning, there is regular review of the various export incentives and the Task Force in its report recently submitted to the Ministry has recommended constitution of working groups for recommending graded structure of incentives/concessions biased towards conversion of the industry to production and export of superior quality finished leather and leather goods. The Ministry has already appointed one working group for considering the formulation of export incentives on finished leather on the basis of different sophisticated varieties.

Cash Compensatory Support on Sole Leather, which was available at the rate of 7.5 per cent has been withdrawn with effect from 10-10-1979.

[Ministry of Commerce and Civil Supplies (Department of Commerce) O.M. No. 2|7|79-EP (LSG) dated 17-5-1980]

Comments of the Committee

Please see paragraphs 25 to 29 of Chapter I.

Recommendation Sl. No. 19 (Paragraph 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 exports potential of the leather sector, the Committee recommend that this Board should be under the Ministry of Commerce.

Reply of the Government

The Bharat Leather Corporation has already been established as apex body under the administrative control of Ministry of Industrial Development for the overall development of leather industry, covering all the aspects right from the arrangements for collection of hides and skins in the countryside, development of infrastructure, internal marketing avenues, etc. This Corporation has started functioning. Various states have also established Leather Development Corporation for their respective States. In view of these developments, it is not considered necessary to go in for setting up of a statutory Board on the lines of Coffee Board, Tea Board, etc.

[Ministry of Commerce and Civil Supplies (Department of Commerce) O.M. No. 2|7|79-EP (LSG) dated 17-5-1980.]

Comments of the Committee

Please *see* paragraphs 30 to 32 of Chapter I.

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED

Recommendation Sl. No. 13 (Paragraphs 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 spreak 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 officers which generated business to the extent of about Rs. 30 lakhs during a period of three years. The Chairman of the STC admitted this unsatifactory 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.

Reply of the Government

The question of starting 'show-room-cum-sale-centres' in important cities abroad, where STC has its offices, is under examination in addition to other export promotion avenues such as organising specialised displays of select items and inviting the related audience, *i.e.* buyers, etc.

[Ministry of Commerce and Civil Supplies (Department of Com merce) O.M. No. 2|7|78-EP (LSG) dated 22-7-1980]

NEW DELHI;
March 23, 1891
Chaitra 2, 1902 (*Saka*)

BANSI LAL,
Chairman,
Committee on Public Undertaking.

APPENDIX I

(*Vide* Para 3 of Introduction)

Analysis of the action taken by Government on recommendations contained in the 35th Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Export of Leather and Leather Goods by the State Trading Corporation of India Ltd.

I.	Total Number of recommendations	19
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at S. Nos. 1, 5, 7, 9, 12, 14, 17 and 18) .	11
	Percentage to total	57.9%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*Vide* recommendations at S. Nos. 4 and 16)	2
	Percentage to total	10.5%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at S. Nos. 2, 3, 8, 15 and 19).	5
	Percentage to total	26.3%
V.	Recommendation in respect of which final reply of the Government is still awaited (*Vide* recommendation at S. No. 13) . . .	1
	Percentage to total . .	5.3%

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