

**SEVENTY-FIFTH REPORT**  
**PUBLIC ACCOUNTS COMMITTEE.**

**(1986-87)**

**(EIGHTH LOK SABHA)**

**CASH ASSISTANCE FOR EXPORT  
OF IRON CASTINGS**

**MINISTRY OF COMMERCE**



*Presented in Lok Sabha on 3 April, 1987*  
*Laid in Rajya Sabha on 15 April, 1987*

**LOK SABHA SECRETARIAT  
NEW DELHI**

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## PART II\*\*

Minutes of the sittings of the Public Accounts Committee  
(1984-85 & 1986-87) held on :

30 October, 1984

18 March, 1987

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\*\* One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

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(1986-87)

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## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this 75th Report on Paragraph 29 of the Report of C&AG, 1981-82, Union Government (Civil), relating to cash assistance for export of iron castings.

2. The Report of the Comptroller and Auditor General of India for the year 1981-82, Union Government (Civil), was laid on the Table of the House on 15 April, 1983.

3. The Committee have observed that Working Group consisting of representatives of the concerned Ministries fixed cash assistance at the rate of 25 per cent on export of iron castings from August 1966, which was continued to be paid for nine years from 1966-67 without any proper cost analysis. During the period June 1966 to March 1975, cash assistance to the tune of Rs. 683.55 lakhs was paid on ungalvanised iron castings. The Committee have, therefore, emphasised that in future, while formulating such schemes, a mechanism should be provided for their mandatory review at regular intervals, so that the Ministry have a reliable indication as to how far the scheme has achieved its objectives and what modifications are called for therein.

4. The Committee have also noticed that in 1966 the Cabinet Committee on Exports had recommended a "cut off point" of 25 per cent f.o.b. value after deducting the import content. In April 1975 the rate of cash assistance on iron castings was reduced to 24 per cent by applying the "cut off point" formula. During this period, cash assistance amounting to Rs. 27.34 lakhs (at the rate of 1 per cent) was paid in excess of the "cut off point". The Committee expect the Ministry of Commerce to exercise greater vigilance and care in handling the funds placed at their disposal.

5. In April 1975, on the advice of the D.G.T.D., the Cash Assistance Review Committee felt that as the f.o.b. realisation on iron castings had gone up continuance of cash assistance was not justified. The Commodity Officer had also recommended in February, 1975 that cash assistance be reduced to 10 per cent. However, pending examination of cost data by the Cost Accounts Branch, the Committee extended the existing rates of cash assistance up to

June 1975. Unfortunately the cast iron manufacturers did not cooperate to furnish the relevant data. This resulted in unjustified payment of cash assistance amounting to Rs. 25.81 lakhs. The Committee have regretted that cash assistance was given to units even though they failed to give the cost data. The Committee have, therefore, suggested that the scheme should be amended making it obligatory for manufacturers to give the relevant data which the Government may require.

6. The Government were aware of the underselling by Indian exporters of iron castings in the U.S.A. and also of the proposals for levying countervailing duty by the U.S.A. As a result of continued grant of cash support, not only did Government of India wastefully use its resources for promotion of the export of products, which did not call for any support, but tacitly acquiesced in the loss of foreign exchange because these products could have been able to obtain higher prices in the foreign market and thus earned larger amount of foreign exchange.

7. The Committee have further found that against the request of the exporters and the recommendation of the Engineering Export Promotion Council for an enhancement in cash support only for the export of industrial castings, which was only about 10 per cent of the total castings, the Ministry of Commerce sanctioned a higher rate not only for industrial castings but for all types including sanitary castings. The Committee are not convinced of the plea of impracticability of distinguishing the industrial castings from sanitary castings and other types of iron castings as, in fact, later the Government itself classified iron castings into industrial and sanitary castings and reduced the cash assistance to sanitary castings to 5 per cent only.

8. The Committee (1984-85) examined the Audit Paragraph at their sitting held on 30 October, 1984. The Committee considered and finalised the Report at their sitting held on 18 March, 1987. Minutes of the sittings of the Committee form part II of the Report.

9. For facility of reference and convenience the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix II to the Report.

10. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1984-85) in taking evidence and obtaining information for this Report.

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11. The Committee would like to express their thanks to the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

12. The Committee also place on record their appreciation of the assistance rendered by the Office of the Comptroller and Auditor General of India in the examination of this Paragraph.

NEW DELHI;  
March 25, 1987

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Chaitra 4, 1909 (Saka)

E. AYYAPU REDDY  
Chairman,

Public Accounts Committee.

## REPORT

### CASH ASSISTANCE FOR THE EXPORT OF IRON CASTINGS

#### *Audit Paragraph*

Paragraph 29 of the Report of the C & AG for the year 1981-82, Union Government (Civil) relating to "Cash assistance for export of iron castings" is reproduced at Appendix I.

#### *Scheme of Cash Compensatory Support—An Introduction*

2. The scheme of grant of cash compensatory support on exports of specific non-traditional products has been in operation in India since June, 1966. Under this scheme exporters of selected products are granted cash subsidies specified as a percentage of the f.o.b. value of exports. The objective of cash subsidy is to enable exporters to meet competition in foreign markets, develop marketing competence and neutralise disadvantages inherent in the present stage of development of the economy.

3. From time to time, the scheme has undergone several revisions, both in terms of rates and coverage.

4. The Public Accounts Committee have from time to time examined the scheme of cash compensatory support on various items and submitted Reports to Parliament.

5. In particular, reference may be made to the following Reports:

- (i) 174th Report (1975-76) (Fifth Lok Sabha) on cash assistance for export of walnuts.
- (ii) 178th Report (1975-76) (Fifth Lok Sabha) on cash assistance for export of man-made fabrics.
- (iii) 10th Report (1977-78) (Sixth Lok Sabha) on cash assistance for export of engineering goods.
- (iv) 17th Report (1977-78) (Sixth Lok Sabha) on cash assistance for export of bicycles and bicycle components.
- (v) 108th Report (1978-79) (Sixth Lok Sabha) on cash assistance for export of absorbant cotton.

- (vi) 129th Report (1978-79) (Sixth Lok Sabha) on cash assistance for export of transmission line towers.
- (vii) 39th Report (1980-81) (Seventh Lok Sabha) on cash assistance for export of deoiled rice bran.
- (viii) 152nd Report (1982-83) (Seventh Lok Sabha) on cash assistance for export of ossein and export of Railway wagons to a foreign country.

6. The para under examination in this Report relates to grant of cash assistance for export of iron castings and is dealt with as below.

7. The Audit Para states that iron castings cover public works and sanitary castings, viz., sand cast iron (C.I) pipes, cast iron pipe fittings, man-hole covers, iron flushing cisterns, cast iron municipal wares, industrial castings and a number of components for industrial machinery. The raw materials required for fabrication of iron castings are pig iron, steel scrap and hard coke. Pig iron is made available to the exporters from the steel plants at prices fixed by the Joint Plant Committee. Whenever domestic prices go above the international prices, the difference is reimbursed to the exporters to enable them to compete in international markets. In 1979, there were 126 units in the organised sector, with an installed capacity of 997.9 thousand tonnes. Besides, there were a number of foundries producing iron castings in the small scale sector.

8. Apart from meeting domestic demand, the iron casting industry has been selling its products in overseas markets.

9. The exports of iron castings qualified for import replenishment at 5 per cent and cash assistance at 25 per cent of f.o.b. realisation from 1966 to 31st March 1975. The position from April 1975 onwards is discussed in the succeeding paragraphs.

#### *Basic principles in granting the incentives*

10. The Committee desired to know the basic principles in granting the incentives. In a note furnished to the Committee, the Ministry of Commerce have stated that the basic principle governing cash compensatory support is to compensate for the duties and taxes leviable on the materials used in the product exported, so as to make it competitive in the international market, and that of the Import Replenishment Scheme is to provide to Registered Exporter,



by way of import replenishment, the materials (all or some) required in the manufacture of the products exported. Both these schemes have been utilised very well and one is not in lieu of the other. These schemes are based on firm principles.

11. The Scheme for grant of Cash Compensatory Support on exports has been in existence since 1966 and has undergone modifications/refinements consistent with changing needs of time. Rates of CCS were determined keeping in view various factors like Export Prospects, production capacity in the country, competitive strength of the products *vis-a-vis* international price and other relevant factors. The rate was normally restricted to the cutoff point of 25 per cent of the f.o.b. value minus import replenishment allowed.

12. The main criteria presently adopted for fixation of CCS rates are as under:

- (i) Refund of indirect taxes including sales tax etc. on inputs that are not refundable through the duty drawback mechanism, whether these taxes have been levied on the physically incorporated inputs or non-physical inputs such as fuel, power etc.
- (ii) Neutralisation of discriminatory higher freight rates on account of various factors like low total volume of trade discriminatory rates adopted by conference lines etc.
- (iii) Compensation on account of cost of development of new markets and new products.
- (iv) Compensation on account of higher rates of interest on working capital for export production and pre-shipment, post-shipment credits.
- (v) Special consideration for export of agricultural or agro based products and products of the small cottage and village industries on account of their developmental needs, employment potential etc.

13. The CCS rate is normally restricted to the cutoff point 25 per cent of the f.o.b. value minus import replenishment allowed. This would mean that CCS has been utilised as one, in addition to the import replenishment scheme.

14. As mentioned in preceding paragraphs, the scheme of CCS is based on the principles as approved by the Cabinet and the various disadvantages are taken into account while determining the CCS rates.

15. The Committee desired to know the procedure followed for determining the Cash Compensatory Support rates. The Ministry have stated in a note as under:

“The data is first collected in the prescribed proforma from some exporters by the concerned Export Promotion Councils/Commodity Boards, and the concerned Commodity Division, after scrutiny of the same, place the proposals before the CARC in the form of a note furnishing its recommendation. The CARC considers the proposals in the light of approved guidelines in this regard and decides on the rate of CCS. For new items, approval of MDA Main Committee is also obtained. Approval of CM is obtained for increase in the rate of CCS or introduction of CCS on a new item.”

16. Asked to explain the mechanism available with the Ministry of Commerce to find out the prevailing prices of a particular item, say in U.S.A., for determining the cash compensatory allowance, the Ministry of Commerce have stated that as and when the prevailing prices of a particular item in other countries are needed, Ministry of Commerce gets them from the Engineering Export Promotion Council, our Missions and through published data.

*Payment of cash assistance without cost study*

17. The Audit Para has brought out that till March 1976, the rates of cash assistance were to be fixed to bridge the gap between cost of production and f.o.b. realisation. Since the cash assistance rates were continuing without any proper cost analysis for nine years from 1966-67, the Commodity Officer in the Ministry of Commerce was asked (January 1975) to review the existing level of cash assistance on certain steel intensive export products.

18. In January 1975, the Engineering Export Promotion Council (EEPC) was directed to furnish cost data from representative units producing iron castings so that a cost study could be conducted by the Cost Accounts Branch of the Ministry of Finance. Without waiting for the data, the Commodity Officer considering the f.o.b. realisation, recommended (February 1975) reduction of cash assistance on iron castings from 25 to 10 per cent from 1st April, 1975. Orders to that effect were, however, not passed, though the Commodity Officer again (March 1975) recommended the reduction of cash assistance on iron castings.

19. The Cabinet Committee on Exports had recommended (1966) a cut-off point of 25 per cent f.o.b. value after deducting the import content. Accordingly, the cash assistance was not to exceed 25 per cent of the value addition which was to be arrived at by deducting the import content from the f.o.b. value of the product. Since no review of cash assistance was conducted till March 1975, the cash assistance was continued to be paid beyond the cut-off point during 1966-75. In April 1975, the rate of cash assistance on iron castings was reduced to 24 per cent by applying 'cut-off point' formula.

20. Between June 1966 and March 1975 ungalvanised iron castings worth Rs. 2,734 lakhs were exported which attracted cash assistance of Rs. 683.55 lakhs at the rate of 25 per cent. Thus, cash assistance amounting to Rs. 27.34 lakhs (at the rate of 1 per cent) was paid in excess of the cut-off point.

21. The Committee desired to know the circumstances in which cash assistance continued to be paid at the rate of 25 per cent till 31 March, 1975 without any cost study and why the Ministry did not undertake the review of cash assistance and import replenishment rates during 1966-75 in order to restrict cash assistance rates to the cut-off point. The Ministry of Commerce have stated in a note that a Working Group consisting of representatives of concerned Ministries fixed cash assistance at 25 per cent on export of iron casting in August, 1966. While approving CCS rates, no time limit was fixed and no provision was made for review by the Ministry of Commerce. Moreover, the grant of CCS @ 25 per cent from 1966 to 1975 without adhering to the cut-off point was a conscious decision.

22. In a further note furnished to the Committee, the Ministry of Commerce elaborated that the Working Group had classified the Engineering Products as between 15 per cent and 25 per cent categories and had made the following observations "In view of the directives of the Committee of Secretaries, product by product examination with regard to the rate of subsidy was needed only in the field of engineering products, as the group had been directed to classify these as between 15 per cent and 25 per cent categories. The Working Group proceeded with this examination on the basis of the data furnished by the Ministry of Commerce, with the help of technical officers, regarding the internal sale price and f.o.b. realisation on individual export items, the advantages conferred by the erstwhile export promotion scheme, etc. available for a number of products. It was not practicable for the Commerce Ministry, within the time available, to provide such data for the entire range of

products. Any such analysis would necessarily have taken several weeks to complete. The Working Group on the basis of this data and taking into consideration the directives of the Committee of Secretaries that an edge should be given to exports, had classified products in a broad way as between the 15 per cent and 25 per cent categories. The Group further recommends that Engineering products not specified could fall within the 15 per cent group. In short the effort of the group has necessarily been to arrive at a scheme for provision of import replenishment and export subsidies, which in its judgement is likely in its overall impact to provide the assistance to exports, which was visualised by the Committee of Secretaries". The Group could not claim meticulous correctness for the assessments that had been made, because the Group felt that a meticulous assessment was not called for on the basis of broad policy guidelines laid down by the Committee of Secretaries.

23. Since the percentage of Cash Assistance were to be reduced by the import content of the particular product, in actual practice the rates of this assistance were to be numerous varying from 2.5 per cent to 24 per cent for products having import content between 90 per cent and 5 per cent. This formula thus led to about 19 rates from 2.5 per cent to 24 per cent. It was therefore recommended in the note placed before the Cabinet Committee that for the purpose of administrative convenience and simplicity in operation, the effective rates of cash assistance be averaged and grouped into four categories of 10 per cent, 15 per cent, 20 per cent, and 25 per cent. The proposal was approved by the Cabinet Committee and the Cabinet.

24. While approving CCS rates in 1966 no time limit was fixed. However, CCS was reviewed in February, 1968, 1969 and 1970 after which the specified rate continued up to 31-3-1975.

25. Asked to elaborate the functions of the Commodity Officer and what role he plays in determination of rates of cash compensatory support, the Ministry of Commerce have stated:

"The Commodity Officer gives directions to EEPC with a view to securing the active association of producers and exporters in the country's export efforts, to collect data in the prescribed proforma from the representative units and forward the same to the Ministry of Commerce. The Council is also advised to satisfy themselves that the data was given by the trade is in order before forwarding the same to the Ministry. The data so received are closely examined by the Commodity Officer in consultation with Finance Division. In case of doubt about the

correctness of the data, reference is made to the Cost Accounts Branch of Ministry of Finance or the CCS Cell recently set up in this Ministry. The Commodity Officer insists on the submission of Chartered Accountant's certificate certifying the correctness of the data submitted for fixation of CCS. The Commodity Officer also pilots the proposal before the CARC and answers queries which members have on the note placed before the Committee."

26. The Committee desired to know the basis on which the Commodity Officer in the Ministry of Commerce suggested in February and again in March, 1975 reduction in cash assistance from 25 per cent to 10 per cent with effect from 1 April, 1975 and why orders were not passed accordingly in March, 1975. The Ministry of Commerce have stated in a note that as the Indian exporters got pig iron and steel at concessional rates and scrap at reduced price and in view of the f.o.b. realisation for this product, the Commodity Officer suggested reduction in cash assistance on this item to 10 per cent with effect from 1-4-1975. The proposal for reduction of Cash Assistance was placed before CARC but the Committee decided that a decision on cash assistance on this item will be taken only after study of the cost data received from EEPC.

27. Asked to state the precise circumstances in which the recommendations of the Commodity Officer were over-ruled by the C.A.R.C., the Ministry of Commerce have explained that in respect of items where cost reports had been received it was pointed out by Cost Accounts Branch that the Ministry of Commerce should take a decision after taking into account the latest position of f.o.b. realisation. The f.o.b. prices had come down further, since the time of cost examination and this fact could not be ignored while taking a decision on cash assistance. Besides all these reports had been prepared by the Cost Accounts Branch on the basis of marginal costing. In our earlier meeting, the Chief Accounts Officer had pointed out that if marginal costing is followed, no export unit will show a shortfall in realisation. Since there was no lack of domestic demand, and the entire production could be absorbed in the Indian market, there is no compulsion on the part of producers to export. In such cases, there will be incentive to the manufacturer to export if cash assistance is decided on the principle of marginal costing. It was decided that the Cost Accounts Branch could be requested to give their final findings on the data so that a decision could be taken.

28. In reply to a question, the Ministry of Commerce have stated that a fresh decision was taken in June 1975 to reduce the cash assistance to 15 per cent.

29. The Committee find that a Working Group consisting of representatives of the concerned Ministries fixed cash assistance at the rate of 25 per cent on export of iron castings from August, 1966. This was continued to be paid for nine years from 1966-67 without any proper cost analysis. Only in January, 1975 the Commodity Officer in the Ministry of Commerce was asked to review the existing level of cash assistance on certain steel intensive export products, including the assistance on export of iron castings. During the period June, 1966 to March, 1975, cash assistance to the tune of Rs. 683.55 lakhs was paid on ungalvanised iron castings. The Ministry of Commerce have stated in a note furnished to the Committee that "while approving the Cash Compensatory Support rates, no time limit was fixed and no provision was made for review by the Ministry of Commerce".

30. The Committee consider that the rate of cash assistance should have been reviewed, say, after 3 or 5 years by the Ministry on its own initiative. That might have resulted in considerable saving. The Committee would, therefore, strongly recommend that in future, while formulating such schemes, a mechanism should be provided for their mandatory review at regular intervals. The Ministry would then have a reliable indication of how far the scheme of assistance had produced the desired results and what modifications were called for therein.

31. The Committee also find that in 1966 the Cabinet Committee on Exports had recommended "cut-off point" of 25 per cent f.o.b. value after deducting the import content. Accordingly, cash assistance was not to exceed 25 per cent of the value addition which has to be arrived at by deducting the import content from f.o.b. value of the product. Since no review of cash assistance was conducted for almost a decade, till March, 1975, the cash assistance was continued to be paid beyond the "cut-off point" during the period 1966 to 1975. In April, 1975 the rate of cash assistance on iron castings was reduced to 24 percent by applying the "cut-off point" formula. During this period, cash assistance amounting to Rs. 27.34 lakhs (at the rate of 1 per cent) was paid in excess of the "cut-off point".

32. In this connection, the justification given by the Ministry of Commerce that "the grant of CCS at the rate of 25 per cent from 1966 to 1975 without adhering to the 'cut-off point' was a conscious decision" does not seem convincing. The justification fails to explain the

factors that led to the so called "conscious decision". A huge sum of money was allowed to be paid contrary to the intentions of the Cabinet Sub-Committee, that is, the Government. The Committee expect, the Ministry of Commerce to exercise greater vigilance and greater care in handling the funds placed at their disposal.

33. The Committee have been informed that the rates of cash compensatory support were determined keeping in view various factors, one of which has been stated as competitive strength of the products vis-a-vis international price. The Committee have also been informed that the main criteria adopted included compensation on account of cost of development of new markets and new products. The Committee regret to observe that in the clarifications given by the Ministry to the Committee, no basic data on the above factors which contributed to the need for cash compensatory support, had been given. It would, thus, appear that the basic objectives and criteria were not given due weightage in determining the need for continuance of the cash compensatory support for iron castings. Further, no information on development of any new market during the period that had been identified had been intimated to the Committee. The Committee regret to observe that ad hoc decisions seem to have been taken from time to time to give support to the industry which did not qualify with reference to the prescribed factors and criteria for grant of support.

34. The Audit Para reveals that in April 1975, the Cash Assistance Review Committee (CARC) felt that the f.o.b. realisation on iron castings had gone up and, therefore, it was difficult to continue cash assistance without further justification. Nevertheless, pending examination of cost data by the Cost Accounts Branch, the Committee extended the existing rates of cash assistance upto 30th June 1975.

35. While the Cost Accounts Branch had to abandon (July 1975) the cost study due to non-cooperation of the cast iron manufacturing units, the Ministry of Commerce (June, 1975) analysed the incomplete cost data of all the 10 units arrived at an *ad hoc* shortfall of 15 per cent for sanitary castings. They proposed to bifurcate iron castings into two categories and recommended cash assistance as under:

- |  |             |
|--|-------------|
| (i) Iron casting galvanised  | 20 per cent |
| (ii) (a) Sanitary castings ungalvanised<br>manhole covers, c.i. pipes etc. | 15 per cent |
| (iii) (b) Industrial castings ungalvanised.                                | 24 per cent |

36. The CARC considered the proposal and in the absence of a proper cost study took an *ad hoc* decision to extend the cash assistance at the rate of 15 per cent till December 1975, both for sanitary and industrial castings (galvanised or ungalvanised).

37. During the period 1st April 1975 to 30th June 1975, cash assistance was paid at 24 per cent for ungalvanised iron castings instead of 10 per cent recommended (February 1975) by the commodity officer which resulted in undue payment of cash assistance amounting to Rs. 25.81 lakhs.

38. The Committee desired to know the basis of CARC's feelings that there was an increase in f.o.b. realisation on iron castings and why cash assistance was sanctioned beyond March, 1975 without completing the cost study and in spite of the views of the CARC. The Ministry have stated in a note that "this feeling in the CARC was based on the advice of the DGTD.

As the detailed cost study was yet to be undertaken the Committee decided that the existing rate of cash assistance pending examination will be continued for a period of three months 1-4-1975 to 30-6-1975 or till the date of the revised decision whichever is earlier".

39. In a further note called for by the Committee, the Ministry of Commerce have explained that most of the Units in the Cast Iron Groups belong to the Small Scale Sector and as such it was difficult to get the cost data. Moreover, for the first time comprehensive data was asked for as per the recommendation of Alexander Committee and Small Scale Units were handicapped in providing the data despite the guidelines provided by EEPC interpreting questionnaire.

40. Explaining the efforts made to overcome these difficulties, the Ministry of Commerce have stated that a series of meetings were taken by the Commodity Officer with the representative of the Units and EEPC to explain the guidelines recommended by the Alexander Committee. It is only due to this efforts that cost data was made available and CCS was fixed.

41. The Committee enquired whether it was not considered necessary to provide for compulsory furnishing of cost data by the units and making cost benefit analysis an essential pre-requisite before taking a decision regarding grant of cash compensatory support. The Ministry of Commerce have stated that "it is considered necessary to provide for furnishing of cost data by the units and making a cost benefit analysis an essential pre-requisite before taking a decision



regarding grant of CCS. (Since Cost Study was not completed in this case, the Cash Assistance was continued. Moreover cash assistance rate is applicable on all exports and no discrimination can be made between one manufacturer and another manufacturer). The receipt of this data is now insisted upon and wherever it is not available action is taken to reduce/discontinue the rate of CCS."

42. The Committee enquired about the mechanism available with the Government to get cost data from the exporting concerns availing of the CCS/IRS and whether this mechanism was helpful. The Committee also desired to know the remedy available with the Government if some firms did not furnish the cost data and also the steps proposed to be taken to improve the mechanism. The Ministry of Commerce have stated in a note that "REP is not provided on the basis of cost data but on the other hand it is based on the availability of the inputs.

As already mentioned, data in respect of fixation of CCS rates is collected by the Commodity Division in the Ministry from their respective CEPCs/Commodity Boards. The proforma for collecting the data has been designed with a view to collecting information about the various disadvantages on account of un-rebated taxes etc. The data is collected from the leading and representatives manufacturers of the concerned product through the EPCs/Commodity Boards so as to ensure that the data obtained for deciding the CCS rates could hold good for the product in general and not for the particular manufacture of the concerned product.

In order to closely monitor the effect of the Scheme of CCS and to verify the cost data in selected cases a Cost Accounts Cell has been set up in this Ministry.

The Commodity Officer in the Ministry of Commerce had pointed out that as Indian exporters were getting Pig Iron and steel at concessional rates and scrap at reduced price the cash assistance should be reduced from 25 per cent to 10 per cent from 1-4-1975. In April 1975, the Cash Assistance Review Committee had also felt that the f.o.b. realisation on iron castings had gone up and, therefore, it was difficult to continue cash assistance without further justification. However, the old rate of cash assistance (i.e. 25 per cent continued beyond March, 1975 as the CARC felt that a decision on cash assistance should be taken only after a study of the cost data received from EEPC had been made. As a result, extra payment of cash assistance amounting to Rs. 25.81 lakhs for the period April-June, 1975 was made and over Rs. 1,401.33 lakhs thereafter."

43. Thus, when there was apparent evidence for reduction in the rate of cash assistance, the Committee enquired why the Ministry of Commerce had not acted in the matter and whether there had been any instances where the Ministry of Commerce had not accepted the recommendations of the CARC and taken independent decisions. The Ministry of Commerce have stated in a note that "generally the Ministry of Commerce accepts the recommendations of CARC. In this case, though there was a *prima facie* case for reduction in CCS, the Ministry of Commerce acted as per the decisions of the CARC, that a final decision should be taken after receipt of the final findings of Cost Accounts Branch of the Ministry of Finance.

The rate of CCS on various items as approved by CARC are submitted to C.M. for approval. In the case of new items, after approval by CARC, approval of MDA Main Committee is obtained and thereafter approval of the Commerce Minister is solicited. In certain cases with the approval of Commerce Minister, changes in the CCS rates as recommended by CARC, are made keeping in view factors like growth in exports, small scale sectors etc."

44. As brought out in the Audit Para, while the Cost Accounts Branch had to abandon (July 1975) the cost study due to non-cooperation of the cast iron manufacturing units, the Ministry of Commerce (June, 1975) analysed the incomplete data of all the 10 units and arrived at an *ad hoc* shortfall of 15 per cent for sanitary castings. They proposed to bifurcate iron castings into two categories and recommended cash assistance for (i) iron castings: 20 per cent; (ii) (a) sanitary castings ungalvanised, manhole cover, c.i pipes, etc.: 15 per cent; (b) Industrial castings ungalvanised; 24 per cent. The CARC considered the proposal and in the absence of a proper cost study took an *ad hoc* decision to extend the cash assistance at the rate of 15 per cent till December 1975, both for sanitary and industrial castings (galvanised or ungalvanised).

45. The Committee, therefore, enquired about the basis on which the Cash Assistance Review Committee took an *ad hoc* decision to extend this cash assistance at the rate of 15 per cent till December, 1975 and again till June, 1976 in the absence of a proper cost study? In a note furnished to the Committee, the Ministry of Commerce have stated:

"No fresh cost data in regard to this item had been received, so pending examination of the data, the Cash Assistance was allowed to continue beyond that date."

46. The Committee enquired whether the non-cooperation of the cast iron manufacturing units *prima facie* suggest that a completion of cost study would result in reduction in cash assistance and why, the Ministry continued to give cash assistance to units which did not cooperate with the Cost Accounts Branch. The Committee also desired to know the expertise available with the Ministry of Commerce to analyse the cost data. The Ministry of Commerce have stated in a note that the inability of the cast iron manufacturers to provide data was due to certain practical difficulties. Moreover, cash assistance rate is applicable on all exports and no discrimination can be made between one manufacturer and another manufacturer. Hence it was not possible to stop payment of cash assistance to those units who had not supplied cost data details to the Cost Accounts Branch. With experience as dealing with such cases Ministry of Commerce (Commodity Division/Finance Divisions) had the expertise to analyse the cost data.

47. In April, 1975 on the advice of the D.G.T.D., the Cash Assistance Review Committee (C.A.R.C.) felt that the f.e.b. realisation on iron castings had gone up and, therefore, it was difficult to continue to pay cash assistance without further justification. The Commodity Officer had also recommended in February, 1975 that cash assistance be reduced to 10 per cent. However, pending examination of cost data by the Cost Accounts Branch, the Committee extended the existing rates of cash assistance upto June 1975. Unfortunately the cast iron manufacturers did not furnish the relevant data. No action was taken on this recommendation, but it was decided to ask the manufacturers to furnish the data. This they failed to do. This has resulted in unjustified payment of cash assistance amounting to Rs. 25.21 lakhs. The Committee regret that cash assistance was given to units even though they failed to give the cost data. The Committee suggest that the scheme should be amended making it obligatory for the manufacturers to give the relevant data which the Government may require.

#### *Unjustified payment of cash assistance*

48. On the recommendations (January 1978) of the Alexander Committee, the pattern of cash assistance was to be revised. The Committee, while recognising the promotional role of cash assistance in the country's export efforts, recommended that it should be given for a limited period only.

The EEPC, who was asked in October 1978 to furnish information under the new pattern, noted (December 1978) that basic raw mate-

rial needed for production was available indigenously and forwarded the requisite data in respect of 6 units (3 located at Calcutta, 2 at Agra and 1 at Hyderabad)

49. The Ministry, while analysing the data, adopted an *ad hoc* percentage of different incidences and worked out a total disadvantage of 7.15 per cent on the *f.o.b.* realisation.

In December 1978, the CARC decided to grant cash assistance at 7.5 per cent for 1979-80 and 5 per cent for 1980-82. Sanction for cash assistance was issued accordingly.

50. As soon as the new rates were announced, a number of representations from the exporters of iron castings were received through the EEPC. The exporters requested a separate higher rate of cash assistance for industrial iron castings. It was alleged that sanitary and public works castings did not call for rigid specifications, and these were being made in the country for many years and no sophisticated technology was needed and development cost was practically negligible but industrial castings were manufactured to the desired specifications of the buyer involving intricate castings. The EEPC, while forwarding the case of a Calcutta based firm, whose data had earlier been considered by the Ministry of Commerce requested a separate product group only for industrial iron castings and recommended cash assistance at 20 per cent. It was argued that in December 1978 the cost data and details were submitted for sanitary castings only.

51. The Ministry of Commerce, apprehended practical difficulties in adopting a separate classification for industrial castings but sought a review of CARC's earlier decision and worked out revised percentages of disadvantage; 13.50 per cent for American continent and 10 per cent for other destinations against the disadvantage of 7.51 per cent worked out earlier, and recommended cash assistance at 12.50 per cent for exports of iron casting of all types to the American continent and 10 per cent to other destinations.

52. The CARC accepted the recommendation of the Ministry of Commerce. Revised sanction granting cash assistance at 12.5 per cent for the American continent and 10 per cent for other destinations was issued in March 1979.

53. Thus against the request of the exporters and the recommendation of the EEPC for an enhancement in the rate of cash assistance only for the export of industrial castings, which was only about 10

per cent of the total export of castings, the Ministry of Commerce sanctioned a higher rate for sanitary castings also, on the plea of impracticability of bifurcation of the head 'iron castings' into two separate heads (i) sanitary castings and (ii) industrial castings. The argument of the Ministry for not bifurcating iron castings into two separate items on the ground of impracticability was not tenable as they had in June 1975 proposed to the CARC to bifurcate the items which was not implemented then. This involved an extra payment of cash assistance, of 5 per cent and 2½ per cent during 1979-80 and 7½ per cent and 5 per cent during 1980-81 for exports to the American continent and other destinations respectively.

54. However, Government ultimately (December 1980) classified iron castings into two separate heads (i) sanitary castings and (ii) industrial castings and had to reduce the cash assistance to 5 per cent on sanitary castings from 29th January 1981 as it could not justify cash assistance above 5 per cent of f.o.b. value of exports.

55. Thus, an amount of Rs. 224.45 lakhs had to be paid as unjustified cash assistance on sanitary castings during the period 1st April 1979 to 28th January 1981, due to non-acceptance by the Ministry of Commerce of the suggestion for bifurcation of the head iron castings from 1st April 1979.

56. Asked whether it was not contrary to the recommendations of the Alexander Committee to continue cash assistance for indefinite period despite margin of profit to the trade, the Ministry of Commerce have stated in a note that "CCS was introduced for the product having regard to the export prospects, production capacity in the country, the competitive strength of the product *vis-a-vis* international price and other relevant factors. This criteria was laid down with the approval of the Cabinet Committee on exports. Subsequently this criteria was changed based on the decision of the Government on the recommendations of the Alexander Committee. Therefore, while fixing CCS, the CARC now takes into account the incidence of indirect taxes, interest on working capital, freight disadvantages, cost of products & market development, details of f.o.b. cost and f.o.b. realisation, etc. When exporters of this item are suffering from these disadvantages, CCS cannot be withdrawn. As such continuance of CCS on this item is not contrary to the recommendation of the Alexander Committee (1978)".

57. The Committee enquire the reasons that while Cash Assistance Review Committee had calculated the percentage of disadvantage

at 7.51 per cent the Ministry of Commerce calculated it at 13.50 per cent for the American continent and 10 per cent for other destinations. In a note furnished to the Committee, the Ministry of Commerce have stated that in the note submitted to CARC on 22-12-1978 it was suggested to fix CCS at 7.50 per cent for a period of 3 years with effect from 1-4-1979. The Committee decided that CCS be fixed at 7.5 per cent for 1979-80 and 5 per cent for 1980-81 and 1981-82. A number of representations had been received against the steep reduction in the rate of CCS decided by the Committee. Fresh data had been forwarded by EEPC in respect of two firms duly certified by the Chartered Accountants. In a note dated 13-3-1979, the disadvantages were reviewed on the basis of the latest data and incidence of disadvantages was worked out at 13.50 per cent for American continent and 11 per cent for other destinations. The Cash Assistance Review Committee (CARC) accordingly fixed cash assistance at the rate of 12.5 per cent for export to American continent and 10 per cent for exports to other destinations. It would thus be seen that the disadvantages arrived at by the Commodity Division in the Ministry of Commerce were accepted by the Cash Assistance Review Committee while fixing the cash assistance.

58. The Committee asked the Ministry of Commerce to state in detail the circumstances in which the Ministry of Commerce sanctioned a higher rate for 'sanitary castings' also against the request of exporters and the recommendation of the EEPC for an enhancement in the rate of cash assistance for the export of industrial castings only. In a note furnished to the Committee it has been stated that "CCS was kept at 5 per cent in order to avoid any possible misinterpretation about the nature and extent of assistance being provided by Government, in the context of action on alleged dumping taken in the United States."

59. The Ministry of Commerce were asked to furnish their comments on the statement in the Audit Para that due to non-acceptance by the Ministry of Commerce of the suggestion for bifurcation of the head 'Iron Castings' from 1st April, 1979, an amount of Rs. 224.45 lakhs had to be paid as unjustified cash assistance during the period April, 1979 to 28th January, 1981.

60. The Ministry of Commerce have in their note stated that the payment of Cash Assistance of Rs. 224.45 lakhs during the period April, 1979 to 28th January, 1981 cannot be accepted as unjustified as there was no other alternative as practical difficulties were apprehended in adopting a separate classification of iron castings in industrial castings and sanitary castings as duty drawback was the

same. There could always be certain items of castings like pipe fittings which could not be distinguished physically from sanitary castings.

61. In October 1978, the Engineering Export Promotion Council (EEPC) furnished certain data to Government relating to the incidence of disadvantage to the iron casting manufacturers. The Ministry of Commerce analysed the data and adopted an ad-hoc average percentage of different incidences at 7.51 per cent on the f.o.b. realisation. In December 1978, the Cash Assistance Review Committee decided to grant cash assistance at 7.5 per cent for 1979-80 and at 5 per cent for 1980-82. Sanction for cash assistance was issued accordingly.

62. Immediately, thereafter the Government received certain representations from the iron castings exporters requesting for a separate higher rate of cash assistance for the industrial castings, on the plea that, as against sanitary and public works castings which did not call for rigid specifications, industrial castings were manufactured to the desired specifications of the buyer involving intricate castings.

63. After some consideration, the Ministry of Commerce recommended cash assistance at 12.50 per cent for export of iron castings of all types for the American continent and 10 per cent to other destinations. The Cash Assistance Review Committee accepted the recommendation of the Ministry of Commerce and a fresh revised sanction for these rates was issued in March 1979.

64. Against the request of the exporters and in the face of the recommendation of the Engineering Export Promotion Council for an enhancement only for the export of industrial castings, which constituted only about 10 per cent of the total castings, the Ministry of Commerce thus sanctioned a higher rate not only for industrial castings but for all types including sanitary castings. The Ministry of Commerce justified their action on the ground that it was not practicable to distinguish industrial castings from sanitary and other types of castings. This is not a tenable explanation as, in fact, later Government itself classified iron castings into industrial and sanitary castings and reduced the cash assistance to sanitary castings to 5 per cent only.

#### *Imposition of countervailing duty on Iron castings*

65. The Audit Para reveals that cash assistance for 1979-82 was sanctioned on the basis of unreliable cost data which showed a loss in exports, whereas there was substantial margin of profit; the

Indian castings were sold to an importing country (USA) at very low rates; and though the Government were aware (October 1978) of the underselling by the Indian exporters of castings in USA and also the contemplated move for imposition of countervailing duty by US Government, yet no remedial measures were taken; instead cash assistance was extended in March 1979, which resulted in unjustified payment of Rs. 568.76 lakhs during 1979—81 on sanitary castings.

66. The above statement is elaborated in the Audit Para as follows: Exports of certain iron castings (manhole covers and frames, clean-out covers and frames and catch basin grates and frames, etc.) to USA increased from Rs. 194.85 lakhs in 1976-77 to Rs. 1030.42 lakhs in 1979-80. The rising Indian exports to USA caused provocation for a contemplated action by US foundry units alleging dumping practices and a countervailing duty investigation by the U.S. Government. The EEPC were aware (August 1978) that the average price of Indian manhole covers exported to USA worked out to be the lowest (11 cents per pound) and these could easily fetch 10 to 15 per cent higher prices. The EEPC also knew that the cash assistance on iron castings could be treated as subsidy for determining imposition of countervailing duty by the U.S. Government. In October 1978, in a meeting held in the Indian Embassy, Washington, it was observed that the cash assistance on exports provided by the Government to India could be treated as export subsidy and countervailing duty could be imposed. The Indian Embassy felt that it was essential to withdraw cash assistance on the export of manhole covers to avoid imposition of countervailing duty. Even so, the EEPC recommended (December 1978) continuance of cash assistance beyond 31st March 1979.

67. In February 1980, a petition was filed by the US casting industry with the United States Department of Commerce, International Trade Administration, Washington, alleging that the Government of India were providing subsidies on the export of certain iron castings to USA. During investigation, it was found that imports of these products to USA from India had significantly lower unit values than imports from other foreign sources, and were considerably lower than the U.S. products.

68. In the final determination of countervailing duty by the U.S. International Trade Administration (August 1980), the cash assistance (12.5 per cent) provided by the Government of India was treated as subsidy and not a refund of indirect taxes levied on exports which were not countervailable under Article VI(4) of the General Agreement on Tariffs and Trade (GATT). In addition, preshipment



credit allowed to the exporters under the interest subsidy scheme was found to be a subsidy of 0.4 per cent. Thus, a basic subsidy of 12.9 per cent to 16.8 per cent was imposed by the US Government on the Indian exporters after adding some percentage on account of certain other benefits available to them.

69. The Ministry of Commerce, while considering the future course of action, observed that the crucial weakness of the case was that at the time of sanctioning cash assistance, the calculation of incidence of indirect taxes was not accurately made. If a fresh aggregate analysis of the incidence of indirect taxes on the production of castings was made on the basis of reliable documentation, the US Department of Commerce could be requested for a review of the order. In November 1980, the exporters of iron castings suggested to Government either to reduce or to withdraw cash assistance on sanitary castings as they could suitably increase their prices and still remain competitive in the US market. They unanimously agreed that cash assistance could be reduced to 5 per cent. The Ministry of Commerce while proposing to reduce the rate of cash assistance on sanitary castings to 5 per cent of f.o.b. value admitted that, in December 1978, the cash assistance rates had been fixed (7.5 per cent for 1979-80 and 5 per cent for 1980-82) mainly on the basis of data relating to the exports of sanitary and public works castings and that, while reviewing the rates of cash assistance on the representation of producers of industrial castings, no distinction was made between sanitary castings and industrial castings and equal rates (12.5 per cent) were sanctioned for both the items. It was held that 'competitive needs' of the exporters justified a reduction in the cash assistance rates.

70. The Ministry of Commerce (Finance Division), while examining the proposal (November 1980) advised complete withdrawal of cash assistance on iron castings for all destinations.

71. The Ministry of Commerce, however, felt that it was not an opportune time to withdraw the cash assistance. This view was ultimately accepted by the Finance Division but they suggested a review of the position after six months to decide the continuance of cash assistance. Cash assistance on sanitary castings was accordingly reduced to 5 per cent from 29th January 1981, but protection was given to the old contracts for shipments upto 31st March, 1981. Cash assistance for industrial castings was maintained at the rates sanctioned in March 1979.

72. In view of reduction in the cash assistance rates USA also reduced the countervailing duty on Indian iron castings by 7.5 per cent from 1st April, 1981.

73. It would be seen that there was no case for sanctioning cash assistance for sanitary castings in March, 1979. The Ministry of Commerce were aware of the profitability in the exports and the proposed move to impose countervailing duty as early as in October 1978. Instead of instructing the EEPC to increase the floor prices and taking other remedial measures to avoid levy of countervailing duty, they extended the cash assistance for another three years from 1st April, 1979. The Ministry of Commerce did not conduct the review suggested by the Finance Division in January 1981 and cash assistance at the rate of 5 per cent on the export of sanitary castings was continuing (July 1982). Continuance of cash assistance on sanitary castings beyond January 1981, in effect, meant transfer of resources, as whatever assistance was given by way of cash assistance would be collected by way of countervailing duty by the foreign Government.

74. During 1979-80 and 1980-81 (January 1981), sanitary castings worth Rs. 5254.50 lakhs were exported attracting payment of cash assistance of Rs. 568.76 lakhs, which was not justified in view of profitability in exports.

75. The Committee enquired whether it was justified on the part of the Ministry of Commerce to have extended cash assistance in March 1979, when the advantage of cash assistance had been neutralised by imposition of countervailing duty in the United States. The Ministry of Commerce informed the Committee that the U.S. Department of Commerce had initiated countervailing duty investigation on import of iron castings from India only in February 1980 while cash assistance was fixed in 1979 mainly on the basis of data relating to the exports of sanitary and Public Works castings. Later on due to imposition of countervailing duty by U.S.A. on import of iron castings, CCS on sanitary castings was reduced to 5 per cent. "CCS was kept at 5 per cent in order to avoid any possible misinterpretation about the nature and extent of assistance being provided by Government, in the context of action on alleged dumping taken in the United States."

76. The Committee also enquired whether the Ministry of Commerce made an effort to convince the U.S. Government to withdraw CCS being allowed to the Indian exporters of iron casting was for the the countervailing duty on iron castings on the consideration that the

purpose of removing the disadvantages from which they were suffering and that it did not contain an element of subsidy. The Ministry of Commerce informed the Committee that "among the possible remedial measures, the Government thought of making an appeal against the decision of the U.S. International Trade Commission, but our Mission in Washington advised that taking into account all the circumstances and the course of debate before the enquiry authority and the facts furnished before the same, they were not hopeful of a favourable outcome to any appeal. In the meeting with the casting panel of EEPC, all members were also of the unanimous view that an appeal against this order was not likely to help. This was the informal advice that they had received from the US Counsel with whom they had been in touch. Taking all these into account, the Government did not go in for an appeal."

77. In reply to a question as to why when even the Ministry of Finance (Finance Division) had advised complete withdrawal of cash assistance on iron castings on all destinations the Ministry of Commerce felt that it was not opportune time to withdraw the cash assistance, the Ministry of Commerce stated as under:

"Ministry of Commerce (Finance Division) noted that between 1977 and 1979 import of castings from India increased from 77 per cent to 80 per cent of total US Imports. As a percentage of total US consumption/local manufacture imports from India increased from 7 per cent in 1977 to over 20 per cent in 1979 and over 29 per cent in 1980. These figures indicated that Indian exporters had been enjoying a lion's share of total imports by US and fairly high share of the total US consumption. The Finance Division had also noted that five major exporters accounting for 50 per cent of India's exports to USA had increased their exports from Rs. 188 lakhs in 1978-79 to Rs. 451 lakhs in 1979-80. The position they noted was different in respect of destination other than US. In view of this Finance Division (Ministry of Commerce) advised complete withdrawal of cash assistance on Iron castings on all destinations. If the Ministry of Commerce totally stopped the CCS in these items, it would have tantamount to our admitting that we had been heavily subsidising this export and helping the dumping of these castings in US markets and if this would have been implication, the US Government could take similar action (imposition of customs duty) on any other exported

item enjoying CCS more or less on the same principle as in the case of iron castings. Hence, CCS was not withdrawn on iron castings."

78. The Committee further enquired whether in view of the stand taken by U.S. International Trade Administration that the Cash Compensatory Support provided by the Government of India was a subsidy and not a refund of indirect taxes levied on exports, did the Government examine the desirability of substituting the scheme of Cash Compensatory Support by some other scheme?

79. In a note furnished by the Ministry of Commerce, it has been stated that "the Government have not examined the desirability of substituting the Scheme of CCS by some other Schemes. Only CCS on sanitary castings was reduced to 5 per cent. Subsequent enquiry by US investigating team has indicated our stand in so far as they have found CCS on sanitary casting has not attracted countervailing duty."

80. The Committee asked the Ministry of Commerce to furnish a note on the suggestion received by them from the iron casting exporters in 1980 to withdraw the C.C.S. In a note furnished to the Committee, it has been stated: that "A meeting of the casting exporter panel was arranged to thrash out the matter regarding countervailing duty imposed by US Government on the imports of certain iron castings from India. The exporters of sanitary castings were unanimously of the view that the first step is to try and get the US Countervailing duty withdrawn by taking up such steps as well ensure that there is no element of subsidy in the Cash Compensatory Support. Basically this was to imply that the CCS on sanitary casting is either totally withdrawn or pegged at a lower level than the amount of unrefunded tax and their legislation origin and the determination of CCS to the satisfaction of US Authorities. If these steps were taken as suggested by exporter, there was every chance that the countervailing duty would be abolished. The exporters were of the view that if this eventually occurs, they could suitably increase their prices and remain competitive in the US market without considerable under selling which would bring the charge of dumping. The iron casting panel was unanimously of the view that CCS may be reduced to a level currently equal to the level of unrefunded taxes."

81. Asked what action was taken and how a decision on the matter was arrived at, the Ministry of Commerce have stated that "According to the study made by the EEPC, Sales Tax and Octroi

Tax were stated to constitute about 5 per cent of the unrefunded taxes levied on public works casting. Based on this the suggestion to reduce the rate of CCS from 12.5 per cent to 5 per cent was accepted."

82. The Audit Paragraph rightly draws attention to the fact that Government were aware as early as October, 1978 of the under selling by the Indian exporters of iron castings in USA and also of the move by US Government for imposition of countervailing duty. Subsequently, countervailing duties were, in fact, imposed by the US Government as a result of which Government took steps to reduce the support given to the industry. The fact that the prices quoted by the Indian exporters in the U.S. market were far below the international market price, should have been known to the Government right from the beginning and not only in 1978. As a result of continued grant of cash support, not only did Government of India wastefully use its resources for promotion of the export of products, which did not call for any support, but tactily acquiesced in the loss of foreign exchange because these products could have been able to obtain higher prices in the foreign market and thus earned larger amount of foreign exchange.

83. It is clear that there was no case for cash assistance for sanitary castings in March 1979 and as the Government did not conduct the review suggested by the Finance Division of the Ministry of Commerce in January 1981, cash assistance at the rate of 5 per cent on the export of sanitary castings was continued from 1979-80 to 1980-81, resulting in payment of cash assistance of Rs. 568.76 lakhs which was totally unjustifiable. It is also a matter of regret that the Government of India should have allowed to be put in the wrong, vis-a-vis the Government of United States who were compelled to levy a countervailing duty.

*Action taken on earlier recommendations of the Committee*

84. The Public Accounts Committee (7th Lok Sabha) had, in Para 1.60 of their 152nd Report presented to the House on 29 April, 1983, observed:

"The Committee are strongly of the view that now that the scheme of cash compensatory assistance has been in operation for more than 16 years and a substantial amount is being paid every year (e.g. Rs. 500 crores in 1981-82) as Cash assistance for export of various com-

modities, its efficacy and usefulness should be evaluated without delay by a Team of Experts with a view to finding out how far the scheme has been able to achieve the objective for which it was started and what modifications are necessary to make it more effective and meaningful."

85. The Ministry of Commerce were asked to state the action taken by them to implement the above recommendations. In a note furnished to the Committee, it has been stated as follows:

"A CCS Cell has been set up with the following functions:

- (1) Undertaking of special studies in connection with evolving of compliance with norms for submission of data relating to CCS.
- (2) Collection of data in regard to trend and volume of exports in respect of selected CCS assisted items.
- (3) Analysis and interpretation of data so collected.
- (4) Analytical study to determine how far CCS has actually contributed to the increase in export of the concerned items and the quantum of foreign exchange inflow; and ..
- (5) To concurrently review and evaluate market trends, f.o.b. realisation and impact of various kinds of assistance.

This Cell is headed by a Director with two Cost Accountant Officers and other supporting staff. Director in charge of this Cell is being associated with the Meetings of the CARC. It is expected that this arrangement will help in bringing about closer scrutiny and better assessment of the data received from the exporters through Engineering Export Promotion Councils."

86. The Committee asked the Ministry of Commerce to furnish a note giving their suggestions for simplifying the existing procedures for export promotion with a view to avoiding delays and reducing paper work and also seeing whether an exporter could get all facilities for export Promotion under one roof.

The Ministry have stated that "The suggestions received from various quarters for simplification of the existing policy and procedures for export promotion with a view to avoiding delays and

reducing paper work have already been considered by the Working Group on import-export policy for 1965-86. In fact, the simplification of procedure has been one of the guiding principle of the Working Group. Decision taken in this regard has been reflected in the current policy.”

87. The Committee are glad to note that in pursuance of their earlier recommendations, a Cash Compensatory Cell headed by a Director, has been set up to undertake special studies for evolving norms for submission of data, their interpretation, analytical study etc. so as (a) to determine how far the CCS has actually contributed to increase in the export of the concerned items and in the inflow of foreign exchange, and (b) to review and evaluate market trends, f.o.b. realisation and impact of various kinds of assistance.

## APPENDIX I

(See Para 1 of the Report)

*Paragraph 29 of the Report of the Comptroller & Auditor General of India for the year 1981-82, Union Government (Civil), relating to Cash assistance for export of iron castings.*

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Iron castings cover public works and sanitary castings, viz. sand cast iron (C.I.) pipes, cast iron pipe fittings, man-hole covers, iron flushing cisterns, cast iron municipal wares, industrial castings and a number of components for industrial machinery. The raw materials required for fabrication of iron castings are pig iron, steel scrap and hard coke. Pig iron is made available to the exporters from the steel plants at prices fixed by the Joint Plan Committee. Whenever domestic prices go above the international prices, the difference is reimbursed to the exporters to enable them to compete in international markets. In 1979, there were 126 units in the organised sector; with an installed capacity of 997.9 thousand tonnes. Besides, there were a number of foundries producing iron castings in the small scale sector.

Apart from meeting domestic demand, the iron casting industry has been selling its products in overseas markets. The principal countries importing iron castings from India are USA, Kuwait, Saudi Arabia, UAE and Canada. The exports of iron castings during 1977-78 to 1980-81 were as shown in Annexure.\*

The exports of iron castings qualified for import replenishment at 5 per cent and cash assistance at 25 per cent of f.o.b. realisation from 1966 to 31st March 1975. The position from April 1975 onwards is discussed in the succeeding paragraphs.

### *Payment of cash assistance without cost study*

Till March 1976, the rates of cash assistance were to be fixed to bridge the gap between cost of production and f.o.b. realisation. Since the cash assistance rates were continuing without any proper cost analysis for nine years from 1966-67, the commodity officer in

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\*Not reproduced from original Audit Report.



the Ministry of Commerce was asked (January 1975) to review the existing level of cash assistance on certain steel intensive export products.

In January 1975, the Engineering Export Promotion Council (EEPC) was directed to furnish cost data from representative units producing iron castings so that a cost study could be conducted by the Cost Accounts Branch of the Ministry of Finance. Without waiting for the data, the commodity officer considering the f.o.b. realisation, recommended (February 1975) reduction of cash assistance on iron castings from 25 to 10 per cent from 1st April 1975. Orders to that effect were, however, not passed, though the commodity officer again (March 1975) recommended the reduction of cash assistance on iron castings.

The Cabinet Committee on Exports had recommended (1966) a cut off point of 25 per cent f.o.b. value after deducting the import content. Accordingly, the cash assistance was not to exceed 25 per cent of the value addition which was to be arrived at by deducting the import content from the f.o.b. value of the product. Since no review of cash assistance was conducted till March 1975, the cash assistance was continued to be paid beyond the cut-off point during 1966—75. In April 1975, the rate of cash assistance on iron castings was reduced to 24 per cent by applying 'cut-off point' formula.

Between June 1966 and March 1975 ungalvanised iron castings worth Rs. 2,734 lakhs were exported which attracted cash assistance of Rs. 683.55 lakhs at the rate of 25 per cent. Thus, cash assistance amounting to Rs. 27.34 lakhs (at the rate of 1 per cent) was paid in excess of the cut-off point.

In April 1975, the Cash Assistance Review Committee (CARC) felt that the f.o.b. realisation on iron castings had gone up and, therefore, it was difficult to continue cash assistance without further justification. Nevertheless, pending examination of cost data by the Cost Accounts Branch, the Committee extended the existing rates of cash assistance upto 30th June 1975.

While the Cost Accounts Branch had to abandon (July 1975) the cost study due to non-cooperation of the cast iron manufacturing units, the Ministry of Commerce (June 1975) analysed the incomplete cost data of all the 10 units and arrived at an *ad hoc* shortfall of 15 per cent for sanitary castings. They proposed to

bifurcate iron castings into two categories and recommended cash assistance as under:

(i) Iron casting galvanised	20 per cent
(ii) (a) Sanitary casting ungalvanised, manhole covers, c.i. pipes etc.	15 per cent
(iii) (b) Industrial castings ungalvanised.	24 per cent

The CARC considered the proposal and in the absence of a proper cost study took an *ad hoc* decision to extend the cash assistance at the rate of 15 per cent till December 1975, both for sanitary and industrial castings (galvanised or ungalvanised).

During the period 1st April 1975 to 30th June 1975, cash assistance was paid at 24 per cent for ungalvanised iron castings instead of 10 per cent recommended (February 1975) by the commodity officer which resulted in undue payment of cash assistance amounting to Rs. 25.81 lakhs.

In June 1975, the EEPC was again directed to furnish reliable cost data in the prescribed forms, showing both total cost and marginal cost, duly certified by the Council. It was stressed that the cash assistance would be discontinued if the data were not received by 31st July 1975. However, cash assistance at 15 per cent was further extended up to 31st March 1976 on the basis of a general decision taken by the CARC in September, 1975.

In January 1976, new guidelines for deciding the quantum of cash assistance were issued. The CARC, however, decided to continue the existing rates of cash assistance up to 30th June 1976 only, pending detailed review and later (June 1976) extended the cash assistance at 15 per cent till 31st March 1977.

In October 1976, by a general sanction, the existing rates of cash assistance on the export of a number of products including iron castings, were extended up to 31st March 1979.

During 1975-76 to 1978-79, exports valued at Rs. 9231.57 lakhs were affected which attracted cash assistance of Rs. 1401.33 lakhs, the payment of which was not justified in the absence of proper cost study.

#### *Unjustified payment of cash assistance*

On the recommendations (January 1978) of the Alexander Committee, the pattern of cash assistance was to be revised. The

Committee, while recognising the promotional role of cash assistance in the country's export efforts, recommended that it should be given for a limited period only.

The EEPC, who was asked in October 1978 to furnish information under the new pattern, noted (December 1978) that basic raw material needed for production was available indigenously and forwarded the requisite data in respect of 6 units (3 located at Calcutta, 2 at Agra and 1 at Hyderabad).

The Ministry, while analysing the data, adopted an *ad hoc* percentage of different incidences and worked out a total disadvantage of 7.51 per cent on the f.o.b. realisation.

In December 1978, the CARC decided to grant cash assistance at 7.5 per cent for 1979-80 and 5 per cent for 1980—82. Sanction for cash assistance was issued accordingly.

As soon as the new rates were announced, a number of representations from the exporters of iron castings were received through the EEC. The exporters requested a separate higher rate of cash assistance for industrial iron castings. It was alleged that sanitary and public works castings did not call for rigid specifications, and these were being made in the country for many years and no sophisticated technology was needed and development cost was practically negligible but industrial castings were manufactured to the desired specifications of the buyer involving intricate castings. The EEPC while forwarding the case of a Calcutta based firm whose data had earlier been considered by the Ministry of Commerce requested a separate product group only for industrial iron castings and recommended cash assistance at 20 per cent. It was argued that in December 1978 the cost data and details were submitted for sanitary castings only.

The Ministry of Commerce, apprehended practical difficulties in adopting a separate classification for industrial castings but sought a review of CARC's earlier decision and worked out revised percentages of disadvantage; 13.50 per cent for American continent and 10 per cent for other destinations against the disadvantage of 7.51 per cent worked out earlier, and recommended cash assistance at 12.50 per cent for exports of iron castings of all types to the American continent and 10 per cent to other destinations.

The CARC accepted the recommendation of the Ministry of Commerce. Revised sanction granting cash assistance at 12.5 per cent for the American continent and 10 per cent for other destinations was issued in March 1979.

Thus, against the request of the exporters and the recommendation of the EEPC for an enhancement in the rate of cash assistance only for the export of industrial castings, which was only about 10 per cent of the total export of castings, the Ministry of Commerce, sanctioned a higher rate for sanitary castings also, on the plea of impracticability of bifurcation of the head 'iron castings' into two separate heads (i) sanitary castings and (ii) industrial castings. The argument of the Ministry for not bifurcating iron castings into two separate items on the ground of impracticability was not tenable as they had in June 1975 proposed to the CARC to bifurcate the items which was not implemented then. This involved an extra payment of cash assistance of 5 per cent and 2½ per cent during 1979-80 and 7½ per cent and 5 per cent during 1980-81 for exports to the American continent and other destinations respectively.

However, Government ultimately (December 1980) classified from castings into two separate heads (i) sanitary castings and (ii) industrial castings and had to reduce the cash assistance to 5 per cent on sanitary castings from 29th January 1981 as it could not justify cash assistance above 5 per cent of f.o.b. value of exports.

Thus, an amount of Rs. 224.45 lakhs had to be paid as unjustified cash assistance on sanitary castings during the period 1st April 1979 to 28th January 1981, due to non-acceptance by the Ministry of Commerce of the suggestion for bifurcation of the head iron castings from 1st April 1979.

#### *Imposition of countervailing duty on iron castings*

Exports of certain iron castings (manhole covers and frames, clean-out covers and frames and catch basin grates and frames, etc.) to USA increased from Rs. 194.85 lakhs in 1976-77 to Rs. 1030.42 lakhs in 1979-80. The rising Indian exports to USA caused provocation for a contemplated action by US foundry units alleging dumping practices and a countervailing duty investigation by the U.S. Government. The EEPC were aware (August 1978) that the average price of Indian manhole covers exported to USA worked out to be the lowest (11 cents per pound) and these could easily fetch 10 to 15 per cent higher prices. The EEPC also knew that the cash assistance on iron castings could be treated as subsidy for determining imposition of countervailing duty by the U.S. Government. In October 1978, in a meeting held in the Indian Embassy, Washington, it was observed that the cash assistance on exports provided by the Government of India could be treated as export subsidy and countervailing duty could be imposed. The Indian Embassy felt that it

was essential to withdraw cash assistance on the export of manhole covers to avoid imposition of countervailing duty. Even so, the EEPC recommended (December 1978) continuance of cash assistance beyond 31st March 1979.

In February 1980, a petition was filed by the US casting industry with the United States Department of Commerce, International Trade Administration, Washington, alleging that the Government of India were providing subsidies on the exports of certain iron castings to USA. During investigation, it was found that imports of these products to USA from India had significantly lower unit values than imports from other foreign sources, and were considerably lower than the U.S. products.

In the final determination of countervailing duty by the U.S. International Trade Administration (August 1980), the cash assistance (12.5 per cent) provided by the Government of India was treated as subsidy and not a refund of indirect taxes levied on exports which were not countervailable under Article VI(4) of the General Agreement on Tariffs and Trade (GATT). In addition, pre-shipment credit allowed to the exporters under the interest subsidy scheme was found to be a subsidy of 0.4 per cent. Thus, a basic subsidy of 12.9 per cent to 16.8 per cent was imposed by the US Government on the Indian exporters after adding some percentage on account of certain other benefits available to them.

The Ministry of Commerce, while considering the future course of action, observed that the crucial weakness of the case was that at the time of sanctioning cash assistance, the calculation of incidence of indirect taxes was not accurately made. If a fresh aggregate analysis of the incidence of indirect taxes on the production of castings was made on the basis of reliable documentation, the US Department of Commerce could be requested for a review of the order. In November, 1980, the exporters of iron castings suggested to Government either to reduce or to withdraw cash assistance on sanitary castings as they could suitably increase their prices and still remain competitive in the US market. They unanimously agreed that cash assistance could be reduced to 5 per cent. The Ministry of Commerce, while proposing to reduce the rate of cash assistance on sanitary castings to 5 per cent of f.o.b. value admitted that, in December 1978, the cash assistance rates had been fixed (7.5 per cent for 1979-80 and 5 per cent for 1980-82) mainly on the basis of data relating to the exports of sanitary and public works castings and that, while reviewing the rates of cash assistance on the representation of producers of industrial castings, no distinction was made between sanitary castings

and industrial castings and equal rates (12.5 per cent) were sanctioned for both the items. It was held that 'competitive needs' of the exporters justified a reduction in the cash assistance rates.

The Ministry of Commerce (Finance Division), while examining the proposal (November 1980) advised complete withdrawal of cash assistance on iron castings for all destinations.

The Ministry of Commerce, however, felt that it was not an opportune time to withdraw the cash assistance. This view was ultimately accepted by the Finance Division but they suggested a review of the position after six months to decide the continuance of cash assistance. Cash assistance on sanitary castings was accordingly reduced to 5 per cent from 29th January 1981, but protection was given to the old contracts for shipments upto 31st March, 1981. Cash assistance for industrial castings was maintained at the rates sanctioned in March 1979.

In view of reduction in the cash assistance rates USA also reduced the countervailing duty on Indian iron castings by 7.5 per cent from 1st April 1981.

It would be seen that there was no case for sanctioning cash assistance for sanitary castings in March 1979. The Ministry of Commerce were aware of the profitability in the exports and the proposed move to impose countervailing duty as early as in October 1978. Instead of instructing the EEPC to increase the floor prices and taking other remedial measures to avoid levy of countervailing duty, they extended the cash assistance for another three years from 1st April 1979. The Ministry of Commerce did not conduct the review suggested by the Finance Division in January 1981 and cash assistance at the rate of 5 per cent on the export of sanitary castings was continuing (July 1982). Continuance of cash assistance on sanitary castings beyond January 1981, in effect,, meant transfer of resources, as whatever assistance was given by way of cash assistance would be collected by way of countervailing duty by the foreign Government.

During 1979-80 and 1980-81 (January 1981), sanitary castings worth Rs. 5254.50 lakhs were exported attracting payment of cash assistance of Rs. 568.76 lakhs, which was not justified in view of profitability in exports.

#### *Functioning of floor price system*

Indian prices of iron castings imported in USA remained lower than all other countries exporting to that country throughout 1977-79.

Since one of the main objectives of the floor price system was to ensure maximum possible realisations, the floor prices could have been fixed at higher levels. The omission to do so indicated that the floor prices were not always related to the existing market conditions abroad, but were fixed at unrealistically low levels. During the period 1977—80, 63 to 94 per cent of the total exports of sanitary castings to USA were made by the 12 leading exporters, 6 of whom were members of the Task Force sub-committee fixing the floor prices of iron castings. The Government had no representation in this committee nor had it issued any guidelines for fixation of floor prices. The possibility of fixation of floor prices at much lower levels, than could be obtained in foreign markets, was thus very much there.

#### *Quantum of cash assistance*

Exports of iron castings amounting to Rs. 1722.0 crores had been made during 1966-67 to 1980-81 (January 1981) on which cash assistance worked out to Rs. 26.54 crores.

It was noticed that out of 126 units in the organised sector and a number of units in the small scale sector, the major share of exports (63 to 94 per cent) to USA went to 12 leading exporters during 1977-78 to 1979-80.

Cash assistance on the exports of iron castings continuing since 1966-67 was contrary to the recommendations of the Cabinet Committee on Exports (1966) and the recommendations of the Alexander Committee (1978) in as much as the commodity exported was apparently competitive in the export market even without the benefit of cash assistance.

*Summing up*—The following are the main points that emerge:—

- Due to delay in implementing the decision of the Cabinet Committee on Exports (1966) there was excess payments of Rs. 27.34 lakhs for not restricting the cash assistance to the cut-off point.
- Review of cash assistance rates in March 1975 justified cash assistance on iron castings at 10 per cent only, against 25 per cent then existing. But the rate was not reduced, which resulted in unjustified payment of cash assistance amounting to Rs. 25.81 lakhs during April—June 1975.
- Cash assistance beyond 1st April 1975 was to be sanctioned on the basis of cost study conducted by the Cost Accounts

Branch (Ministry of Finance) which was not completed; nevertheless, cash assistance was continued at the existing rate till March 1979 which resulted in irregular payment of Rs. 1401.33 lakhs.

- Though the Ministry of Commerce had proposed in June 1975 to bifurcate iron castings into sanitary castings, and industrial castings, they did not accede (March 1979) to the demand of the trade for bifurcation of this item; this resulted in unjustified payment of cash assistance amounting to Rs. 22.45 lakhs on export of sanitary castings.
- Cash assistance for 1979—82 was sanctioned on the basis of unreliable cost data which showed a loss in exports, whereas there was a substantial margin of profit; the Indian castings were sold to an importing country (USA) at very low rates.
- Though Government were aware (October 1978) of the underselling by the Indian exporters of castings in USA and also the contemplated move for imposition of countervailing duty by US Government, yet no remedial measures were taken; instead cash assistance was extended in March 1979, which resulted in unjustified payment of Rs. 568.76 lakhs during 1979—81 on sanitary castings.
- There were no guidelines from Government for fixing floor prices which were fixed by the sub-committee of the Casting Panel in which the leading exporters dominated and there was no representative of Government.
- Continued payment of cash assistance for the last 16 years inspite of substantial margin of profit to the trade was contrary to the recommendations of the Alexander Committee.

The matter was reported to Government in August 1982 and their comments were awaited (October 1982) despite two reminders issued (September-October 1982).



## APPENDIX II

### Statement of Observations and Recommendations

S. No.	Para No.	Ministry Deptt.	Observations/Recommendations
1	2	3	4
1	29	Commerce	<p>The Committee find that a Working Group consisting of representatives of the concerned Ministries fixed cash assistance at the rate of 25 per cent on export of iron castings from August, 1966. This was continued to be paid for nine years from 1966-67 without any proper cost analysis. Only in January, 1975 the Commodity Officer in the Ministry of Commerce was asked to review the existing level of cash assistance on certain steel intensive export products, including the assistance on export of iron castings. During the period June, 1966 to March, 1975, cash assistance to the tune of Rs. 683.55 lakhs was paid on ungalvanised iron castings. The Ministry of Commerce have stated in a note furnished to the Committee that "while approving the Cash Compensatory Support rates, no time limit was fixed and no provision was made for review by the Ministry of Commerce".</p>
2	30	—do—	<p>The Committee consider that the rate of cash assistance should have been reviewed, say, after 3 or 5 years by the Ministry on its own initiative. That might have resulted in considerable saving.</p>

The Committee would, therefore, strongly recommend that in future, while formulating such schemes, a mechanism should be provided for their mandatory review at regular intervals. The Ministry would then have a reliable indication of how far the scheme of assistance had produced the desired results and what modifications were called for therein.

3 31 Commerce

The Committee also find that in 1966 the Cabinet Committee on Exports had recommended a "cut off point" of 25 per cent f.o.b. value after deducting the import content. Accordingly, cash assistance was not to exceed 25 per cent of the value addition which has to be arrived at by deducting the import content from f.o.b. value of the product. Since no review of cash assistance was conducted for almost a decade, till March, 1975, the cash assistance was continued to be paid beyond the "cut off point" during the period 1966 to 1975. In April, 1975 the rate of cash assistance on iron castings was reduced to 24 per cent by applying the "cut off point" formula. During this period, cash assistance amounting to Rs. 27.34 lakhs (at the rate of 1 per cent) was paid in excess of the "cut off point".

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In this connection, the justification given by the Ministry of Commerce that "the grant of CCS at the rate of 25 per cent from 1966 to 1975 without adhering to the 'cut off point' was a conscious decision" does not seem convincing. The justification fails to ex-

plain the factors that led to the so called "conscious decision". A huge sum of money was allowed to be paid contrary to the intentions of the Cabinet Sub-Committee, that is, the Government. The Committee expect, the Ministry of Commerce to exercise greater vigilance and greater care in handling the funds placed at their disposal.

5                    33                    do

The Committee have been informed that the rates of cash compensatory support were determined keeping in view various factors, one of which has been stated as competitive strength of the products *vis-à-vis* international price. The Committee have also been informed that the main criteria adopted included compensation on account of cost of development of new markets and new products. The Committee regret to observe that in the clarifications given by the Ministry to the Committee, no basic data on the above factors which contributed to the need for cash compensatory support, had been given. It would, thus, appear that the basic objectives and criteria were not given due weightage in determining the need for continuance of the cash compensatory support for iron castings. Further, no information on development of any new market during the period that had been identified had been intimated to the Committee. The Committee regret to observe that *ad hoc* decisions seem to have been taken from time to time to give support to the industry which did not qualify with reference to the prescribed factors and criteria for grant of support.

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In April, 1975, on the advice of the D. G. T. D., the Cash Assistance Review Committee (C. A. R. C.) felt that the f. o. b. realisation on iron casting had gone up and, therefore, it was difficult to continue

to pay cash assistance without further justification. The Commodity Officer had also recommended in February, 1975 that cash assistance be reduced to 10 per cent. However, pending examination of cost data by the Cost Accounts Branch, the Committee extended the existing rates of cash assistance upto June 1975. Unfortunately the cost iron manufacturers did not furnish the relevant data. No action was taken on this recommendation, but it was decided to ask the manufacturers to furnish the data. This they failed to do. This has resulted in unjustified payment of cash assistance amounting to Rs. 25.21 lakhs. The Committee regret that cash assistance was given to units even though they failed to give the cost data. The Committee suggest that the scheme should be amended making it obligatory for the manufacturers to give the relevant data which the Government may require.

In October 1978, the Engineering Export Promotion Council (EEPC) furnished certain data to Government relating to the incidence of disadvantage to the iron casting manufacturers. The Ministry of Commerce analysed the data and adopted an *ad-hoc* average percentage of different incidences at 7.51 per cent on the f.o.b. realisation. In December 1978, the Cash Assistance Review Committee decided to grant cash assistance at 7.5 per cent for 1979-80 and at 5 per cent for 1980-82. Sanction for cash assistance was issued accordingly.

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Commerce

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Immediately, thereafter the Government received certain representations from the iron castings exporters requesting for a separate higher rate of cash assistance for the industrial castings, on the plea that, as against sanitary and public works castings which did not call for rigid specifications, industrial castings were manufactured to the desired specifications of the buyer involving intricate castings.

9 63 do

After some consideration, the Ministry of Commerce recommended cash assistance at 12.50 per cent for export of iron castings of all types for the American continent and 10 per cent to other destinations. The Cash Assistance Review Committee accepted the recommendation of the Ministry of Commerce and a fresh revised sanction for these rates was issued in March 1979.

10 64 do

Against the request of the exporters and in the face of the recommendation of the Engineering Export Promotion Council for an enhancement only for the export of industrial castings, which constituted only about 10 per cent of the total castings, the Ministry of Commerce thus sanctioned a higher rate not only for industrial castings but for all types including sanitary castings. The Ministry of Commerce justified their action on the ground that it was not practicable to distinguish industrial castings from sanitary and other types of castings. This is not a tenable explanation as, in fact, later Government itself classified iron castings into industrial and sanitary castings and reduced the cash assistance to sanitary castings to 5 per cent only.

11 82 do

The Audit Paragraph rightly draws attention to the fact that Government were aware as early as October, 1978 of the under selling

by the Indian exporters of iron castings in USA and also of the move by US Government for imposition of countervailing duty. Subsequently, countervailing duties were, in fact, imposed by the US Government as a result of which Government took steps to reduce the support given to the industry. The fact that the prices quoted by the Indian exporters in the U.S. market were far below the international market price, should have been known to the Government right from the beginning and not only in 1978. As a result of continued grant of cash support, not only did Government of India wastefully use its resources for promotion of the export of products, which did not call for any support, but tacitly acquiesced in the loss of foreign exchange because these products could have been able to obtain higher prices in the foreign market and thus earned larger amount of foreign exchange.

It is clear that there was no case for cash assistance for sanitary castings in March 1979 and as the Government did not conduct the review suggested by the Finance Division of the Ministry of Commerce in January 1981, cash assistance at the rate of 5 per cent on the export of sanitary castings was continued from 1979-80 to 1980-81, resulting in payment of cash assistance of Rs. 568.76 lakhs which was totally unjustifiable. It is also a matter of regret that the Government of India should have allowed to be put in the wrong, *vis-à-vis* the Government of United States who were compelled to levy a countervailing duty.

1 2 3

12 83 Commerce

The Committee are glad to note that in pursuance of their earlier recommendations, a Cash Compensatory Cell headed by a Director, has been set up to undertake special studies for evolving norms for submission of data, their interpretation, analytical study etc. so as (a) to determine how far the CCS has actually contributed to increase in the export of the concerned items and in the inflow of foreign exchange and (b) to review and evaluate market trends, f. o. b. realisation and impact of various kinds of assistance.

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