P.A.C. No. 695

PUBLIC ACCOUNTS COMMITTEE
(1978-79)

(SIXTH LOK SABHA)

HUNDRED AND TWENTY-NINTH REPORT

(i) PURCHASE OF BITUMEN-STRENGTHENING AND LENGTHENING OF MOHANBARI RUNWAY (MINISTRY OF TOURISM AND CIVIL AVIATION AND MINISTRY OF WORKS AND HOUSING)

(ii) CASH ASSISTANCE FOR EXPORT OF TRANSMISSION LINE TOWERS

(MINISTRY OF COMMERCE)

[Paragraphs 24 and 2 of the advance report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil)]

Presented in Lok Sabha on—
Laid in Rajya Sabha on—

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI
April, 1979/Chaitra, 1901(S)
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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Twenty-Ninth Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraph 24 and 2 of the Advance Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil) on Purchase of bitumen—strengthening and lengthening of Mohanbari runway relating to Ministry of Tourism and Civil Aviation and Ministry of Works and Housing and on Cash assistance for export of transmission line towers relating to Ministry of Commerce.

2. The Advance Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil) was laid on the Table of the House on 4 April, 1978. At their sittings held on 20 October, 1978 (FN), the Public Accounts Committee (1978-79) examined paragraph 24 of the Audit Report on purchase of bitumen—strengthening and lengthening of Mohanbari runway. The Public Accounts Committee (1978-79) considered and finalised this Report at their sitting held on 19 April, 1979. The Minutes of the sittings form part II* of the Report.

3. A statement containing conclusions or recommendations of the Committee is appended to this Report (Appendix IV). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of these paragraphs by the Comptroller & Auditor General of India.

5. The Committee would also like to express their thanks to the officers of the Ministry of Tourism and Civil Aviation, Ministry of Works and Housing and Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 19, 1979.
Chaitra 29, 1901 (*S*).

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

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REPORT

*CHAPTER I

PURCHASE OF BITUMEN—STRENGTHENING AND LENGTHENING OF MOHANBARI RUNWAY

Audit Paragraph

1.1. The runway at Mohanbari having developed cracks, the Director General of Civil Aviation (DGCA) agreed in principle in October 1970 to the execution of special repairs to the runway as early as possible by providing 3 inches thick asphaltic overlay. On this basis, the Executive Engineer, Assam Aviation Works Division initiated action in March 1971 for the procurement of about 1,000 tonnes of bitumen (80/100 grade) from the Indian Oil Corporation (IOC) and in 1974 for 540 tonnes of bitumen (60/70 grade) from the Store-*cum*-Aviation Division, Dum Dum. These supplies materialised as follows:—

(i) 926 tonnes of bitumen (80/100 grade) of value Rs. 5.49 lakhs supplied by IOC and received at Mohanbari between May 1972 and January 1973; and

(ii) 537 tonnes (3 tonnes received short) of bitumen (60/70 grade) of value Rs. 2.94 lakhs (plus transport charges Rs. 1.13 lakhs) supplied by Store-*cum*-Aviation Division, Dum Dum and received at Mohanbari between July 1974 and November 1974.

1.2. The work of special repairs to the runway at Mohanbari was administratively approved in May 1971 by the DGCA for execution at an estimated cost of Rs. 7.14 lakhs. In July 1971, the Central Public Works Department (CPWD) submitted to the DGCA (for obtaining administrative approval and expenditure sanction) an estimate for Rs. 16.47 lakhs for strengthening the central portion of the runway. The DGCA, however, submitted (May 1972) to the Ministry of Tourism and Civil Aviation a composite estimate for Rs. 22.50 lakhs for repairing the entire length of the runway. In the meantime, the Indian Airlines Corporation (IAC) proposed to operate Boeing 737 aircraft on the route upto Mohanbari as a Fifth

*Notes furnished by Government are not vetted in audit.

Plan programme. Consequently, in August 1972 the DGCA submitted to the Ministry an estimate for Rs. 68.70 lakhs for strengthening and lengthening the runway to make it suitable for operation of Boeing 737 aircraft; administrative approval and expenditure sanction to this were accorded by the Ministry in December 1972. Accordingly, in June 1973 the CPWD invited tenders for the work. Provision of Rs. 5 lakhs had also been made in the budget estimates for 1973-74 by the Ministry for this work. In December 1973, the DGCA also assured availability of funds of Rs. 20 lakhs for the work in 1974-75 (actual budget provision made being Rs. 6 lakhs). In March 1974, the CPWD accepted the lowest tender of Rs. 69.21 lakhs for the work subject to the condition that the work would be taken up after receipt of revised administrative approval and expenditure sanction from the Ministry. In September 1974, however, the DGCA informed the Chief Engineer, CPWD, Eastern Zone that the work had not been approved by the Ministry due to financial stringency and suggested utilisation of the bitumen already purchased for strengthening the runway at Gauhati.

1.3. In October 1974, the Superintending Engineer, CPWD, Assam Central Circle, Gauhati informed the DGCA that the bitumen drums received at Mohanbari were leaking and could not be transported from Mohanbari to Gauhati and suggested their early disposal through the Director General, Supplies and Disposals. In February 1975, the DGCA informed the CPWD that there was no definite programme for taking up the work of strengthening and lengthening of Mohanbari runway and that the work might be taken up in, perhaps, 1977-78, if not in 1978-79. In March 1975, however, the Chief Engineer informed the DGCA that the disposal of bitumen at Mohanbari was not likely to fetch a reasonable price and that the material should be transported to Gauhati for utilisation in the work of strengthening the runway there in anticipation of administrative approval for that work. This was agreed to by the DGCA in April 1975.

1.4. One hundred and twenty nine tonnes of bitumen (80/100 grade) were transported (July 1976) from Mohanbari to Gauhati at a cost of Rs. 0.09 lakh; 9 tonnes were utilised on maintenance of the runway at Mohanbari; 40 tonnes were transported to Doom Dooma Airport and 71 tonnes to Shillong till January 1978 at a cost of Rs. 0.15 lakh. The balance of 677 tonnes of 80/100 grade and the entire quantity of 537 tonnes of 60/70 grade were lying at Mohanbari (December 1977).

No physical verification by weighment of the stock of bitumen had been conducted (December 1977); the loss due to leakage was, therefore, not known. Out of 240 tonnes of bitumen transported to Gauhati, Doom Dooma and Shillong, 121 tonnes were utilised (January 1978). The bitumen purchased (1,463 tonnes: cost Rs. 9.56 lakhs including transportation charges), thus, remained largely unutilised (January 1978) except for a quantity of 130 tonnes.

1.5. The Ministry of Works and Housing stated (June 1977) that the bitumen remaining in stock would be utilised by the CPWD on the runway at Mohanbari if that work was ultimately taken up or at Agartala Airport, where the work of extension, strengthening and widening of runway had been sanctioned by the Ministry of Tourism and Civil Aviation in February 1977 or partly at Gauhati runway.

1.6. The matter was also referred to the Ministry of Tourism and Civil Aviation in February 1977; reply was awaited (December 1977).

[Paragraph 24 of the Advance Report of C&AG for the year 1976-77, Union Government (Civil)]

1.7. During evidence of the representative of the Ministry of Tourism and Civil Aviation and Ministry of Works and Housing, the Committee were informed that airfield at Mohanbari was taken over from Defence immediately after the Second World War and since 1947 they had been using it for civilian air traffic. Normal maintenance and repair work on the runway was carried out by them within the provision for maintenance of the runway. Elaborating further on this point the representative of the Ministry of Works and Housing stated:

> "This runway was being used after the war but that time only light aircraft like Dakotas were landing. Sometime later, the IAC introduced Viscounts; it was heavier and we found that the runway was not designed for that load and it was cracking up. Some special repairs were done in 1964-65. It did not last more than 3-4 years; right from 1968 it started deteriorating. In 1968 there was inspection and it was felt that the runway had to be strengthened by 3" overlay. Estimate was prepared for 22 lakhs. But in 1969 the Government of India decided that this was not a priority work."

1.8. As the runway had developed cracks the Committee desired to know whether the work of special repairs was executed at any stage. In a note furnished to the Committee, the Ministry of Tourism and Civil Aviation have stated that the work of special repairs to the runway was not carried out at any stage.

1.9. According to Audit paragraph, the Director General of Civil Aviation (DGCA) agreed in principle in October, 1970 to the execution of special repairs to the runway as early as possible by providing 3 inches thick asphaltic overlay.

1.10. The work of special repairs to the runway at Mohanbari was administratively approved in May 1971 by DGCA for execution at an estimated cost of Rs. 7.14 lakhs. In a note furnished to the Committee, the Ministry have informed that the estimated requirement of bitumen for these special repairs was 325 tonnes.

1.11. The Committee noted that the administrative approval for the work of special repairs was accorded in May 1971, and enquired why the action for procurement of 1000 tonnes of bitumen was initiated by Executive Engineer earlier in March, 1971. The Ministry in a note have, *inter alia* stated:

> "Bitumen in those days was in short supply and if action for procurement of bitumen was not initiated by the Executive Engineer sufficiently in advance, there would have been delay in actual commencement of the work after it was sanctioned.
>
> As regards obtaining approval of any superior authority before initiating action for procurement of bitumen by the EE, it was not necessary for him to obtain any such approval, since it is his responsibility to ensure that materials required for the works under his jurisdiction are procured well in advance."

1.12. In reply to a question as to why 1000 tonnes of bitumen were procured against the estimated requirement of about 3000 tonnes, the representative of Ministry of Works and Housing stated during evidence:

> "Initially in March 1971, the Executive Engineer placed an order for 300 tonnes which was required only for the end portions. As the A.O.C. refinery was not able to meet the requirement, this correspondence went on upto August/September. They finally said that they would not be able to meet the demand and we could try some other source. Then we went to the Indian Oil Corporation. Meanwhile, the proposal for strengthening the runway was already sanctioned and an estimate for Rs. 22.5 lakhs was approved."

1.13. Further elaborating the position in this regard the Ministry in a note subsequently furnished to the Committee have stated:

"Action for procurement of 1000 tonnes of bitumen was not initiated in March 1971. Order for only 300 tonnes of bitumen was placed at that time, which the Company *viz.* Assam Oil Co., Digboi failed to supply. Subsequently, in July 1971 another estimate amounting to Rs. 16.47 lakhs for strengthening the Central Portion of the runway was submitted to the D.G.C.A. for which the requirement of bitumen was about 800 tonnes. Against both these works for which total requirement of bitumen was about 1125 tonnes, order for 1000 tonnes of bitumen was placed on M/s. Indian Oil Corporation, Calcutta in December, 1971."

1.14. It is seen from the Audit paragraph that the Indian Airlines Corporation, in the meantime, proposed to operate Boeing 737 aircraft on the route upto Mohanbari as a Fifth Plan programme. Consequently, in August 1972 the DGCA submitted to the Ministry an estimate for Rs. 68.70 lakhs for strengthening and lengthening the runway to make it suitable for operation of Boeing 737 aircraft; administrative approval and expenditure sanction to this were accorded by the Ministry in December 1972.

1.15. In reply to a question as to when the IAC proposed to operate Boeing 737 aircraft at Mohanbari, the Ministry of Tourism and Civil Aviation in a note have stated that the first proposal for strengthening of the runway to LCN 40 was received from Indian Airlines on March 8, 1971. They had particularly mentioned that the report of the Experts appointed by Indian Airlines was that the runway had to be strengthened considerably to meet the minimum requirement of Boeing 737 operations.

1.16. The Committee desired to know why it was considered necessary to strengthen the runway at Mohanbari when the airport at Chabua was to come up. The Ministry of Tourism and Civil Aviation have, in a note stated:

"The direct distance of Indian Air Force station Chabua (Dibrugarh) is 18 kms. from Mohanbari civil aerodrome (Dibrugarh). The distance between Dibrugarh town to Chabua is about 26 Kms. Whereas the distance from Mohanbari civil aerodrome to Dibrugarh town is only 16 Kms. Both the airfields were constructed by Defence Department during the World War II. After the cessation of hostilities, Chabua was retained by Defence and it was not open for regular operations and only a Territorial Army Battalion was stationed there. On the contrary Mohanbari had been in use by civil and Military aircraft ever since the end of the War. Since Chabua is owned by Defence, exact details or improvement to the runway is not known to the Department. However, it is understood that the runway was improved immediately after 1962 Chinese aggression. Chabua Indian Air Force station is not open for regular use by Indian Airlines for civil aircraft. The present operations are on temporary basis and till such time Mohanbari is suitably strengthened for Boeing 737 operations."

1.17. Since the administrative approval and expenditure sanction to the work has accorded in December 1972 the Committee asked why the work could not be started soon thereafter. The representative of the Ministry of Works and Housing stated during evidence:

"Administrative approval and expenditure sanction were given on 8-12-72. After it, the detailed estimate was prepared and sent from Delhi to the Chief Engineer in January 1973. It was sanctioned in March, and the tender notice was approved and tenders invited in June 1973. Tenders were received in July 1973. Chief Engineer submitted the tender to the Works Advisory Board which is the competent authority to consider these tenders, so that they may be permitted to negotiate with the contractors because they had given certain conditions. At that time, *i.e.* in August 1973, the ban came on new works being done—works which had not been taken up. So, this remained under the ban until December 1973. In 1973 DGCA informed us that this work can be taken up, and therefore, these tenders may be processed because they might get funds the next year, *viz.* during 1974-75. So, tenders were considered by the Works Advisory Board; and it was decided that the work might be awarded to the lowest tenderer subject to revised administrative sanction being obtained."

1.18. According to Audit paragraph, CPWD invited tenders for the work in June 1973 and accepted the lowest tender of Rs. 69.21 lakhs in March 1974. When enquired about the reasons for taking considerable time of about 15 months to invite and accept the tender, the Ministry of Tourism and Civil Aviation in a note, have stated:

"After the work was sanctioned in December, 1972 detailed estimate was finalised in March 1973. Tenders were received in the Divisional Office in June 1973 which reached the Chief Engineer's office in July 1973 through the Circle Office. Further consideration of the tenders was kept in abeyance for about five months from August to December, 1973, since the Government had then imposed a ban on new works. In December 1973, the DGCA assured that a sum of Rs. 20.25 lakhs for construction of the airfield would be made available during the year 1974-75 and desired that the department might complete the formalities for commencing the work. In February, 1974, the Chief Engineer conducted negotiations with the lowest tenderer with a view to persuade them to reduce their rates. In March 1974 the Chief Engineer forwarded the case for consideration of the C.W.A. Board. On 21-3-74 the C.W.A. Board accepted the lowest tender, subject to the condition that the work should be taken up after receipt of the revised Administrative Approval and Expenditure sanction from the Competent authority."

1.19. The Committee desired to know how the ban affected the work of strengthening and lengthening of Mohanbari runway. The Ministry of Tourism and Civil Aviation in a note furnished to the Committee have stated that the ban imposed in August 1973 required that even sanctioned works which had not physically commenced at site on date of ban (*i.e.* those for which contracts were not finalised and awarded) should not be taken up without a fresh clearance. It, therefore, became necessary to seek fresh approval which was not given.

1.20. When asked to indicate the dates when this ban was enforced and eventually lifted the Ministry in a note stated:

"The ban was enforced with effect from 1-8-73. In so far as the work at Mohanbari is concerned the ban was expected to be lifted in December 1973 when DGCA assured that a sum of Rs. 20.25 lakhs for construction of the airfield would be made available during the year 1974-75 and desired that the Department may complete the formalities for commencing the work. But actually when a reference was made, the Ministry of Finance did not agree to clear this work from operation of the ban."

1.21. During evidence the Committee were informed by the representative of Ministry of Tourism and Civil Aviation that work came to a stop firstly because of the ban and secondly the tendered amount (Rs. 69.21 lakhs) was much more than what was sanctioned (Rs. 61 lakhs). In this connection the representative of the Ministry of Works and Housing stated:

> "Because the excess was more than 10 per cent we went to the DGCA to get revised sanction. We were not allowed to proceed further, although tenders had been received and work could have been proceeded with."

1.22. When the Committee pointed out that the sanctioned estimate was for Rs. 68.70 lakhs, the Secretary, Ministry of Works and Housing stated:

> "This figure of Rs. 68.70 lakhs includes departmental charges. The figure of Rs. 69.21 lakhs of the tender has to be compared with the estimate of work itself. Without departmental charges, it comes to Rs. 61.00 odd lakhs."

1.23. When enquired whether any negotiations were held with the lowest tenderer to reduce the tendered value, the Ministry in a note have stated:

> "The lowest tenderer on their own had offered a rebate of 1½ per cent over their tendered rates sometime in January 1974. The Chief Engineer conducted negotiations with the representatives of the lowest tenderer on 11th and 12th February 1974 to pursuade them to lower their tendered rates further. The representatives of the lowest tenderer however expressed their inability to reduce their rates further on the plea that their tendered rates were reasonable and justified, taking into account the general conditions of work and rising trend of prices of labour and materials."

1.24. When asked to state the steps taken to obtain fresh sanction, the Ministry, in a note have stated:

> "DGCA was addressed in April 1974 by the Chief Engineer *vide* his D.O. No. 18/2/73. A&C (EZ) dated 11/15-4-74 to obtain fresh sanction. This was followed by another D.O. reminder by the Chief Engineer on 17-4-74. The DGCA was again reminded by the Chief Engineer on 29/30-5-74, 10-7-74 and 16-9-74."

1.25. It is seen from the Audit paragraphs that in September 1974, however, the DGCA informed the Chief Engineer, CPWD, Eastern Zone that the work had not been approved by the Ministry due to financial stringency. In this connection, the Ministry in a note have stated that the matter was examined in consultation with the Ministry of Finance and it was decided on 23-8-1974 that in the context of economy drive the work at Mohanbari should be postponed. This indicates that it was intended to take up the work as soon as the funds position improved.

1.26. On being pointed out whether it was not known then (September 1974) that expenditure on bitumen had already been incurred, the Ministry, in a note, have stated that the DGCA was already aware of this expenditure having been incurred. This fact was also taken into consideration while considering the proposal for revised sanction.

1.27. Since in March 1974, the CPWD accepted the lowest tender of Rs. 69.21 lakhs for the work subject to the condition that the work would be taken up after receipt of revised administrative approval and expenditure sanction from the Ministry, the Committee desired to know the basis for action for procurement of 540 tonnes of butumen initiated in 1974. The Ministry of Tourism and Civil Aviation in a note furnished to the Committee have stated:

> "The estimate amounting to Rs. 68.70 lakhs was sanctioned by the Government in December 1972. With the new sanction, the quantity fo bitumen which was already procured in 1972 was not sufficient. A further quantity of 537 tonnes of 60/70 bitumen was, therefore, brought to Mohanbari from Dum Dum sometime between July to September 1974. This bitumen was already available in Departmental store at Dum Dum."

1.28. The Committee desired to know that since the lowest tendered value was 12 per cent more than the sanctioned value, why the Finance Ministry did not examine and see that for such a paltry sum the whole project was not abandoned. The representative of the Ministry of Tourism and Civil Aviation stated during evidence:

> "The decision not to undertake the work was taken in the context of the need for economy. So far as this mechanism of trying to get out of the situation by fragmentation of the expenditure is concerned, this is positively discouraged by the Ministry."

1.29. When questioned as to why the Ministry of Finance refused this sanction, the witness replied:

> "Unfortunately the whole situation had changed because of the ban having been introduced as a result of the Indo-Pak war. The instructions issued by the main Ministry of Finance were that these works would require a second fresh look."

1.30. On being asked whether they received any particular instruction regarding this project or it was a general ban, the witness replied that it was general.

1.31. The Committee desired to know whether it was at the level of the Ministry of Tourism and Civil Aviation that the priorities were changed or it was the Finance Ministry which had applied its mind to each of these works and came to conclusion that this work as compared to others could be dropped for the present. To this, Secretary, Ministry of Tourism and Civil Aviation stated:

> "From December, 1973, we were having correspondence with the Finance Ministry and in May, 1974, they wrote that before going for such allotment, it seemed desirable to give a second thought to the work after taking into account the guidelines. This meant that because of the curtailment, they were examining separately each work. It was confirmed that the Indian Airlines wanted to go to Mohanbari. There is a note by Mr. Sehgal strongly recommending that the works pertaining to strengthening and lengthening of the runway might be sanctioned as early as possible. This was a continuing work as materials had already been collected against the earlier sanction of Rs. 68 lakhs or so."

1.32. On being enquired that if the ban was general how the Ministry of Finance was concerned with the *inter se* priority of works, the witness stated:

> "What they said was that you complete the formalities. Since it was exceeding the actual estimate, they had to give fresh sanction and we were persistently trying to get their sanction even by telling them that we had collected the material. But in view of the altered financial position, ultimately in spite of our best efforts, we were not able to get this sanction."

1.33. The Committee desired to know whether each of the projects and works were taken up with the Finance Ministry, gone into details and turned down by the Finance Ministry. The Secretary, Ministry of Works and Housing stated:

> "The ban is a general thing. It says that no new work will be taken up, even though sanctioned already, but if no physical work has started. This cannot be taken up without specific reference in each case to the Finance Ministry."

1.34. The Committee pointed out that according to the representative of the Ministry of Civil Aviation it was a continuing project and in spite of the general ban they wanted the work to be cleared. They, therefore, desired to know whether the Finance Ministry would have cleared the project if the tendered value was within the 10 per cent limit of the sanctioned amount. The representative of Ministry of Works and Housing stated:

> "Each individual case had to be cleared. Works not started had also to go to Finance for clearance. If work is already awarded to the contractor and work started, then the ban would not apply."

1.35. In this connection the Secretary, Ministry of Works and Housing stated during evidence:

> "If things are decided on a priority basis, some scheme or other has to be axed. In this case Mohanbari was axed. If something else has been cut off in its place, the cost of that project would have also escalated."

1.36. While pointing out that Mohanbari is a sensitive area and very valuable from Defence point of view, the Committee desired to know who was the authority to decide the priority in this case.

1.37. In this connection, the Ministry in a note furnished to the Committee, have stated:

> "The proposal was considered in consultation with the Ministry of Finance. They opined that the total cost of work was likely to be of the order of Rs. 82 lakhs (including departmental charges) as against Rs. 68 lakhs (including departmental charges) sanctioned earlier. In view of the heavy investment involved and of the fact that Indian Airlines were operating Boeing 737 services to the nearly Defence Airfield at Chabua, Ministry of Finance advised that the matter be reconsidered as

to whether it would not be feasible to continue Boeing 737 service to Chabua. It was explained by DGCA that:

(1) Chabua being a Defence airfield if civil air services are to be continued to this airfield a proper civil enclave would have to be developed at a total project cost of nearly a crore of rupees.

(2) The staff who would have to man the civil enclave would to be transported from their residential quarters at Mohanbari for working at Chabua.

(3) Indian Air Force were carrying out supply dropping operations from Mohanbari aerodrome and they expressed a view that they were not in a position to continue this work. They desired that the work be entrusted to a private party. They would not allow private party to operate from Defence airfield. The state of runway at Mohanbari was such that operations by smaller aircraft like Fokker and Dakota could not continue for long unless the runway was repaired.

While supporting the proposal to strengthen the runway, Secretary, Ministry of Tourism and Civil Aviation stated that at the meeting held under the Chairmanship of the Cabinet Secretary to review the Plan budget for 1974-75 a view was expressed by the representative of Finance Ministry that the work at Mohanbari might be postponed in view of the constraints on resources. He (Secretary, Ministry of Tourism and Civil Aviation) urged that Mohanbari was a very important point for Indian Airlines services in the eastern region and it was not possible to operate from Chabua for any length of time. Considering this aspect he requested the concurrence of the Ministry of Finance to the proposal. The Additional Secretary, Ministry of Finance had advised that in the context of the recent economy drive it had been decided that this scheme should be postponed.

It would be seen that the decision to postpone the scheme was taken at Secretary's level."

1.38. When asked whether any other aerodrome has been abandoned like this, the representative of the DGCA stated:

"Number of them. We had to drop the work where we had acquired land. Work was postponed. Take Gaya for instance. The work was not taken up. Then the work on smaller airfields like Juhu and Safdarjung where there were flying club operations, had to be stopped. There were a number of works, but this work had priority, because of the need for air service in Assam. That is why I was pressing for it. But it is a fact that we had to drop many of the works because of heavy curtailment of finances."

1.39. On being pointed out that there were some air-strips which were developed when there was no need for them *e.g.* Pant Nagar, which is not used either by Air Force or by Civil Aviation, the witness replied:

"When Pant Nagar was opened, there was a service to it. Later on, it was discontinued. There is a history behind it."

He added:

"Moreover, the difficulty in Aviation planning is that when the Indian Airlines was formed by the amalgamation of 7 airlines, the fleet that we had were Dakotas. The Dakota can go to many places where subsequent generation of aircraft cannot go. When we made the Pant Nagar aerodrome the total cost was much less, *i.e.*, about Rs. 30 lakhs. When IA re-fixed its flights, we had to have a second look. Some of the aerodromes which were fit for Dakotas were not fit for bigger aircraft; as the load bearing strength also was not adequate. Road development had also taken place. Immediately after Partition in 1947, Assam's dependence on air services was even much more than that it is today. We had as many as 60 Dakotas landing at Gauhati every day. So, there is a change in the priority at different times. When we say that we spent some money in Pant Nagar, it was at a time when Dakotas were operating."

1.40. The Committee desired to know the airfields which are not at all being used either by Defence or Civil Aviation, the dates from which they have fallen in disuse and the expenditure incurred on them year-wise since that date. The Ministry of Tourism and Civil Aviation in a note have stated:

"Apparently the question pertains to aerodromes owned by the Civil Aviation Department. A categorywise list indicating the 85 aerodromes owned by the Department is attached (not reproduced). Most of these airfields were constructed during the World War-II by the Defence Department on the cessation of hostilities for possible use by civil aircraft. There was no indication at that time that scheduled or non-scheduled services will operate at all the aerodromes. Therefore, some aerodromes have been continuously in use by scheduled or non-scheduled operations, some as alternate standby aerodromes for night-mail service (which have since stopped) and some for use by Flying Clubs aircraft for cross country flights etc. The policy of the Department is to maintain the aerodrome operational areas at all aerodromes in serviceable condition. The primary reason for this is that Civil Aviation is the second line of air Defence and Airports are of immense use during hostilities. The second reason for maintaining the operational status of the aerodromes is the possible use by the scheduled flights in future, as construction of new aerodromes is gradually becoming prohibitive due to rising cost of labour and materials and large areas near towns for construction cannot be easily acquired. It will take considerable time and efforts to collect the details desired by the PAC. In many cases it may not be possible to obtain exact information due to old records having been destroyed. It can be stated that all aerodromes with the Civil Aviation Department have operational status depending on its present use. The ones which are not in regular use are available for use in emergency by civil aircrafts as well as by VIP movements which are very frequent in which cases the aerodromes are activated at short notice."

1.41. During evidence, the representative of Ministry of Works and Housing stated that they were not given any green signal to go ahead with the work. Asked about the latest communication which had any relevance to this work, the Secretary, Ministry of Works and Housing stated: "In September, 1974, the Deputy Director General, Civil Aviation wrote 'owing to financial stringency the Cabinet did not approve the work'. Thereafter, there has been no communication to my knowledge, that we should re-start the work."

1.42. The Committee desired to know whether after September 1974 any request was made to give priority to this work. The representative of Ministry of Tourism and Civil Aviation stated:

"We have been trying to get this work included from year to year; but at the Planning Commission stage we failed to get it included. In fact in 1975 I had an opportunity to write that there was no prospect of getting this work started before 1977-78 or 1978-79 because at the Planning Commission when we go for the totality of the budget, they agree to certain works only. Since Chabua was already serving the purpose, however badly it was, we were asked to utilise the funds where there was a more pressing need. It was on the basis of comparative needs."

1.43. When asked whether it would not mean that the priority was changed the witness stated:

"It was changed by the Planning Commission, because our need for additional funds also arose because of the introduction of the air-bus at different aerodromes and the deployment of Boeing 737 at other aerodromes where previously only Fokkers/Avro were going. There was the insistence from Air Force that they would not be able to allow us to continue to use Chabua airfield. We have now prepared a revised estimate, and it is expected to be placed before the Government. The present cost is about Rs. 1.52 crores."

1.44. The Committee desired to know whether it was due to the temporary availability of Chabua airfield, that the Mohanbari runway was given a lower priority. The Secretary, Ministry of Tourism and Civil Aviation stated:

"On the 21st February, 1975, DGCA wrote to the CPWD thus: This is to confirm that there is no proposal of taking up the work at Mohanbari during the next financial year. The earliest we hope to take up this work is perhaps 1977-78, if not 1978-79. Therefore, for all intents and purposes we can say that at present there is no definite programme of taking up the work at Mohanbari. You are, therefore, requested to take further action in the matter. We are pursuing the question of sanction of estimates for strengthening work of Gauhati and it is expected that the sanction will be issued in the near future."

1.45. When asked whether in view of this, the matter was not taken up for the next 2 or 3 years and is being taken up only now, the representative of Ministry of Tourism and Civil Aviation stated:

"Every year, during discussions with Planning Commission for works, we are given a block allocation; and the details of works are examined. This scheme was put up every year and we had to delete it."

1.46. In a note furnished to the Committee subsequently, the Ministry have stated in this regard:

"Recently, another fresh estimate amounting to Rs. 1.52 crores has been submitted by the DGCA to the Ministry of Tourism and Civil Aviation on 19-6-78. This estimate covers extension of the existing runway 05/23 by 40 feet and strengthening of runway, one taxi, track (including widening to 75 feet) and half apron to LCN 40, for making it fit for Boeing 737 operations. This sanction is awaiting clearance by the Expenditure Finance Committee."

1.47. According to the Audit para, the 129 tonnes of bitumen were transported (July 1976) from Mohanbari to Gauhati; 9 tonnes were utilised on maintenance of runway at Mohanbari; 40 tonnes were transported to Doom Dooma Airport and 71 tonnes to Shillong till January 1978. The balance of 677 tonnes of 80/100 grade and the entire quantity of 537 tonnes of 60/70 grade were lying at Mohanbari (December 1977).

1.48. When asked to state the action taken to utilise the balance quantity of bitumen, the Ministry of Tourism and Civil Aviation in a note have stated:

"The remaining quantity will be utilised in the work of the strengthening of the runway at Gauhati which is in progress and also in the work of the strengthening of the runway at Agartala which has been awarded recently. About 125 tonnes of bitumen has been moved from Mohanbari to Gauhati in the last 3-4 months. The process of movement is going on as work in Gauhati is in progress. We are also taking action to move bitumen to Agartala."

1.49. The Committee desired to know whether the bitumen is still fit for use or its quality has deteriorated due to long storage. The Secretary, Ministry of Works and Housing stated during evidence: "So far as the quality is concerned, this material does deteriorate with time. So, before its use it is strictly tested to ensure that it is okay. Happily, in this particular case, whatever we have used has been tested and found to be of proper quality."

1.50. The representative of Ministry of Works & Housing stated in this connection:

"Although the bitumen which is in drums is stored for long, since it does not come in contact with air, the deterioration is negligible. But if it deteriorates, it may not be possible to use it for the runway; but we can use it in road works. In the runway, the bitumen work done is of high specification because of the very heavy loads to which the runway is subjected."

1.51. According to the Audit para in October 1974, the Superintending Engineer informed the DGCA that the bitumen drums had started leaking and could not be transported from Mohanbari to Gauhati. In this connection the representative of the Ministry of Works & Housing stated during evidence: "all drums could not be transported especially the ones which are leaking. The drums which cannot be transported, we intend to repack them."

1.52. The Committee desired to know the total loss to the leakage and whether it was continuing till now. To this the representative of Ministry of Works and Housing stated during evidence:

"These bitumen drums got damaged during transit and as such there is a leakage. When they were received at Mohanbari, those that were in good condition were burried partly in the ground, and those which were leaking, were put on platforms, so that the leaking bitumen did not mix up with earth. The loss will be known only after they are put to use on the works. But our assessment is that the quantity of leakage would be of the order of 5 per cent."

1.53. In reply to a question the witness has stated that verification, by counting the drums, has been done but verifying by weighing them was not possible. When asked about the number of drums which were leaking the witness stated: "we will not be able to say the exact number. It may be 50 percent."

He added:

"The position is that these bitumen drums are very thin and due to passage of time, it is not possible to stop leakage."

1.54. The Committee desired to know why the bitumen could not be used for repairs etc. of any other nearby airfield. The Ministry of Tourism and Civil Aviation in a note have stated:

"A part of the bitumen lying at Mohanbari has been used for repairs etc. in Mohanbari airfield itself and about 40 tonnes have been used in the nearby airfield at Doom Dooma."

1.55. The Committee desired to know why the bitumen could not be used in construction/repair of the airport at Chabua. The Ministry in a note have stated:

"As per the information available with this Department the development works at Chabua runway were completed well before the Department decided to resurface the runway. The question of utilising the bitumen at Chabua could therefore not arise. It will be pertinent to mention that Chabua airfield is maintained by MES whereas the civil aerodrome at Mohanbari is maintained by CPWD."

1.56. The Committee regard the action of the Executive Engineer in placing order for 300 tonnes of bitumen in March 1971 for execution of special repairs to the Mohanbari runway, on the basis of a more agreement in principle for the execution of work by the DGCA in October 1970 as hasty. Even the revised order placed on the I.O.C. for 1000 tonnes of bitumen in December 1971 was premature as by that time only a revised estimate for the work costing Rs. 16.47 lakhs was submitted to DGCA and the sanction therefor was still awaited. Further, a general ban on new works was imposed in August 1973 and it was applied to this work also. Yet, no initiative was taken at any level to cancel the order for 537 tonnes of 60/70 grade bitumen of the value of Rs. 2.94 lakhs placed earlier and the supplies were received against this order between July and November 1974. The Committee have taken adverse notice of these lapses on the part of the officers concerned and would like Government to suitably communicate the dis-pleasure of the Committee to the officers concerned.

1.57. The Committee find that the administrative approval and expenditure sanction for the work costing Rs. 68.70 lakh was accorded by the Ministry of Tourism and Civil Aviation in December 1972. Thereafter, C.P.W.D. took nearly seven months (January to July 1973) to invite the tenders. The Committee consider the time taken by the C.P.W.D. as too long. The Committee would like the C.P.W.D. to re-examine its procedure of work so as to cut out scope for delays in inviting of tenders and award of work to contractors.

1.58. Bitumen worth Rs. 5.49 lakhs had already been procured by January 1973. At that stage, to have regarded it as a new work and consequently deny funds therefor on the ground of financial stringency, was in the opinion of the Committee, nothing short of financial imprudence. Either this point was not sufficiently emphasised upon the Ministry of Finance and the Planning Commission by the Ministry of Tourism and Civil Aviation or if iot was emphasised, the Ministry of Finance and the Planning Commission were oblivious of the financial loss due to the likely deterioration in the quality of the bitumen already procured for the work and the expenditure involved in storing it for a long time. This is highly regrettable.

1.59. There is no gain saying the fact that substantial quantity of bitumen procured for the Mohanbari airport and lying in stores for the last 5-6 years has deteriorated in quality due to weather effect, particularly when it is admitted that the drums are thin and a large number of these have been leaking. The stored material is also an easy prey to pilferage and mis-appropriation. The Committee would, therefore, like Government to take urgent steps to utilise the material so as to gainfully retrieve as much of it as possible under the circumstances.

1.60. As Mohanbari airport had become unserviceable, the nearby defence airport at Chabua is being used for civilian air traffic for the last 5-6 years. This arrangement, particularly in a sensitive area so close to the international broder, is fraught with danger from the point of view of national security. The Committee are at a loss to understand as to how this strategic need for an alternative serviceable airport in the area came to be neglected and the existing facilities allowed to languish for want of funds for so long. The Committee consider that the work on renovation of the Mohanbari airport deserves priority.

1.61. The Committee had desired from the Ministry of Tourism and Civil Aviation information regarding aerodromes owned by the Civil Aviation Department which are not being used either by Defence or Civil Aviation and the dates from which they have fallen in disuse and the expenditure incurred on them year-wise since that date. The Ministry of Tourism and Civil Aviation have, instead of giving a pointed reply, stated that some aerodromes have been continuously in use by scheduled or non-scheduled operations, some as alternate stand-by aerodromes for night-mail service (which have since stopped) and some are used by flying clubs aircraft for cross-country flights etc. They have further stated that in many cases it may not be possible to obtain exact information due to old records having been destroyed. It is regrettable that the Ministry of Tourism and Civil Aviation should be unable to furnish to the Committee such basic information.

CHAPTER II

CASH ASSISTANCE FOR EXPORT OF TRANSMISSION LINE TOWERS

Audit Paragraph

2.1. Transmission line towers (hereafter referred to as TLT) are steel towers erected to support overhead lines by which electric power is transmitted at high voltage. TLT are not a standard product but are designed according to the specifications of each project depending on the terrain, climatic conditions of the area, etc. The towers required for a project are of 3 or 4 types and the rates for their supply are quoted for each type by weight (per tonne).

2.2. The raw materials required for fabrication of TLT are steel (93.5 per cent) and zinc (6.5 per cent), both being covered by ISI specifications which are usually mentioned in the relevant contracts. The weight of bolts and nuts, which is ordinarily not taken into account when specifying the weight of towers, is about 5 per cent of the total weight of angles and plates used in the manufacture of towers.

2.3. The Ministry of Industry and Civil Supplies had stated in its Annual Report for 1975-76 that "the manufacturing units have now no raw material problem............Requirements of zinc, which was being imported till last year, are now being met by indigenous producers. The transmission line towers can, therefore, be said to be 100 per cent indigenous industry. The Ministry's Annual Report for 1976-77 had also mentioned that "the raw materials required for the manufacture of transmission line towers are available indigenously and the know-how is fully developed."

2.4. According, however, to the Ministry of Commerce (September 1977) "............all the raw materials required for the manufacture of transmission line towers for domestic use are now being met from indigenous sources. For export purposes, however, to compete in the international market, the manufacturer-exporters have to import zinc. In some cases, they are also required to import Ms/alloy steel sections not easily available from indigenous sources."

2.5. In 1976-77, there were 17 units in the organised sector producing TLT, of which 2 were in the Central (public) sector and 3 in the State (public) sector. In April 1977, the total licensed and installed capacities of these units were 1.80 lakh tonnes and 1.27 lakh tonnes per annum respectively. The total production during the last four years was of the following order:—

Year	Quantity Tonnes)
1973	66,057
1974	63,073
1975	87,588
1976	1,03,095

2.6. The demand for TLT in the country is directly related to the requirements for transmission of electric power, particularly for hydel schemes, and is entirely from Government agencies. There has been no import of this item since 1966-67 except for a small quantity of 500 tonnes in 1969-70. The off-take by Government agencies in recent years has, however, invariably been less than the total installed capacity during the relevant years. There is, therefore, good potential for export of TLT.

2.7. Exports of TLT during the last four years were as follows:—

Year	Quantity (tonnes)	F.O.B. value (Rs. in crores)	F.O.B. unit value (Rs. per tonne)
1973-74	6,551	1·27	1936
1974-75	8,216	2·47	3009
1975-76	7,598	3·59	4724
1976-77	14,123	8·04	5692

Source : Statistics compiled by the Director General, Commercial Intelligence and Statistics (DGCIS), Calcutta.

NOTE : Transmission line towers are classified as Steel Towers (Code No. 691-1005) for the purpose of export statisitics and under Mild Steel Towers (Serial No. A. 27·1 of the Import Trade Control Policy) for the purpose of cash assistance and import replenishment.

2.8. *Export incentives*:—Simultaneously with the devaluation of the rupee on the 6th June 1966, export incentives in the form of cash assistance and import replenishment for exports of mild steel towers (along with a number of other engineering goods) were introduced by Government. The rate of import replenishment was 20 per cent of f.o.b. realisation (presently extended upto 31st March 1978) except during 1975-76 when it was 10 per cent.

2.9. *Cash assistance rates*:—The rate of cash assistance was 20 per cent of f.o.b. realisation from 6th June 1966 to 31st March 1970. Additional assistance of 5 per cent was admissible from 1st March 1968 if an exporter increased his exports beyond a specified level. Assistance of another 5 per cent became admissible from 1st April, 1969 on exports to North and South America and New Zealand in view of high ocean freight. Since 1st April 1970 the rates had been as follows:—

1st April 1970 to 31st March 1973	25 per cent (plus 5 per cent on exports to above mentioned countries).
1st April 1973 to 22nd February 1974	Sliding scale ranging from 10 to 25 per cent. depending on percentage of production exported.
23rd February 1974 to 30th September 1975	Nil
1st October 1975 to 31st March 1979	10 percent.

2.10. *Duty drawback*:—In addition to cash assistance to import replenishment, duty drawback at rates notified by Government from time to time was also admissible against exports of TLT. The rates of drawback since 1st June 1974 had been as follows:—

Period of export	Rs. per tonne	
1st June 1974 to 31st October 1974	397	
1st November 1974 to 31st May 1975	470·65	
1st June 1975 to 31st December 1975	502	
1st January 1976 to 15th June 1976	560	
16th June 1976 to 17th September 1977	550	
18th September 1977 to 14th October 1977	517	Plus duty paid under item 52 of Ist Schedule to the Central Excises and Salt Act 1944 on Bolts & Nuts.
15th October 1977 continuing (December, 1977)	483	

2.11. *Cash assistance decisions*:—A report of a cost study on TLT exports undertaken at the instance of Government by the Indian Institute of Foreign Trade (I.I.F.T.), New Delhi was submitted to Government in September 1972. It reported that the f.o.b cost worked out to Rs. 2714 per tonne against which the f.o.b. realisation was Rs. 1817 per tonne. After taking into account cash assistance at the then existing rate of 25 per cent and duty drawback etc., the net uncovered loss was computed at Rs. 86 per tonne. On this basis, the Institute had recommended continuance of cash assistance at 25 per cent.

2.12. In reply to an enquiry made by Audit in May 1977, the Ministry of Commerce stated (September 1977) as follows:—

> "The report of the Institute was examined in the Ministry of Commerce........ On the ground that the shortfall would not be that high if marginal cost elements alone were included, the Government were not willing to accept the recommendation of the I.I.F.T. On the other hand, the much higher shortfall on the total cost basis could also not be ignored. It was, therefore, finally agreed........ to adopt sliding scale of cash assistance rates (effective from 1st April 1973) going up from 10 per cent to 25 per cent depending upon the proportion of total production that was exported......The decision on the report of the Institute after detailed analysis was taken in April 1973. It is not the practice to withdraw/reduce cash assistance retrospectively."

2.13. Subsequently, the cash assistance was withdrawn from 23rd February 1974. The Ministry of Commerce had stated (August 1974) that this was done in the light of a substantial increase in f.o.b. realisation. Import replenishment, however, continued at the rate of 20 per cent.

2.14. By its sanction dated 16th October, 1975, the Ministry of Commerce re-introduced cash assistance (or cash compensatory support, as it was called) at 10 per cent of f.o.b. realisation on exports of TLT from 1st October 1975 to 31st March 1976. When asked to clarify the basis on which the decision was taken, the Ministry of Commerce stated (September 1977) as follows:—

> "..........re-introduction of cash assistance (on TLT) at 10 per cent from 1st October 1975 was not related to the principle of marginal costing alone. As such, no study was made on the trend in f.o.b. realisation.

> The entire scheme of export assistance for an upward thrust in our exports had been the subject of examination at the level of the Cabinet Committee on Exports, who finally decided upon introduction of cash assistance or increase

in the prevalent rates of cash assistance, where called for, as a promotional measure, taking into account the various factors, such as export prospects, production capability in the country, the competitive strength of our products vis-a-vis the international prices, and other relevant factors.

After the above policy, decision having been taken at the Cabinet level with regard to the criteria for grant of cash assistance, the matter regarding re-introduction of cash assistance on certain steel based items (including transmission line towers) and increase in the case of certain other items, where the prevalent rate was considered inadequate, was examined and decided upon..........

No cost study was undertaken by the Ministry/Cost Accounts Branch of the Finance Ministry at the time of re-introduction of cash assistance in question."

2.15. Explaining further the reasons for re-introduction (October 1975) of cash compensatory support for export of TLT, the Ministry stated (January 1978):—

"Together with certain other steel based items, we had then identified Transmission Line Towers as a commodity for which re-introduction of cash compensatory support was eminently called for. This appreciation was not unwarranted since after withdrawal of cash assistance in February 1974, exports of this commodity had shown a steady decline, as will be seen from the following figures:—

	(Rs. in lakhs)
April 1974 to September 1974	134·78
October 1974 to March 1975	112·42
April 1975 to September 1975	32·48"

2.16. As against the above, as indicated later in this paragraph, during the period October 1974 to September 1975 contracts of the following order were concluded for supplies of TLT (made after 1st October 1975) to IDA-aided projects in India which also qualified for cash assistance:

	(Rs. in lakhs)
November, December 1974 and January 1975	706·49
April 1975 and August 1975	730·11

Moreover, as mentioned earlier, even after the cash assistance was withdrawn (February 1974), the exports of TLT increased from Rs. 1.27 crores (1973-74) to Rs. 2.47 crores (1974-75).

2.17. Explaining the criteria on the basis of which cash compensatory support was determined, the Ministry stated (January 1978):—

"Later, around January 1976, we announced the principles on which Cash Compensatory Support was to be based. In particular, the rate of Cash Compensatory support was not to be fixed on any mechanical application of a rigid formula, like the difference between the f.o.b. price realisation and the marginal cost of production. The rates of cash Compensatory Support were to be determined by a balanced judgment of the following criteria:—

(a) Export potential and domestic availability as well as supply elasticity of the product;

(b) Import content and domestic value development;

(c) Approximate implicit subsidy, if available, under the Import Replenishment Scheme;

(d) Compensation for irrecoverable taxes and levies;

(e) Difference between the domestic cost and international price of indigenous inputs and raw-materials; and

(f) Cost of entry into new market."

2.18. Cash compensatory support at 10 per cent on TLT exports was continued (March 1976) upto June 1976 and again (June 1976) upto March 1977. In October 1976, by a general sanction, the existing rates of cash compensatory support on the export of a number of products including TLT were extended upto 31st March, 1979.

2.19. In regard to continuance of cash compensatory support, the Ministry stated (January 1978):—

"Frequent changes.........made in the rates of Cash Compensatory Support were the constant source of complaint by the exporting community and a conscious decision had also been made that a measure of stability in the rates should be brought about. It was as a result of this policy decision that the rates that were prevalent in October 1976 were extended upto 31st March 1979."

2.20. *Prices of raw materials*—As mentioned above, the competitive strength of Indian products vis-a-vis international prices was one of the factors taken into account while examining the scheme of export assistance in 1975. So far as TLT are concerned, the position regarding the prices of the principal raw materials required for manufacture of TLT, viz. steel and zinc, for Indian exporters vis-a-vis international prices is indicated in annexures I and II respectively. It would be seen that the net Joint Plant Committee (JPC) prices (excluding excise duty since duty drawback was admissible) at which steel (which constituted the bulk of the raw material requirement) was being supplied to registered exporters from April 1973 onwards were consistently far lower than the international prices of steel.

2.21. The relative advantage which the Indian exporters had been having consistently over their international competitors in the matter of prices of raw materials is indicated below. It would be seen that the advantage varied from Rs. 267 to Rs. 1,078 per tonne of TLT during April 1973 to May 1977.

Period	MIS. angles/channels**		Zinc e ectro ytic high grade**		Net price advantage per tonne Col. 3*5
	Amount by which Indian prices were lower per tonne	Advantage on 982 kgs.	Amount by*which Indian prices were lower per tonne	Advantage/disadvantage (—) on 68 kgs.*	
1	2	3	4	5	6
	Rs.	Rs.	Rs.	Rs.	Rs
(a) Prior to February 1974					
April 1973	490	481	310	21	502
June 1973	490	481	1215	83	564
September 1973	415	408	3869	263	671
December 1973	494	485	8717	593	1,078
January 1974	494	485	5578	379	864
February 1974	494	485	6876	468	953

1	2	3	4	5	6
(*b*) *March* 1974 *to September* 1975					
March 1974 . .	494	485	N.A.	..	..
June 1974	494	485	5002	340	825
September 1974	492	483	—301	—20	463
December 1974 .	475	466	—1028	—70	396
March 1975	475	466	1284	87	553
June 1975 .	569	559	715	49	608
August 1975 .	489	480	912	62	542
September 1975	489	480	890	61	541
(*c*) *Since October* 1975					
December 1975	586	575	—484	—33	542
April 1976 .	569	559	365	25	584
June 1976	576	566	310	21	587
September 1976	430	422	—1233	—84	338
December, 1976 .	407	400	—1962	—133	267
March 1977	561	551	N.A.	..	..
April 1977	550	540	—1498	—102	438
May 1977 . . .	550	540	—1879	—128	412

NOTES : *Steel 93·5* Æ5&—935Œ47 kgs.—982 kgs.
Zinc 6·5&ŒÆ5&—65Œ3—68 kgs.

**The advantage to Indian exporters is relatively less in the Case of MS angles channels and zinc electrolytic high grade than in the case of MS plates and Zinc prime western. Hence only the former are taken into account here, so as to give the benefit of doubt to the Indian exporters.

@Wastage. N.A—Not available.

2.22. *Re-introduction of cash assistance from October 1975*—As stated earlier, the cash assistance was withdrawn from 23rd February, 1974 in the light of a substantial increase in the f.o.b. realisation. The average f.o.b. unit values (per tonne) realised on exports in earlier years (as collected from the statistics published by DGCIS) were Rs. 1,428 (1970-71), Rs. 1,861 (1971-72), Rs 2,083 (1972-73), Rs. 1,936 (1973-74) and Rs. 3,009 (1974-75). In the first half of 1975-76 (upto September 1975), the average unit value (per tonne) realised was Rs. 4,020.

2.23. A test-check of cash assistance payment vouchers in the office of the Joint Controller of Imports and Exports (JCCIE), Bombay disclosed the following f.o.b. unit values obtained in respect of export contracts entered into by some major exporters during the period September 1974—September 1975:—

Exporters*	Date of export contract	F.O.B. unit value (Rs. per tonne)
J	September 1974	4,502
A	September 1974	4,574
J	January 1975	6,316

As already stated, no cost study had been undertaken at the time of re-introduction of cash assistance from October 1975. However, in terms of the instructions issued by the Ministry of Industry, the manufacturers had submitted to the Director General, Technical Development (DGTD) monthly production returns showing the production of each of their major products and the ex-factory value thereof. According to the DGTD (October 1977), the ex-factory value normally refers to the ex-works cost of production plus a reasonable return in the form of profit but excludes excise duty, dealer's commission transportation charges, etc. A test-check of such production returns of the major manufacturer-exporters of TLT showed that the average ex-factory values in 1974-75 and April—September 1975 were as follows:

@Manufacturer-exporter	1974-75	April-September 1975
		(Rs. per tonne)
A (Factory—1)	1,700	1,983
A (Factory—2)	1,800	2,027
B	N.A.	2,905
C	1,845	1,691
D	N.A.	1,516
E	3,298	3,227

2.24. For determining the f.o.b. cost, the data regarding packing, forwarding and other post-factory elements of f.o.b. cost of three major manufacturer-exporters (who accounted for the bulk of the

*J M/s. Kamani Brothers, Bombay.
@A M/s. Kamani Engineering Corporation Factory—
1. Jaipur 2. Bombay.
B M/s. SAE(I), Calcutta.
C M/s. EMC Steel, Calcutta.
D M/s. R. S. Steel Works, Barailly.
E M/s. Hind Galvanising, Calcutta.

exports of TLT) collected for the cost study made by the I.I.F.T. in 1972 could serve as the basis. These then constituted, as per the study, 9.4, 9.4 and 6.5 per cent of the ex-factory cost of TLT of the three manufacturers. Even if 10 per cent were added on account of these elements to the above ex-factory values (which included reasonable profit) to have an idea of the upper limits of the f.o.b. costs, the latter were seen to be much less than the average f o.b. unit value realisation of Rs. 4,020 during April to September 1975. If duty drawback (Rs. 470.65/Rs. 502 per tonne) were also taken into account, the profit margin available to the exporters would have been still higher. Notwithstanding the ex-factory values disclosed in the production returns submitted to the DGID by the manufacturers, the spurt in f.o.b. unit value realisations and the consequent higher profit margin, cash assistance at the rate of 10 per cent of f.o.b. realisation was re-introduced (16 October 1975) by Government from October 1975 (upto March 1976 initially).

2.25. *Continuance of cash assistance after March* 1976—Since October 1975 the average f o.b. unit value realisation on exports of TLT (as revealed from the statistics published by the DGCIS) had been as follows:—

Period	(Rs. per tonne)
October 1975 to March 1976	4,808
April 1976 to Sept. 1976	4,894

2.26. A test-check of cash assistance vouchers in the offices of the JCCIE at Bombay and New Delhi showed the following f.o.b. unit value realisations in respect of export contracts entered into by two major exporters since October 1975:—

Manufacturer-exporter*	Date of export contract	F.o.b. unit value (Rs. per tonne)
A	December 1975	5,300
A	December 1975	6,750
A	April 1976	5,000
F	December 1975	5,018

2.27. The average f.o.b. unit realisation during October 1976 to March 1977 was Rs. 6,166 per tonne.

2.28. A test-check of the monthly production returns submitted to the DGTD by the major manufacturer-exporters since October 1975

*A M/s Kamani Engineering Corporation.

F. M/s. Te-Steels Ltd Ahmedabad.

showed the following average ex-factory values for the period indicated:—

** Manufacturer-exporter	1975-76 October to March	April to September (Rs. per tonne)	1976-77 October to March
A (Factory-1)	2,550	2,750	3,892
A(Factory-2)	2,550	3,516	4,716
B	2,955	3,111	3,411
C	4,782	3,486	4,342
D	2,420	2,414	2,500
E	3,768	3,243	3,472
F	NA	3,893	3,804

2.29. If, as mentioned earlier, 10 per cent were added to the above ex-factory values (which included reasonable profit) to have an idea of the upper limits of the f.o.b. costs, the latter were seen to be much less than the average f.o.b. unit realisations for the corresponding period indicated above. If duty drawback (Rs. 502|560|550 per tonne as admissible) were also taken into account, the profit margin would increase further. Nevertheless, the cash assistance re-introduced from October 1975 was continued (March 1976) upto June 1976 and again (June 1976) upto March 1977 and in terms of the sanction of October, 1976 is valid upto 31st March 1979 (November 1977).

2.30. *Quantum of cash assistance*—Exports of TLT amounting to Rs. 1268.73 lakhs had been made during October 1975 to April 1977, on which cash compensatory support at 10 per cent of the f.o.b. realisations would work out to Rs. 126.87 lakhs. Official statistics for the subsequent months were awaited (November 1977).

**A. M/s. Kamani Engineering Corporation Factory-1 Jaipur, Factory 2 Bombay.

B. M/s. SAE(1), Calcutta.

C. M/s. EMC Steelal, Calcutta

D. M/s. R.S. Steel Works, Bareilly.

E. M/s. Hind galvanising, Calcutta.

F. M/s. Te-steels Ltd., Ahmedabad.

2.31. A test-check of the records in the offices of the JCCIEs at Bombay (June 1977), Calcutta (July 1977) and Delhi (October 1977) and Dy. CCIE at Kanpur (June 1977) showed that cash compensatory support of Rs. 39.08 lakhs had been paid to five exporters on exports of TLT made by them since October 1975.

2.32. *Supplies to IDA-aided projects in India*—In addition to exports to foreign countries, substantial quantities of TLT were supplied to various power projects in India which were financed by the International Development Association (hereafter referred to as IDA).

2.33. With effect from 7th January, 1970, all the export incentives available for general exports were admissible for supplies made by Indian firms to IDA-aided projects in India provided the orders were won by them in the context of global tenders. In these cases, the f.o.r. project site value was taken as the f.o.b. value for computing cash compensatory support and import replenishment. In lieu of duty drawback, the supplier were entitled to supplementary cash assistance at the same rates as were notified for duty drawback from time to time.

2.34. Another concession extended to Indian tenders in these cases was that while comparing their quotations with those from foreign countries, the value of import duty on the supplies offered by the latter was added to their c.i.f. bid prices upto a limit of 15 per cent of the c.i.f. bid prices (Customs duty on import of TLT into India was 40 per cent *ad valoram*).

2.35. In regard to extension of cash compensatory support to supplies made by Indian firms to IDA-aided projects, the Ministry stated (January 1978):

"This decision was taken with a view to ensure that the nascent Indian Industry manufacturing the various types of products required by the State Electricity Boards for their projects, was not ploughed under, by competition from better organised manufacturers abroad".

2.36. Information received from 9* State Electricity Boards and one* project authority revealed the following:—

(i) Although global tenders had been invited in all cases of TLT supplies for the IDA-aided projects, no bid was received from any foreign country;

Note : *Audit had called for relevant data from 16 Electricity Boards, 3 Electricity undertakings and one project authority. Adequate data were received only from 9 Electricity Boards and one project authority.

(ii) All the contracts for such supplies had provided for an ex-factory price (to which specific additions were made for inland freight and insurance to arrive at f.o.r. destination price). This price was exclusive to taxes|duties levied on TLT supplies, which were borne by the purchasers; and

(iii) The ex-factory price in contracts concluled between November 1974 and August 1975, against which substantial supplies materialised from October 1975 onwards, together with supplementary cash assistance in lieu of duty drawback, provided consistently to the suppliers a sizeable profit margin over the average ex-factory values as derived from the monthly production returns submitted by them to the D.G.T.D. (which ex-factory values included a reasonable profit margin), as may be seen from the following table:—

Suppliers	Date of contract		(a) Ex-factory contract price plus supplementary cash assistance in lieu of duty drawback (see Note 1) (b) Average ex-factory value 1975-76 April to September	1975-76 October to March	1976-77 April to September	1976-77 October to March	F.O.R. value of supplies made since October 1975 as reported	Remarks
			(Rs. per tonne)				(Rs. in lakhs)	
(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)
Manufacturer-exporters								
E	10-12-74	(a)	4,534	4,565	4,613	4,613	27·31	
		(b)	3,227	3,768	3,243	3,472		
D	17-12-74	(a)	4,171	4,202	4,250	4,250	77·11	
		(b)	1,516	2,420	2,414	2,500		
A	31-12-74	(a)	4,703	4,734	4,782	4,782	310·99	See Note 2
		(b)	1,983	2,550	2,750	3,832		
			2,027	2,550	3,516	4,716		
B	2-1-75	(a)	5,497	5,528	5,576	5,576	62·80	
		(b)	2,905	2,955	3,111	3,411		
E	2-1-75	(a)	4,892	4,923	4,971	4,971	38·28	
		(b)	3,227	3,768	3,243	3,472		
C	25-4-75	(a)	4,743	4,774	4,822	4,822	58·15	See Note 6
		(b)	1,691	4,782	3,486	4,342		

(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)
G	25-4-75	(a) (b)	4,841 3,227	4,872 4,782	4,920 3,516	4,920 4,716	206·86	See Note 3
D	16-8-75	(a) (b)	4,261 1,516	4,292 2,420	4,340 2,414	4,340 2,500	140·32	
Merchant-exporters								
H	28-11-74	(a) (b)	5,208 2,905	5,239 2,955	5,287 3,111	5,287 3,411	190·00	See Note 4
J	25-4-75	(a) (b)	5,096 1,993 2,027	5,127 2,550 2,550	5,175 2,750 3,516	5,186 3,832 4,816	324·78	See Note 5 and 2
					Total .	1436·60		

Nevertheless, cash compensatory support on exports, re-introduced from 1st October 1975, had been automatically extended to the supplies made to IDA-aided projects in India.

Supplies valuing Rs. 1436.60 lakhs had materialised against the above contracts; cash compensatory support at 10 per cent would work out to Rs. 143.66 lakhs.

Notes : (1) Where there were two rates of duty drawback in a half-year, the lesser one has been taken.

(2) Against (b), ex-factory values of both factories of A are shown.

(3) Since ex-factory values of G were not available, the highest values among those of other units in the half-year concerned are shown.

(4) Since H was a merchant-exporter supplying B's TLT to IDA-aided projects, ex-factory values of B are shown.

(5) Since J was a merchant-exporter supplying A's ILT to IDA-aided projects, ex-factory values of A are shown.

(6) The circumstances in which the ex-factory value per tonne increased from Rs. 1,691 (April-September 1975) to Rs. 4,782 (October 1975-March 1976) and then decreased to Rs. 3,486 (April-September 1976) were not known.

(iv) In addition, supplies against certain older contracts, which had been entered into between March 1973 and June 1974 (and of which the original dates of expiry were between

September 1974 and August 1975), were made in October 1975 and later, as indicated in the following table:—

Suppliers	Date of contract		(a) Ex-factory contract price plus supplementary cash assistance in lieu of duty drawback (b) Average ex-factory value				Original expiry date of contract	F.o.r. value of supplies made since October 1975 as reported Rs. in (lakhs)
			1975-76		1976-77			
			April to September	October to March	April to September	October to March		
			(Rupees per tonne)					
1	2		3	4	5	6	7	8
B	15-3-73	(a) (b)	2,324 2,905	3,355 2,955	2,403 3,111	2,403 3,411	September 1974	53·56
A	19-10-73	(a) (b)	2,506 1,983 *2,027	2,087 2,550 2,550	2,135 2,750 3,516	2,135 3,822 4,716	February 1975	24·60
B	26-10-73	(a) (b)	2,008 2,905	2,039 2,955	2,086 3,111	2,087 3,411	May 1975	51·00
C	26-2-74	(a) (b)	3,265 1,691	3,296 4,782	3,344 3,486	3,344 4,342	January 1975	33·72
C	22-4-76	(a) (b)	3,145 1,691	3,176 4,782	3,224 3,486	3,224 4,342	August 1975	26·19
B	1-5-74	(a) (b)	3,313 2,905	3,344 2,955	3,392 3,111	3,392 3,411	July 1975	21·50
E	29-6-74	(a) (b)	3,145 3,227	3,176 3,768	3,224 3,243	3,224 3,472	June 1975	22·23
					TOTAL	. . .		232·80

* Ex-factory values of both factories of A are given.

It would appear that the supplies made in October 1975 and later were at older and currently unremunerative rates. The value of such supplies (upto July 1977 as reported) amounted, however, to Rs. 232.80 lakhs only (*i.e.* about 14 per cent of the total supplies made since October 1975 as reported, *viz.*, Rs. 1669.40 lakhs), indicating that the over-all position regarding supplies to IDA-aided projects was a favourable one at the time when cash compensatory support was re-introduced in October 1975.

(v) It was also seen from the information furnished that contracts of substantial value had been entered into with suppliers 'H' and 'A' in March 1977 and July 1977 respectively at considerably higher rates, as shown below:

Suppliers	Date of contract	(a) Ex-factory contract price plus supplementary cash assistance in lieu of duty drawback. (b) Average ex-factory value.	Value of supplies contracted (Rs. in lakhs)
		October 1976 to March 1977	
1	2	3	4
H	31-3-77	(a) 4,302 (b) 3,411	133·58
A	14-7-77	(a) 5,034 (b) 4,716	405·51
		TOTAL .	539·51

2.37. *Quantum of cash assistance*: Cash compensatory support at 10 per cent on the supplies of TLT to IDA-aided projects which materialised after 1st October 1975, as reported (November 1977) (*viz.*, Rs. 1669.40 lakhs), would amount to Rs. 166.94 lakhs.

2.38. No data had been furnished (November 1977) regarding the extent of supplies actually made against the two contracts entered into in March 1977 and July 1977. These contracts, whose combined value was Rs. 539.09 lakhs, would attract cash compensatory support of Rs. 53.91 lakhs.

2.39. A test-check made by Audit in September 1977 in the office of the JCCIE, New Delhi, where the cash assistance claims of supplies to IDA-aided projects are centralised, disclosed actual payments of Rs. 37.52 lakhs after October 1975. A payment of Rs. 10.33 lakhs to another supplier (a state Public Sector Undertaking) was also reported by Accountant General in July 1977 during audit of the accounts of that undertaking.

*Since H is a merchant-exporter supplying B's products, ex-factory values of B are shown.

2.40. In connection with the above points, Government stated (January 1978) that "in the context of the comparatively satisfactory position of foreign exchange reserves, the entire policy of Government relating to imports and exports is at present being reviewed by a Committee".

ANNEXURE I

Period	M. S. angles/channels			M. S. Plates		
	Domestic price in U.S.A. f.o.b. per tonne	Net J.P.C. price for registered exporters f.o.r. per tonne	Amount by which Indian price was lower per tonne	E.C.M. price f.o.b. per tonne	Net J.P.C. price for registered exporters f.o.r. per tonne	Amount by with Indian price was lower per tonn
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(a) Prices prior to stoppage of cash assistance in February, 1974.						
April, 1973	1,366	876	490	1,500	1,000	500
June, 1973	1,366	876	490	1,617	1,000	617
September, 1973	1,366	951	415	1,949	1,075	874
December, 1973	1,400	906	494	2,396	1,032	1,364
January, 1974	1,400	906	494	3,188	1,032	2,156
February, 1974	1,400	906	494	3,134	1,032	2,102
(b) Prices during the period when cash assistance stood withdrawn, viz., March, 1974 to September, 1975.						
March, 1974	1,400	906	494	3,322	1,032	2,290
June, 1974	1,400	906	494	3,563	1,032	2,531
September, 1974	1,433	941	492	3,263	1,067	2,196
December, 1974	1,416	941	475	2,619	1,067	1,552
March, 1975	1,416	941	475	1,773	1,067	706
June, 1975	1,510	941	569	1,994	1,067	927
August, 1975	1,510	1,021	489	1,835	1,147	688
September, 1975	1,510	1,021	489	1,774	1,147	627

Source: JPC's periodical state ments showing international prices of steel and JPC's prices, received in the Department of Steel, New Delhi.

1	2	3	4	5	6	7
(c) Prices since October 1975 when cash compensatory support was re-introduced.						
December, 1975 .	1,620	1,034	586	1,742	1,160	582
April, 1976	1,616	1,047	569	1,955	1,173	782
June 76 .	1 ,623	1,047	576	1,964	1,173	791
September, 1976 .	1,477	1,047	430	1,946	1,173	773
December, 1976 .	1,454	1,047	407	1,804	1,173	631
March, 77 .	1,608	1,047	561	1,676	1,173	503
April, 1977 .	1,597	1,047	550	1,664	1,173	491
May, 1977 .	1,597	1,047	550	1,664	1,173	491
June, 1977 .	1,597	1,047	550	1,664	1,173	491

ANNEXURE II

Period	Zinc electrolytic high grade			Zinc prime western		
	London Metal Exchange (L.M.E.) price f.o.b. per tone	Net MMTC price for registered exporters f.o.r. per tone	Amount by which Indian price was lower (+) / higher (—)	London Metal Exchange (L.M.E.) price f.o.b. per tonne	Net MMTC price for registered f.o.r. per tonne	Amount by which Indian price was lower(+) / higher(—)
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(a) Prior to February 1974						
April, 1973 .	3,898	3,588	310	3,898	3,425	473
June, 1973	4,803	3,588	1,215	4,803	3,425	1,378
September, 1973 .	7,608	3,739	3,869	7,608	3,570	4,038
December, 1973 .	13,211	4,494	8,717	13,211	4,362	8,849
January, 1974 .	11,281	5,703	5,578	11,281	5,570	5,711
February, 1974 .	12,579	5,703	6,876	12,579	5,570	7,009

1	2	3	4	5	6	7
(b) March, 1974 to September, 1975						
March, 1974 . .	NA	—	—	NA	NA	—
June, 1974 . .	11,298	6,296	5,002	11,298	6,164	5,134
September, 1974	7,424	7,725	—301	7,424	7,620	—196
December, 1974 .	6,251	7,279	—1,028	6,251	7,174	—923
March, 1975 .	6,266	4,982	1,284	6,266	4,878	1,328
June, 1975	6,212	5,497	715	6,212	5,398	814
August, 1975 .	6,409	5,497	912	6,409	5,398	1,011
September, 1975	6,387	5,497	890	6,387	5,398	989
(c) Since October, 1975						
December, 1975 .	6,241	6,725	—484	6,241	6,620	—379
April, 1976 .	7,090	6,725	365	7,090	6,620	470
June, 1976 . .	7,035	6,725	310	7,035	6,620	415
September, 1976	6,377	7,610	—1,233	6,377	7,505	—1,128
December, 1976 . .	5,648	7,610	—1,962	5,648	7,505	—1,857
March, 1977 .	NA	NA	NA	NA	NA	NA
April, 1977 .	5,817	7,315	—1,498	5,817	7,210	—1,393
May, 1977 . .	5,436	7,315	—1,879	5,436	7,210	—1,774

2.41. The Ministry of Commerce had informed Audit in September 1977 that the raw materials required for the manufacture of transmission line towers for domestic use were being met from indigenous sources. For export purposes, however, import of Zinc and in certain cases MS Alloy Steel Section is allowed as the quantity of Zinc manufactured in India is not sufficient for meeting domestic as well as export production requirements.

Source : (i) London Metal Bulletin, London.

(ii) MMTC's press notes showing selling prices of non-ferrous metals.

NA = Not available.
MMTC = Minerals and Metals Trading Corporation.

[Paragraph 2 of the advance Report of C. & A. G. for the year 1976-77, Union Government (Civil)].

2.42. It is seen from the Audit paragraph that with the devaluation of the rupee on 6 June, 1966, export incentives in the form of cash assistance and import replenishment for exports of mild steel towers (alongwith a number of other engineering goods) were introduced by Government. The Committee desired to know whether the cash assistance and import replenishment for export of mild steel towers were admissible before devaluation. The Department of Commerce in a note, have stated that during the period prior to devaluation Cash Assistance on export of mild steel towers was not admissible. Import entitlement of 40 per cent of the f.o.b. value was, however, available under the then existing Special Export Promotion Scheme for Engineering Goods.

2.43. According to the Audit paragraph, the rate of import replenishment continued to be 20 per cent of f.o.b. realisation right from June 1966 to 31-3-1978 except during 1975-76 when it was 10 per cent. The rate of cash assistance was 20 per cent of f.o.b. realisation from 6-6-1966 to 31-3-1970. Additional assistance of 5 per cent was admissible from 1-3-1968 if the exporter increased his exports beyond a certain level. Assistance of another 5 percent became admissible from 1-4-1969 on export to North and South America and New Zealand. Since 1-4-1970, the rates of cash assistance were as follows:

Period	Rate
1 April, 1970 to 31 March, 1973	25% (Plus 5% on export to North and South America and New Zealand)
1 April, 1973 to 22 February, 1974	Sliding scale ranging from 10 to 25 perce depending on percentage of production exported.
23 February, 1974 to 30 September, 1975	Nil
1 October 1975 to 31 March, 1979	10%

2.44. When asked to state the circumstances leading to revision of rates of cash assistance and import replenishment rates from time to time, the Department of Commerce have in a note furnished to the Committee stated:

> "The Import Replenishment continued to be 20 per cent upto 31-3-78 except for the year 1975-76 when it was 10 percent. The rates of Import Replenishment are determined taking

into consideration the requirement of imported raw-material. As regards Cash Assistance, additional 5 per cent over and above the normal rate of 20 per cent was sanctioned on incremental export in order to give a boost to Exports. This additional 5 per cent was merged with the normal rate with effect from 1-4-1970. The sliding scale from 10 percent to 25 percent, depending on percentage of production exported, sanctioned with effect from 1-4-73 was on the basis of cost and realisation analysis, as brought out in the report submitted by Indian Institute of Foreign Trade."

Duty Drawback

2.45. In addition to cash assistance and import replenishment, duty drawback at rates notified by Government from time to time was also admissible against exports of transmission line towers. In a note furnished to the Committee the Department of Commerce have stated that the basis of fixing duty drawback on electrical transmission line towers (fabricated steel structurals) galvanised has been as follows:

Period	Raw Materials	Duty Incidence
(1) 1-6-74 to 31-10-74	(i) Indigenous steel bars & rods, etc.	Central Excise Duty Incidence applied.
(2) 1-11-74 to 31-5-75	(ii) Zinc	All Industry rate applied.
(3) 1-6-75 to 31-12-75	(i) Indigenous steel angles, rounds plates & Steel bolts and nuts	Central Excise Duty Incidence applied.
(4) 1-1-76 to 15-6-76	(ii) Zinc	All Industry rate applied
(5) 16-6-76 to 17-9-77		
(6) 18-9-77 to 14-10-77	(i) Indigenous steel angles, rounds, plates and steel bolts and nuts	Central Excise Duty Incidence applied.
(7) 15-10-77 onwards	(ii) Zinc	All Industry rate applied.

(Note: plus the duty paid under item 52 of the First Schedule to the Central Excise and Salt Act, 1944 on Bolts & Nuts).

2.46. In reply to a question, the Ministry of Commerce have stated that no cost analysis was done before fixing the duty drawback.

2.47. It is seen from the Audit paragraph that a report of a cost study of TLT exports undertaken at the instance of Government by the Indian Institute of Foreign Trade, New Delhi and submitted to Government in September 1972 recommended continuance of cash assistance at 25 percent. Government after examining the report took a decision in April 1973 to adopt sliding scale of cash assistance rates going up from 10 percent to 25 percent depending upon the proportion of total production that was exported.

2.48. Questioned as to why the decision could not be taken earlier than April 1973, the Department of Commerce in a note have stated:

> "The report of the Indian Institute of Foreign Trade was received in September 1972 and was immediately examined in the Ministry of Commerce in consultation with Ministry of Finance. The Finance Ministry raised certain points which were again referred to the Indian Institute of Foreign Trade for clarification in December, 1972. On receipt of the clarification from the Indian Institute of Foreign Trade in January, 1973, the matter was re-examined and placed before the Marketing Development Assistance Committee (main) for consideration. The note for consideration of the MDA (Main) Committee was submitted in February, 1973. The Committee, however, could meet only on 3rd April, 1973. As would be seen by the chronology mentioned above, the Government consider that there was no undue delay in taking a decision on the Cost Study Report of the Indian Institute of Foreign Trade."

2.49. Cash assistance was withdrawn from 23 February 1974 because of substantial increase in f.o.b. realisation but was re-introduced from 1 October 1975 at the rate of 10 per cent of f.o.b. realisations.

2.50. As pointed out in the Audit paragraph, the average f.o.b. unit values (per tonne) realised on exports in earlier years (as collected from the statistics published by DGCIS) were Rs. 1,428 (1970-71), Rs. 1,861 (1971-72), Rs. 2,083 (1972-73), Rs. 1,936 (1973-74) and Rs. 3,009 (1974-75). In the first half of 1975-76 (upto September 1975), the average unit value (per tonne) realised was Rs. 4,020.

2.51. A test-check of cash assistance payment vouchers in the office of the Joint Chief Controller of Imports and Exports (JCCIE), Bombay had disclosed that the following f.o.b. unit values obtained in respect of export contracts entered into by some major exporters during the period September 1974—September 1975 were much in excess of the cost as follows:—

Exporter	Date of export contract	F.o.b. unit value (Rs. per tonne)
J*	September 1974	4,502
A**	September 1974	4,574
J	January 1975	6,316

2.52. The Committee desired to know whether the decision to reintroduce cost assistance from 1.10.75 was taken after examining the financial aspects *viz.*, marginal costing, trend in f.o.b. realisation; etc. The Department of Commerce, in a note,@ have stated:

> "The re-introduction of Cash Assistance with effect from 1 October, 1975 was done as a promotional measure after taking an overall view keeping in consideration the various factors such as export prospects, production capability in the country, the competitive strength of our products *vis-a-vis* the international prices and other relevant factors. This decision was taken in the context of acute foreign exchange shortage obtaining in the country. A detailed examination of financial aspects namely, marginal costing and trend in f.ob. realisation of a large number of Engineering products would have taken a long time and defeated the very purpose for which the re-introduction was resorted to."

2.53. It is seen from the Audit paragraph that the relative advantage which the Indian exporters had been having consistently over their international competitors in the matter of prices of raw materials varied from Rs. 267 to Rs. 1078 per tonne of Transmission Line Towers during April 1973 to May 1977. Since the competitive strength of our products *vis-a-vis* the international price was one of the factors taken into account at the time of re-introduction of cash assistance, the Committee desired to know whether the fact of advantage in prices of raw materials enjoyed by Indian manufacturer—exporters was taken into account. The Department of Commerce, in their reply have stated that this factor was not examined in isolation. It is further stated that because of the non-availability

*J—M/s. Kamani Brothers Bombay

**A—M/s. Kamani Engineering Cooperation

@Not vetted in Audit.

of high tensile sections in the country, our exporters of Transmission Line Towers have to design towers with comparatively greater weights, on which higher amounts of ocean freight become payable.

2.54. As regards the fact that no cost study was carried out at the time of re-introduction of cash assistance, the Department have stated that the process of cost study involved considerable delay because the cost data had to be called for from the industry relating to various items. Examination of the data also required considerable time. The then economic situation, namely, acute shortage of foreign exchange could not brook delay in taking promotional measures immediately.

2.55. It is seen from the Audit paragraph that the manufacturers had submitted to the Director General, Technical Development (DGTD) monthly production returns showing the production of each of the major products and the ex-factory value thereof. A test check of such production returns of the major manufacturer—exporters of Transmission Line Towers showed that the average ex-factory values in 1974-75 and April-September 1975 were much lowers than the average f.o.b. unit value realisation in these periods, as seen from the following figures:

Manufacturer-exporter	1974-75	April-September 1975 (Rs. per tonne)
A (Factory—1)	1,700	1,983
A (Factory—2)	1,800	2,027
B	NA.	2,905
C	1,845	1,691
D	N.A.	1,516
E	3,298	3,227

A—M/s. Kamani Engineering Cooperation Factory 1, Jaipur Factory 2, Bombay.
B—M/s. SAE (1), Calcutta
C—M/s. EML Steelal, Calcutta.
D—M/s. R—5 Steel Works, Bareilly
E—M/s. Hindi Galvanising, Calcutta.

Even if 10 per cent were added on account of packing, forwarding and other post factory elements to the ex-factory values, the profit margin available to the exporters would have still been higher.

2.56. In reply to a question as to why no reference was made when taking decisions to the data regarding ex-factory values already available in DGTD's office particularly in the absence of any special cost study, the Department of Commerce stated:*

> "The ex-factory value shown by various manufacturers in their production returns to DGTD were not a dependable source of information in view of the fact that it would vary widely from manufacturer to manufacturer and from month to month in the case of the same manufacturer. For instance, in the case of manufacturer (C) the per tonne ex-factory value for the month of August 1975 was shown as Rs. 1,817|- which jumped to Rs. 4697|- in the month of September 1975 and Rs. 5096|- in October 1975. In several cases the manufacturers indicated the value as per contract price which might have been agreed to 2 or 3 years ago and may not have any relationship with the current market price. In certain cases the values appear to have been shown after taking into account the export benefits such as Cash Assistance Drawback, etc."

2.57. In this regard, the Ministry of Commerce had informed the Audit in January 1978 that:

> "Together with certain other steel based items we had then identified Transmission Line Towers as a commodity for which re-introduction of cash compensatory support was eminently called for. This appreciation was not unwarranted since after withdrawal of cash assistance in February 1974, exports of this commodity had shown a steady decline, as will be seen from the following figures:

	(Rs. in lakhs)
April 1974 to September 1974	134·78
October 1974 to March 1975	112·42
April 1975 to September 1975	32·48

2.58. It is, however, learnt from Audit that according to the export statistics published by the D.G.C.I.S. (Directorate General

*Not vetted in Audit.

Commercial Intelligence and Statistics) the quantity-wise exports during the above period were as follows:

	Quantity (tonnes)
April 1974 to September 1974 .	3,953
October 1974 to March 1975 .	4,264
April 1975 to September 1975	808

2.59. When asked to state the reasons for the value wise decline as against the quantity-wise increase in export of transmission line towers commencing from October 1974 to March 1975 as compared to the preceding half year, the Deptt. of Commerce, in a note* furnished to the Committee have stated:

"Transmission line towers are tailor made items to suit the requirements of the buyer. The design of a tower depends on the parameters given by the buyer (and details verified by the seller on a ground survey) like the condition of the terrain, wind velocity in the area, the height of the tower which in turn depends on whether High Tension or Low Tension transmission is intended, the extent to which critical sections like light-weight or unequal angles can be avoided and so on. The price quoted takes into account marketing factors like entry into a new market, extent of competition, etc. The larger the volume of the order, the greater is the possibility of spreading design costs over the longer volume, thus enabling a lower unit price to be quoted. Towers are not exported as such, but convenient sections are manufactured for assembly at site. The unit value per tonne is a convenient method of expressing the price particularly in the shipping documents in which the weight of the consignment has to be specified. With the buyer the price is negotiated for the entire supply, which would involve the export of agreed numbers of towers of various designs for a single contract.

For all these reasons, the unit values as shown in the published statistics, display wide variations. The unit values in respect of the shipments in the various months during the period April 1974 to September 1974 and October 1974 to March 1975 according to the published figures of DGCI&S are shown in the statement enclosed as Appendix I. The average unit value for the second half of the year is lower mainly because of shipments to Libya having been

*Not vetted in Audit

at prices lower than the average unit value realisation in the first half of the year for shipments to all destinations.

In order to carry out a study-in-depth of the subject, data was obtained from three leading exporters who had exported transmission line towers in the year 1974-75. The largest of the exporters had, both in the first and the second half of the year, effected shipments against contracts that had been secured on various dates ranging from July 1968 to April 1973. To the same country, in a number of months, shipments against more than one contract had been made, thus making the unit value realisation in the month on arithmetical average and not the value under a single contract. Another exporter, who had secured a contract for supply to Thailand, had effected supplies both in the first half and in the second half of the year. The unit values for the different shipments show only marginal variations, possibly accounted for by the exchange rate adopted at the time the remittance was received. The third exporter who had effected shipments to Malaysia, again both in the first half and in the second half of the year, had however realised varying units values on the different shipments.

It has, however, not been possible for us to reconcile the figures obtained from the individual exporters and those published by DGCI&S. On a reference to him, DGCI&S has informed us that had there been a wrong classification of the goods shipped by the Customs authorities, it is now not possible to verify this aspect, as the Daily Trade Returns for 1974-75 have already been weeded out."

2.60. In a note furnished to the Committee the Department of Commerce have informed the Committee that the principles on which cash compensatory support was to be based were worked out later and announced in January 1976. These were, therefore, not applied in this case.

2.61. It is noted from Audit paragraph that during the period October 1974 to September 1975 contracts of the following value were concluded for supplies of TLT (made after 1st October 1975) to IDA-aided projects in India which also qualified for cash assistance:

	(Rs. in lakhs)
November, December 1974 and January, 1975	706.49
April 1975 and August, 1975	730.11

2.62. The Committee desired to know whether at the time of sanctioning cash compensatory support Government took into consideration the fact that substantial I.D.A.—contracts had been bagged by the Industry during the period preceding April—September 1975 and that supplies against these would have shown a progressive inirease in the period when decline in general exports was noticed. The Department of Commerce in a note have stated:

> "Increase in value of IDA Contracts landed by Indian firm does not lead to any addition to the foreign exchange earnings of the country and cannot, therefore, be taken as corrective to the fall in the trend of regular exports. IDA contract supplies are being deemed to be exports for purposes of export benefits as a measure of assitance to the domestic electric equipment industry; further the extent that foreign firms do not obtain IDA contracts in India there is a saving in foreign exchange. Government have always taken into account the trend of regular exports and the factors concerning them while deciding the rates of cash compensatory support."

2.63. Cash assistance was further extended after March 1976 upto June 1976 and thereafter again upto March 1977. During the period as pointed out by Audit the average *f.o.b.* unit value realization on exports was from October 1975 to March 1976 Rs. 4808/- per tonne and Rs. 4894 during April 1976 to September 1976.

2.64. A test-check of cash assistance vouchers in the offices of the JCCIE at Bombay and New Delhi showed the following *f.o.b.* unit value realisations in respect of export contracts entered into by two major exporters since October 1975:—

Manufacturer-exporter	Date of export contract	F.o.b. unit value (Rs. per tonne)
A	December 1975	5,300
A	December 1975	6,750
A	April 1976	5,000
F	December 1975	5,018

The average f.o.b. unit realisation during October 1976 to March 1977 was Rs. 6,166 per tonne.

2.65. A test-check of the monthly production returns submitted to the DGTD by the major manufacturer-exporters since October 1975 showed the following average ex-factory values for the periods indicated:

		1		2
Manufacturer-exporter	1975-76 October to March	1976-77 April to October September to March (Rs. per tonne)		A.M/s Kamani Engineering Corporation Factory 1. Jaipur 2. Bombay
A(Factory-1) . .	2,550	2,750	3,832	B. M/s SAE (1), Calcutta
A (Factory -2) .	2,550	3,516	4,716	C. M/s EMC Steelal, Calcutta
B	2955	3111	3411	
C . .	4,782	3,486	4,342	D. M/S.R. Steel Works, Bareilly
D . .	2,420	2,414	2,500	E.M/s. Hind Galvanising Calcutta.
E	3,768	3,243	3,472	F. M/s. Te-Steels Ltd., Ahmedabad
F	N.A.	3,893	3,804	

'A'—M/s. Kamani Engineering Corporation.
F—M/s Te-Steels Ltd., Ahmedabad.

Even if 10 per cent were added to the above ex-factory values to have an idea of upper limit of f.o.b. cost the latter would be much less than the average f.o.b. unit realisations for the corresponding periods indicated above. If duty drawback (Rs. 502/560/550 per tonne as admissible) were also taken into account, the profit margin would increase further.

2.66. When cash assistance was re-introduced in October 1975, it was upto March 1976 only. A review of the position was envisaged before continuing the same beyond March 1976. But cash assistance was subsequently continued piece-meal again for 3 months and then again for the next 9 months, apparently because no such review had been made. When asked to indicate the reasons for not making a timely review as envisaged, the Department of Commerce have in a note stated:

"A review envisaged after March, 1976 involved a large number of items. Since the data from the industry was not available and the examination would also have taken some time, the Cash Assistance was extended for a further period of 3 months.

In May, 1976, however, a review was made after obtaining necessary data from the Engineering Export Promotion Council. The data was examined in accordance with the new guidelines. Against the Council's recommendation for increase in the rate from 10 per cent to 16 per cent, the Cash Assistance Review Committee decided to continue the existing rate of 10 per cent upto 31-3-1977."

2.67. Subsequently an omnibous decision was taken to extend the existing rates of cash assistance in respect of a number of products, upto 31-3-1979. These included Transmission Line Towers also.

2.68. According to the Audit paras, export of Transmission Line Towers amounting to Rs. 1268.73 lakhs had been made during October, 1975 to April 1977 on which cash compensatory support at 10 per cent of the f.o.b. realisation would work out to Rs. 126.87 lakhs. In a note furnished to the Committee the Department of Commerce have stated that exports of transmission line towers from May 1977 to November 1977 were to the tune of Rs. 847 lakhs and statistics for the period beyond November, 1977 are not yet available.

Supplied to IDA-aided projects in India

2.69. In regard to extension of cash compensatory support to supplies made by Indian firms to IDA—aided projects, the Ministry of Commerce had informed the Audit in January, 1978 that:

"This decision was taken with a view to ensure that the nascent Indian Industry manufacturing the various types of products required by the State Electricity Boards for their projects, was not ploughed under by competition from better organised manufacturers abroad."

2.70. In reply to a question the Department of Commerce have informed the Committee that there was no occasion for Government to ascertain from the Electricity Boards whether Indian suppliers were facing any competition from a foreign manufacturer. They have further stated that there was no separate review of export concessions made applicable to supplies against IDA aided contracts.

2.71. In this connection it is to be observed that the Audit has brought out the following points arising out of the automatic applicability of cash assistance (sanctioned for exports) to the supplies to

IDA-aided projects without considering the actual profitability of such supplies:

(i) Although global tenders had been invited in all cases of TLT supplies, which were borne by the purchasers; and from any foreign country;

(ii) All the contracts for such supplies had provided for an ex-factory price (to which specific additions were made for inland freight and insurance to arrive at f.o.b. destination price).. This price was exclusive of taxes/duties levied on TLT supplies, which were borne by the purchasers; and

(iii) The ex-factory price in contracts concluded between November 1974 and August 1975, against which substantial supplies materialised from October 1975 onwards, together with supplementary cash assistance in lieu of duty draw-back, provided consistently to the suppliers a sizeable profit margin over the average ex-factory values as derived from the monthly production returns submitted by them to the D.G.T.D. (which ex-factory values included a reasonable profit margin), as may be seen from the (Appendix II).

Nevertheless, cash compensatory support on exports, re-introduced from 1st October 1975 had been automatically extended to the supplies made to IDA-aided projects in India. Supplies valuing Rs. 1436.60 lakhs had materialised against the above contract; cash compensatory support at 10 per cent would work out to Rs. 143.66 lakhs.

(iv) In addition, supplies against certain older contracts, which had been entered into between March 1973 and June 1974 (and of which the original dates of expiry were between September 1974 and August 1975) were made in October 1975 and later as indicated in (Appendix III).

It would appear that the supplies made in October 1975 and later were at older and currently unremunerative rates. The value of such supplies (upto July 1977 as reported) amounted however, to Rs. 232.80 lakhs only, (*i.e.* about 14 per cent of the total supplies made since October 1975 as reported, *viz.* Rs. 1669.40 lakhs), indicating that the over-all position regarding supplies to IDA-aided projects was a favourable one at the time when cash compensatory support was re-introduced in October, 1975.

(v) It was also seen from the information furnished that contracts of substantial value had been entered into with suppliers 'H' and 'A' in March 1977 and July 1977 respectively at considerably higher rates, as shown below:

Suppliers	Date of Contract	(a) Ex-factory contract price plus supplementary cash assistance in lieu of duty drawback (b) Average ex-factory value October 1976 to March 1977	Value of supplies contracted (Rs. in lakhs)
1	2	3	4
H	31-3-77	(a) 1,302 (b) 3,411*	133·58
A	14-7-77	(a) 5,034 (b) 4,716	405·51
		Total	539·09
			'B'—M/s. SAE (I), Calcutta.

*Since H is a merchant exporter supplying B's products, ex-factory values of B are sh[illegible]

2.72. The Committee desired to know whether Government have taken note of the above paragraph and reviewed the aspect appropriately with reference to actual data, when a decision was taken by them in October 1976 to continue the cash assistance on TLT upto March 1979. To this, the department have in a note stated that the Government had taken a general decision that all export benefits would be admissible against supplies made to IDA aided contracts. The decision to continue cash assistance on export of a number of engineering goods including transmission line towers upto 31 March 1979 was made in pursuance of a decision taken at the highest level. There was no separate examination for determining quantum of export assistance against Indian supplies to I.D.A. aided projects.

2.73. In a note furnished to the Committee the Department of Commerce have stated that a Committee (Alexander Committee) set up to review the entire policy of Government relating to imports and exports has completed the review and submitted its report. The Committe's recommendations are under examination of the Government.

2.74. The observations on the principles of cash assistance for exports made by the Alexander Committee in their report submitted to Government in January 1978 are stated as follows:—

"Cash assistance should essentially aim at neutralising the disadvantages arising out of policy factors and also the characteristics of the firm and the product. It is also important to recognise that cash assistance (CA) should be available only for a limited period during which the relevant disadvantages, to the extent possible, could be eliminated by conscious efforts. In any case, cash assistance should not be continued for indefinite period. The Committee felt that the magnitude and pettern of cash assistance should be identified on the basis of well-defined principles. After discussing various alternatives of approaches in this regard the Alexander Committee had identified the following three basic principles for cash assistance schemes:

(a) The level of cash assistance should fully compensate for the various types of indirect taxes, sales taxes etc. which the exporter has to pay on his inupts imported or domestically purchased and which are not refunded. This will enable him to be on par with foreign competitors.

(b) Cash assistance should be such as to encourage him in adopting adequate marketing strategies and to neutralise the disadvantages of freight etc. so as to be competitive in the export market.

(c) In the case of new products in new markets the magnitude of cash assistance should be adequate to take care of the initial promotional costs.

These prinicples highlight the importance of the fact that exporters should make their production activity competitive on their own, after these three categories of disadvantages are taken care of. These principles also imply that even if the export industry is supplied all its inputs at competitive international prices, its disadvantages in regard to marketing and promotional efforts need to be compensated until the export of the particular product becomes a stable feature in the trade flows. The Committee has suggested two stages in its approach towards recommendations on cash assistance. Firstly, it has suggested some rationalisation and simplifications of the existing network of assistance. Secondly, it has suggested that above stated principles should be applied to the different products, to identify the level and structure of assistance in the various export oriented industries which becomes eligible for the cash assistance. It is recommended that a detailed review of the existing cash assistance scheme should be undertaken and completed during the next twelve months with a view to estimating the new levels and structure of cash assistance based on the above principles. This new system of cash assistance should be introduced with effect from 1st April 1979 and pending this the present cash assistance system should continue.''

2.75. The Committee note that the rate of cash assistance on export of TLT was 20 per cent of f.o.b. realisation from 6-6-1966 to 31-3-1970. Additional assistance of 5 per cent was admissible from 1-3-1968 if an exporter increased his exports beyond a specified level. Assistance of another 5 per cent became admissible from 1-4-1969 on exports to North and South America and New Zealand. With effect from 1-4-1970, the rate of cash assistance was increased from 20 to 25 per cent plus 5 per cent on exports to North and South America and New Zealand. From 1-4-1973, cash assistance was admissible on a sliding scale ranging from 10 to 25 per cent depending upon the percentage of production exported. Cash assistance on the export of TLT was abolished with effect from 23-2-1974. It was, however, again introduced at the rate of 10 per cent with effect from 1-10-1975. The Ministry of Commerce had admitted to Audit that no cost and f.o.b. realisation study was made before deciding the reintroduction of cash assistance on the export of this item as the decision was "not related to the principles of marginal costing alone." It was maintained that the cash assistance was reintroduced w.e.f. 1-10-1975 "as a promotional measure taking into account the various factors, such as export prospects, production capability in the country, the competitive strength of our products vis-a-vis the international prices, and other relevant factors." The new criteria applied for the sanction of cash assistance for export had, it was stated, the approval of the Cabinet Committee on exports. The Ministry have stated that this decision was taken "in the context of acute foreign exchange shortage obtaining in the country" and on the consideration that "a detailed examination of financial aspects namely, marginal costing and trend in f.o.b. realisation of a large number of engineering products would have taken a long time and defeated the very purpose for which the

reintroduction (of cash assistance) was resorted to." The Committee observe that many of the new criteria are in the nature of general assessments in which subjective considerations are more likely to play a dominant part. In the absence of any quantifiable basis for the grant of cash assistance, the decision for the grant of assistance at a certain rate for the export of any particular commodity is incapable of any scrutiny. Such a situation, particularly where the decisions involve huge expenditure from the public exchequer and the beneficiaries are the businessmen and industrialists (c.f. Para 2.23, 2.24 and 2.30 of this report) is fraught with considerable danger lest the process may not degenerate into ad hoc decisions based on extraneous factors and dubious considerations. The Committee, therefore, suggest that the new criteria evolved and being applied for the grant of cash assistance for the export of goods should be reviewed at the highest level in the light of the shortcomings and defects pointed out by this Committee.

2.76. So far as the viability of the decision taken by the Ministry of Commerce to reintroduce the scheme of Cash assistance for export of TLT is concerned it has been stated that TLT was "identified" as commodity for which reintroduction of cash compensatory support was "eminently called for". The supporting case was made out by citing figures which showed a declining trend in exports during the period (October 1974 to September 1975) following the withdrawal of cash support in February 1974. The Audit paragraph has, however, pointed out the following facts which vitiate the fairness of the decision of the Ministry:

(i) The Ministry of Commerce had relied on the figures showing a decline in exports from Rs. 134.78 lakhs during April—September 1974 to Rs. 112.42 lakhs during October 1974—March 1975. Audit has, however, pointed out that according to the export statistics published by the DGCIS, during the same period quantity-wise the experts had actually increased (from 3952 tonnes during April—September 1974 to 4264 tonnes during October 1974—March 1975). In regard to the discrepancy, the Ministry of Commerce have stated that "it has not been possible for us to reconcile the figures obtained from the individual exporters and those published by DGCIS."

(ii) The export figures cited which showed a declining trend were for exports contracted for during the period when cash assistance was available.

(iii) Even after the cash assistance was withdrawn in February 1974, the overall exports of TLT increased from Rs. 1.27 crores in 1973-74 to Rs. 2.47 crores in 1974-75.

(iv) The net Joint Plant Committee (JPC) prices (excluding excise duty since duty drawback was admissible) at which steel (which constituted the bulk of the raw material requirement) was being supplied to exporters from April 1973 onwards were consistently far lower than the international prices of steel, giving them a price advantage varying from Rs. 267 to Rs. 1078 per tonne of TLT.

(v) The average f.o.b. unit value per tonne realised on exports was consistently rising and the rise was maintained even during the period following the withdrawal of cash assistance. It rose from Rs. 1936 in 1973-74 to Rs. 3009 in 1974-75. In the first half of 1975-76, i.e., upto September 1975, the average unit value realised was Rs. 4020 per tonne. Further a test check conducted by Audit had revealed still higher f.o.b. unit value obtained in respect of export contracts entered into by some major exporters during the period September 1974 to September 1975.

(vi) A test check conducted by Audit of the production returns of the major manufacturer-exporters of TLT showed that the average ex-factory value less duty drawback had left, with reference to the average f.o.b. unit value realisation of Rs. 4020 per tonne, a sufficient profit margin with the manufacturer-exporters. (c.f. Paras 2.24 and 2.29)

The Committee also note that when reintroduced in October 1975, the cash assistance for export of TLT was sanctioned initially for the period upto 31-3-1976 only. This concession was extended from time to time on an ad hoc basis. That while extending this concession beyond March 1976, the Ministry had not gone into the economic justification therefore, is evident from the date given in the Audit paragraph on f.o.b. unit value realisation from exports and average, ex-factory cost relating to this period which indicates the availability of a reasonable margin of profit for the manufacturer-exporters. (c.f. paras 2.63 to 2.65 of this report).

The forgoing facts amply prove that the cash compensatory support for export of TLT was reintroduced w.e.f. October 1975 without adequate examination of its justification and that in taking the decision the Government relied largely on the case built up and the data supplied by the manufacturer-exporters without bothering to cross-check it from other data collecting agencies inside or outside Government. Once it was introduced in October 1975, the decisions for its continuance from time to time were also taken on ad hoc basis without at any stage going into the justification for its continuance. The gravity of the lapse can be gauged by the fact that on export of TLT during October 1975 to April 1977, the cash compensatory support alone works out to Rs. 1.27 crores. This is highly deplorable. The Committee would like Government to review the various incentives including cash compensatory support available for export of TLT and see whether these are fully justified by unimpeachable data.

2.77. The Committee further note that all the export incentives available for general exports including cash compensatory support of 10 per cent was, w.e.f. 7-1-1970, extended to supplies made by Indian firms to International Development Association (IDA) aided projects in India "provided the orders were won by them in the context of global tenders." It is stated that this decision was taken "with a view to ensure that the nascent Indian industry manufacturing the various types of products required by the State Electricity Boards for their projects was not ploughed under by competition from better organised manufacturers abroad." The Committee were subsequently informed that before taking such a decision, Government did not care to ascertain from the Electricity Boards whether Indian suppliers of the products required by the State Electricity Boards were actually facing any competition from foreign manufacturers. Audit has pointed out that although global tenders had been invited in all cases of TLT supplies for the IDA aided projects, no bid was received from any foreign country. Viewed in the context of other concessions extended to Indian suppliers for IDA aided projects, the extension of cash export assistance to them appears to the Committee highly irregular. Worse still, while extending the operation of the scheme from time to time, no separate review was made as to the justification for its continuance and an omnibus decision was taken on an ad hoc basis. This enabled the Indian suppliers of TLT to reap profits quite out of proportion to their cost of production as can be seen from Appendix II & III of this report. The Committee desire that the justification of continuing the application of incentive schemes for export of TLT to the supply of this item for IDA aided projects in India should be fully gone into at the time of deciding its further continuance.

NEW DELHI;
April 19, 1979
Chaitra 29, 1901 (S)

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

APPENDIX I

Statement showing the Unit Value in respect of the shipments in the various months during the period April 1974 to September 1974 and October 1974 to March 1975 according to the published figures of D.G.C.I.& S.

EXPORT OF TRANSMISSION LINE TOWERS

	Quantity	Unit Value	Unit Value Realisation
April, 1974			
Iran	146	3,64,919	2,499
Malasia	15	36,579	2,438
Thailand	9	17,595	1,955
	170	4,19,093	2,465
May, 1974			
Balgium	@	700	—
Libya	1,379	44,88,435	3,254
Thailand	34	70,705	2,079
	1,413	45,59,840	3,227
June, 1974			
Libya	541	15,44,340	2,855
July, 1974			
Thailand	129	2,32,214	1,800
August, 1974			
Libya	1,699	67,22,654	3,957
Septembmer, 1974	Nil	Nil	Nil
Total for half-year April 1974 to Sept. '74 .	3,952	1,34,78,141	3,418
October, 1974			
Thailand	343	5,16,851	1,507

	Quantity	Unit Value	Unit Value Realisation
November, 1974			
Libya	200	4,05,151	2,026
Malaysia	329	7,84,112	2,383
	529	11,89,263	2,248
December, 1974			
Thailand	551	12,98,166	2,356
January, 1975			
Iran	30	64,746	2,158
Nigeria	543	11,95,896	2,202
	573	12,60,642	2,200
February, 1975			
Libya	1,208	31,90,639	2,641
Nigeria	861	26,92,673	3,127
Thailand	11	18,827	1,711
	2,080	59,02,139	2,832
March, 1975			
Iran	188	10,74,729	5,710
Total for the half-year Oct, '74 to March '75	4,264	1,12,41,790	2,636

APPENDIX II

Statement showing the ex-factory price in Contracts Concluded between November, 1974 and August, 1975, against which substaintial Supplies materialised from October, 1975 onwards, together with Supplementary Cash Assistance in lieu of duty drawbacks.

Suppliers	Date of contract		(a) Ex-factory contract price plus supplementary cash assistance in lieu of duty-drawback (see Note) (b) Average ex-factory value — 1975-76 — April to September (Rs. per tonne)	1975-76 — October to March (Rs. per tonne)	1976-77 — April to September (Rs. per tonne)	1976-77 — October to March (Rs. per tonne)	F.O.R. value of supplies made since October 1975 as reported (Rs. in lakhs).	Remarks
1	2		3	4	5	6	7	8
Manufacturer-exporters								
E	10-12-74	(a)	4,534	4,565	4,613	4,613	27·31	
		(b)	3,227	3,768	3,243	3,472		
D	17-12-74	(a)	4,171	4,202	4,250	2,500	77·11	
		(b)	1,516	2,420	2,414	2,500		
A	31-12-74	(a)	4,703	4,734	4,782	4,782	310·99	See Note 2
		(b)	1,983 —	2,550—	2,750 —	3,832		
			2,027 —	2,550—	3516 —	4,716		
B	2-1-75	(a)	5,497	5,528	5,576	5,576	62·80	
		(b)	2,905	2,955	3,111	3,411		
E	2-1-75	(a)	4,892	4,923	4,971	4,971	38·28	
		(b)	3,227	3,768	32,43	3,472		
C	25-4-75	(a)	4,779	4,774	4,822	4,822	58·15	See Note 6
			1,691	4,782	3,486	4,342		
G	25-4-75	(a)	4,841	4,872	49,20	4,920	206·86	See Note 3
		(b)	3,227	4,782	3,516	4,716		
D	16-8-75		4,261	4,292	4,340	4,340	140·32	
		(b)	1,516	2,414	2,414	2,500		
Merchant exporters.								
H	28-11-74	(a)	5,208	5,239	5,287	5,287	190·00	See Note 4
		(b)	2,905	2,955	3,111	3,411		
J	25-4-75	(a)	5,096	5,127	5,175	5,175	324·78	See Notes 5 and 2
		(b)	1,983 —	2,550 —	2,750 —	3,832		
			2,027 —	2,550 —	3,516 —	4,716 —		
				TOTAL			1436·60	

Notes: (1) Where there were two rates of duty drawback in a half-year, the lesser one has been taken.

(2) Against (b), ex-factory values of both factories of A are shown.

(3) Since ex-factory values of G were not available, the highest values among those of other units in the half-year concerned are shown.

(4) Since H was a merchant-exporter supplying B'sTLT to IDA-aided projects ex-factory values of B are shown.

(5) Since J was a merchant-exporter supplying A's TLT to IDA-aided projects, ex-factory values of A are shown.

(6) The circumstances in which the ex-factory value per tonne increased from Rs. 1691 (April—September 1975) to Rs. 4,782 (October 1975—March 1976) and then decreased to Rs. 3,486 (April-September 1976) were not known.

APPENDIX III

Statement showing supplies against certain older contracts, which had been entered into between March 1973 *and June* 1974 *(and of which the original dates of expiry were between September* 1974 *and August* 1975)*. made in October* 1975 *and later.*

Suppliers	Date of contract		(a) Ex-factory contract price plus supplementary cash assistance in lieu of duty drawback (b) Average ex-factory value — 1975-76 April to September (Rupees per tonne)	1975-76 October to March	1976-77 April to September	1976-77 October to March	Original expiry date of contract	F.o.r. Value of supplies made since October 1975 as reported (Rs. in lakhs)
1	2		3	4	5	6	7	8
B	15-3-73	(a)	2,324	2,355	2,403	2,403	September 1974	53·56
		(b)	2,905	2,955	3,111	3,411		
A	19-10-73	(a)	2,056	2,087	2,135	February		24·60
		(b)	1,983 —	2,550 —	2,750 —	3,832 —	1975	
		**	2,027 —	2,550 —	3,516 —	4,716 —		
B	26-10-73	(a)	2,008	2,039	2,087	2,087	May 1975	5100
		(b)	2,905	2,955	3,111	3,411		
C	26-2-74	(a)	3,265	3,296	3,344	3,344	January 1975	33·72
		(b)	1,691	4,782	3,486	4,342		
C	22-4-74	(a)	3,145	3,176	3,224	3,224	August 1975	26·19
		(b)	1,691	4,782	3,486	4,342		
B	1-5-74	(a)	3,313	3,344	3,392	3,392	July 1975	21·50
		(b)	2,905	2,955	3,111	3,411		
	29-6-74	(a)	3,145	3,176	3,224	3,224	June, 1975	22·23
		(b)	3,227	3,768	3,243	3,472		
							TOTAL	232.80

**Ex-factory values of both factories of A are given.

APPENDIX IV

Statement of Conclusions or Recommendations

Sl. No.	Para No.	Ministry/ Department	Conclusion or Recommendation
1	2	3	4
1.	1.56	Ministry of Tourism and Civil Aviation/Ministry of Works and housing	The Committee regard the action of the Executive Engineer in placing order for 300 tonnes of bitumen in March 1971 for execution of special repairs to the Mohanbari runway, on the basis of a mere agreement in principle for the execution of work by the DGCA in October 1970 as hasty. Even the revised order placed on the I.O.C. for 1000 tonnes of bitumen in December 1971 was premature as by that time only a revised estimate for the work costing Rs. 16.47 lakhs was submitted to DGCA and the sanction therefor was still awaited. Further, a general ban on new works was imposed in August 1973 and it was applied to this work also. Yet, no initiative was taken at any level to cancel the order for 537 tonnes of 60/70 grade bitumen of the value of Rs. 2.94 lakhs placed earlier and the supplies were received against this order between July and November 1974. The Committee have taken adverse notice of these lapses on the part of the officers concerned and would like Government to suitably communicate the displeasure of the Committee to the officers concerned.

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2.	1.57	Ministry of Tourism and Civil Aviation/Ministry of Works and Housing	The Committee find that the administrative approval and expenditure sanction for the work costing Rs. 68.70 lakhs was accorded by the Ministry of Tourism and Civil Aviation in December 1972. Thereafter, C.P.W.D. took nearly seven months (January to July 1973) to invite the tenders. The Committee consider the time taken by the C.P.W.D. as too long. The Committee would like the C.P.W.D. to re-examine its procedure of work so as to cut out scope for delays in inviting of tenders and award of work to contractors.
3.	1.58	-do-	Bitumen worth Rs. 5.49 lakhs had already been procured by January 1973. At that stage, to have regarded it as a new work and consequently deny funds therefor on the ground of financial stringency, was in the opinion of the Committee, nothing short of financial imprudence. Either this point was not sufficiently emphasised upon the Ministry of Finance and the Planning Commission by the Ministry of Tourism and Civil Aviation or if it was emphasised, the Ministry of Finance and the Planning Commission were oblivious of the financial loss due to the likely deterioration in the quality of the bitumen already procured for the work and the expenditure involved in storing it for a long time. This is highly regrettable.
4.	1.59	-do-	There is no gain saying the fact that substantial quantity of bitumen procured for the Mohanbari Airport and lying in stores for the last 5-6 years has deteriorated in quality due to weather effect,

			particularly when it is admitted that the drums are thin and a large number of these have been leaking. The stored material is also an easy prey to pilferage and mis-appropriation. The Committee would, therefore, like Government to take urgent steps to utilise the material so as to gainfully retrive as much of it as possible under the circumstances.
5.	1.60	-do-	As Mohanbari airport had become unserviceable, the nearby defence airport at Chabua is being used for civiliation air traffic for the last 5-6 years. This arrangement, particularly in a sensitive area so close to the international border, is fraught with danger from the point of view of national security. The Committee are at a loss to understand as to how this strategic need for an alternative serviceable airport in the area came to be neglected and the existing facilities allowed to languish for want of funds for so long. The Committee consider that the work on renovation of the Mohanbari airport deserves priority.
6.	1.61	-do-	The Committee had desired from the Ministry of Tourism and Civil Aviation information regarding aerodromes owned by the Civil Aviation Department which are not being used either by Defence or Civil Aviation and the dates from which they have fallen in disuse and the expenditure incurred on them year-wise since that date. The Ministry of Tourism and Civil Aviation have, instead of giving a pointed reply stated that some aerodromes have been continuously in use by scheduled or non-scheduled operations, some as alternate stand-by aerodromes for night-mail service

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			(which have since stopped) and some are used by flying clubs aircraft for cross-country flights etc. They have further stated that in many cases it may not be possible to obtain exact information due to old records having been destroyed. It is regrettable that the Ministry of Tourism and Civil Aviation should be unable to furnish to the Committee such basic information.
7.	2.75	Department of Commerce	The Committee note that the rate of cash assistance on export of TLT was 20 per cent of f.o.b. realisation from 6-6-1966 to 31-3-1970. Additional assistance of 5 per cent was admissible from 1-3-1968 if an exporter increased his exports beyond a specified level. Assistance of another 5 per cent became admissible from 1-4-1969 on exports to North and South America and New Zealand. With effect from 1-4-1970, the rate of cash assistance was increased from 20 to 25 per cent plus 5 per cent on exports to North and South America and New Zealand. From 1-4-1973, cash assistance was admissible on a sliding scale ranging from 10 to 25 percent depending upon the percentage of production exported. Cash assistance on the export of TLT was abolished with effect from 23-2-1974. It was, however, again introduced at the rate of 10 per cent with effect from 1-10-1975. The Ministry of Commerce had admitted to Audit that no cost and f.o.b. realisation study was made before deciding the reintroduction of cash assistance on the export of this item as the decision was "not related to the principle of

marginal costing alone.'' It was maintained that the cash assistance was reintroduced w.e.f. 1-10-1975 ''as a promotional measure taking into account the various factors, such as export prospects, production capability in the country, the competitive strength of our products *vis-a-vis* the international prices, and other relevant factors." The new criteria applied for the sanction of cash assistance for export had, it was stated the approval of the Cabinet Committee on Exports. The Ministry have stated that this decision was taken "in the context of acute foreign exchange shortage obtaining in the country" and on the consideration that "a detailed examination of financial aspects namely, marginal costing and trend in f.o.b. realisation of a large number of engineering products would have taken a long time and defeated the very purpose for which the reintroduction (of cash assistance) was resorted to." The Committee observe that many of the new criteria are in the nature of general assessments in which subjective considerations are more likely to play a dominant part. In the absence of any quantifiable basis for the grant of cash assistance, the decision for the grant of assistance at a certain rate for the export of any particular commodity is incapable of any scrutiny. Such a situation, particularly where the decisions involve huge expenditure from the public exchequer and the beneficiaries are the businessmen and industrialists (c.f. Para 2.23, 2.24 and 2.30 of this report) is fraught with considerable danger lest the process may not degenerate into *ad hoc* decisions based on extraneous factors and dubious considerations. The Committee, therefore, suggest that the new criteria evolved and being applied for the grant of cash assistance for the export of

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			goods should be reviewed at the highest level in the light of the shortcomings and defects pointed out by this Committee.
8.	2.76	-do-	So far as the viability of the decision taken by the Ministry of Commerce to reintroduce the scheme of Cash assistance for export of TLT is concerned it has been stated that TLT was "identified as a commodity for which reintroduction of cash compensatory support was "eminently called for". The supporting case was made out by citing figures which showed a declining trend in exports during the period (October 1974 to September 1975) following the withdrawal of cash support in February 1974. The Audit paragraph has however, pointed out the following facts which vitiate the fairness of the decision of the Ministry: (i) The Ministry of Commerce had relied on the figures showing a decline in exports from Rs. 134.78 lakhs during April-September 1974 to Rs. 112.42 lakhs during October 1974—March 1975. Audit has, however, pointed out that according to the export statistics published by the DGCIS, during the same period quantity-wise the exports had actually increased (from 3952 tonnes during April-September 1974 to 4264 tonnes during October 1974—March 1975). In regard to the discrepancy, the Ministry of Commerce have stated that "it has, not been possible for us to reconcile the figures obtained from the individual exporters and those published by DGCIS".

(ii) The export figures cited which showed a declining trend were for exports contracted for during the period when cash assistance was available.

(iii) Even after the cash assistance was withdrawn in February 1974, the overall exports of TLT increased from Rs. 1.27 crores in 1973-74 to Rs. 2.47 crores in 1974-75.

(iv) The net Joint Plant Committee (JPC) prices (excluding excise duty since duty drawback was admissible) at which steel (which constituted the bulk of the raw material requirement) was being supplied to exporters from April 1973 onwards were consistently far lower than the international prices of steel, giving them a price advantage varying from Rs. 267 to Rs. 1078 per tonne of TLT.

(v) The average f.o.b. unit value per tonne realised on exports was consistently rising and the rise was maintained even during the period following the withdrawal of cash assistance. It rose from Rs. 1936 in 1973-74 to Rs. 3009 in 1974-75. In the first half of 1975-76, i.e., upto September 1975, the average unit value realised was Rs. 4020 per tonne. Further, a test check conducted by Audit had revealed still higher f.o.b. unit value obtained in respect of export contracts entered into by some major exporters during the period September 1974 to September 1975.

(vi) A test check conducted by Audit of the production returns of the major manufacturer-exporter of TLT showed that

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			the average ex-factory values less duty drawback had left, with reference to the average f.o.b. unit value realisation of Rs. 4020 per tonne, a sufficient profit margin with the manufacturer-exporters. (c.f. Paras 2.24 and 2.29).
			The Committee also note that when reintroduced in October 1975, the cash assistance for export of TLT was sanctioned initially for the period upto 31-3-1976 only. This concession was extended from time to time on an *ad hoc* basis. That while extending this concession beyond March 1976, the Ministry had not gone into the economic justification therefor, is evident from the date given in the Audit paragraph on f.o.b. unit value realisation from exports and average ex-factory cost relating to this period which indicate the availability of a reasonable margin of profit for the manufacturer-exporters. (c.f. Paras 2.63 to 2.65 of this report).
			The foregoing facts amply prove that the cash compensatory support for export of TLT was reintroduced w.e.f. October 1975 without adequate examination of its justification and that in taking the decision the Government relied largely on the case built up and the data supplied by the manufacturer-exporters without bothering to cross-check it from other data collecting agencies inside or outside Government. Once it was introduced in October 1975, the decisions for its continuance from time to time were also taken on *ad hoc* basis without at any stage going into the justification for its conti-

			nuance. The gravity of the lapse can be guaged by the fact that on export of TLT during October 1975 to April 1977, the cash compensatory support alone works out to Rs. 1.27 crores. This is highly deplorable. The Committee would like Government to review the various incentives including cash compensatory support available for export of TLT and see whether these are fully justified by unimpeachable data.
9.	2.77	Department of Commerce	The Committee further note that all the export incentives available for general exports including cash compensatory support of 10 per cent was, w.e.f. 7-1-1970, extended to supplies made by Indian firms to International Development Association (IDA) aided projects in India "provided the orders were won by them in the context of global tenders." It is stated that this decision was taken "with a view to ensure that the Indian industry manufacturing the various types of products required by the State Electricity Boards for their projects was not ploughed under by competition from better organised manufacturers abroad." The Committee were subsequently informed that before taking such a decision, Government did not care to ascertain from the Electricity Boards whether Indian suppliers of the products required by the State Electricity Boards were actually facing any competition from foreign manufacturers. Audit has pointed out that although global tenders had been invited in all cases of TLT supplies for the IDA aided projects, no bid was received from any foreign country. Viewed in the context of other concessions extended to Indian suppliers for IDA aided projects, the extension of cash

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			export assistance to them appears to the Committee highly irregular. Worse still, while extending the operation of the scheme from time to time, no separate review was made as to the justification for its continuance and an omnibus decision was taken on an *ad hoc* basis. This enabled the Indian suppliers of TLT to earn profits quite out of proportion to their cost of production as can be seen from Appendices II and III of this report, The Committee desire that the justification of continuing the application of incentive schemes for export of TLT to the supply of this item for IDA aided projects in India should be fully gone into at the time of deciding its further continuance.

GMGIPMRND—LS II—229LS—23-4-79—1204.