

THIRTY-NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1980-81)

(SEVENTH LOK SABHA)

CASH ASSISTANCE FOR EXPORT OF
DEOILED RICE BRAN

MINISTRY OF COMMERCE



Presented in Lok Sabha on... 3.0 APR 1981

Laid in Rajya Sabha on... 19.0 80

LOK SABHA SECRETARIAT
NEW DELHI

April, 1981/Vaisakha, 1903 (S)

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CORRIGENDA TO 39TH REPORT OF PUBLIC
ACCOUNTS COMMITTEE

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PART II

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27 December, 1980 (FN)

27 December, 1980 (AN)

15 April, 1981 (AN)

*Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library.

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(1980-81)

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2. **Shri D. C. Pande—*Chief Financial Committee Officer***
3. **Shri T. R. Ghai—*Senior Financial Committee Officer.***

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Thirty-ninth Report of the Public Accounts Committee (Seventh Lok Sabha), on paragraph 1 of the Advance Report of the Comptroller & Auditor General of India for the year 1978-79, Union Government (Civil) regarding Cash assistance for export of deoiled rice bran.

2. The Advance Report of the Comptroller & Auditor General of India for the year 1978-79, Union Government (Civil) was laid on the Table of the House on 26 March, 1980.

3. This Report deals with cash assistance for export of deoiled rice bran which was sanctioned for the first time in May, 1970 without any cost study. Between April 1971 and March 1975, cash assistance was discontinued but was reintroduced from April, 1975 without any cost study but subject to review on the basis of a detailed cost study. However, before completion of this cost study in April—May 1977 which confirmed profitability on exports of deoiled rice bran, the JCCI&E, Bombay disbursed cash assistance, amounting to Rs. 52 lakhs in December 1976 and Rs. 4.22 lakhs in March 1977, for the year 1975-76, although the Ministry of Finance had asked the Commerce Ministry in November 1976 to withhold the payment of cash assistance till the cost study was completed. The Committee have recommended investigation into the matter.

4. Cash assistance on the export of deoiled rice bran from the year 1976-77 onwards was sanctioned by the Commerce Ministry without taking into account the factor of cost study. The Committee have expressed the view that detailed examination of the cost structure is relevant even after the issue of revised criteria laid down by the Bose-Mullick Committee and those laid down later by the Alexander Committee. As cash assistance is given on a wide range of commodities they have desired the Government to examine the matter and clarify the policy in this regard.

5 Before this report was finalised by the Committee the cash assistance which was granted upto March 1982, has since been withdrawn by Government with effect from 1 April 1981.

6. The Public Accounts Committee (1980-81) examined this paragraph relating to cash assistance for export of deoiled rice bran at their sittings held on 27 December, 1980 (FN and AN). The Committee considered and finalised this Report at their sitting held on 15-4-1981 based on the evidence taken and the written information furnished by the Ministry of Commerce. The minutes of the sittings form part II* of the Report.

7. A statement containing observations and recommendations of the Committee is appended to this Report (Appendix III). For facility of reference these have been printed in thick type in the body of the Report. (

8. The Committee place on record their appreciation of the assistance rendered to them in the examination of this paragraph by the Comptroller & Auditor General of India.

9. The Committee would also like to express their thanks to the Ministry of Commerce, Ministry of Finance, Ministry of Agriculture and Ministry of Law for the cooperation extended by them in giving information to the Committee.

NEW DELHI;

April 20, 1981

Chaitra 30, 1903 (S).

CHANDRAJIT YADAV,

Chairman,

Public Accounts Committee

*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library.

REPORT

CASH ASSISTANCE FOR EXPORT OF DEOILED RICE BRAN

Audit Para

1.1. The Audit Para on Cash Assistance for export of Deoiled Rice Bran as appearing in Advance Audit Report (Civil) of the Comptroller and Auditor General of India for the year 1978-79 is reproduced as Appendix I of this Report.

INTRODUCTORY

1.2. Rice bran is a by-product of rice molling. It is the layer round the endosperm together with a portion of polishing. By the solvent extraction process rice bran can yield 14 per cent of oil leaving 84 per cent of deoiled rice bran. The deoiled rice bran is mainly used as an ingredient for mixed feed for cattle, poultry and pigs. Extraction of rice bran oil was undertaken as part of the national programme for increasing the production of edible oils in the country in order to meet the shortfalls. In reply to a question about the percentage of rice bran oil produced of edible grade and of non-edible grade, the Ministry of Commerce in a note have stated that during 1979-80 the percentage of rice bran oil produced which was of edible grade was 2.17 as per data furnished by Solvent Extractors' Association of India (SEAI). No separate figures are available for its use. It was mostly used for manufacture of vanaspati. Percentage of rice bran oil produced which was of non-edible grade during 1979-80 was 97.83 and the entire quantity was almost used in soap industry.

1.3. To encourage the production and utilisation of rice bran oil Government had given from time to time various incentives viz. (i) total exemption of excise duty on the production of rice bran oil since 1960, (ii) exemption of excise rebate on the use of rice bran oil in soap making and in manufacture of vanaspati, (iii) provision of loans to rice mills at favourable rates of interest, (iv) interest subsidy for export of deoiled rice bran under the Export Credit Scheme and, (v) cash assistance on export of deoiled rice bran.

1.4. In a note* furnished to the Committee the Ministry of Commerce have stated that the decision to grant total exemption from excise duty on the production of rice bran oil was taken by the Government in February, 1960. No modification has been made in this decision. The number of units which took advantage of the exemption and their production figures since 1970 are as under:

Year	No. of Units	Quantity of Rice Bran Oil produced (in MT)
1970	11	4,118,547
1971	11	7,989,568
1972	17	8,385,317
1973	17	13,114,725
1974	18	13,684,963
1975	24	16,104,195
1976	26	23,976,229
1977	31	27,678,030
1978	40	39,102,599
1979	39	59,186,893

Note: This statement does not include information from the Collectors of Central Excise, Bombay-I, Bombay-II, Cochin, Indore, Meerut, Delhi and Chardigarh.

As per latest information furnished by the Ministry of Commerce, the cost** to the exchequer on account of excise rebate on the use of rice bran oil in soap making during the years 1977-78, 1978-79 and 1979-80 amounted to Rs. 148.42 lakhs, Rs. 193.50 lakhs and Rs. 133.29 lakhs respectively. Further, the revenue foregone due to total exemption of excise duty on the production of rice bran oil during the calendar years 1977, 1978 and 1979 amounted to Rs. 53 lakhs, Rs. 94 lakhs and Rs. 152 lakhs respectively.

1.5. As regards the decision to give excise rebate on the use of rice bran oil for manufacturing soap and vanaspati, the Ministry of Commerce have, in a note* *inter alia* stated:

*Not vetted in audit.

**This does not include information from four more collectorates of Central Excise.

“Also, to encourage the use of Rice Bran Oil in the manufacture of soap-relief was given for the first time from 17-3-72 on soap in the manufacture of which rice bran oil is used. The scheme of exemption provided that no rebate in excise duty will be admissible in case the percentage of rice bran oil to the total oil-mixed used in the manufacture of soap does not exceed 15. It is only **when the rice bran oil content is more than 15 per cent** that the rebate in excise duty at the rate of Rs. 1.50 per M.T. raised to Rs. 7.50 per MT., with effect from 1-8-1973 of such soap for every additional percentage point increase of rice bran oil would be available.

It was observed that the use of rice bran oil in soap manufacture had gone up sharply so much so that the rebate claimed in some cases exceeded the entire duty payable **on the soap manufactured. Effective from 1-3-1975**, therefore, the scheme for rebate of excise duty on use of indigenous Rice Bran Oil in the manufacture of soap was modified so as to provide for reduction in duty on soap to the extent of Rs. 3.50 per M.T., (instead of Rs. 7.50 per M.T.) for each percentage point increase on Rice Bran Oil in excess of 25 per cent (as against 15 per cent earlier) of the total oils used in the manufacture of such soaps. In other words, no rebate of excise duty was admissible on the soap if the indigenous Rice Bran Oil used in its manufacture was less than 25 per cent.”

1.6. Audit para points out that export of deoiled rice bran amounting to Rs. 68.14 crores had been made during the years 1970-71 and 1975-76 to 1978-79 on which cash assistance would work out to Rs. 7.91 crores out of which a sum of Rs. 5.57 crores had been paid till July 1979. According to the Ministry of Commerce, the actual expenditure on cash assistance on the export of deoiled rice bran during 1978-79 was Rs. 3.41 crores during 1979-80 it was Rs. 2.14 crores and during 1980-81 (April-December) it was Rs. 2.67 crores. In addition, excise duties foregone on production of 4.06 lakh tonnes of rice bran oil during the years 1970-71 to 1978-79 amounted to Rs. 4.55 crores. Besides, rebate in excise duty for use of rice bran oil in production of vanaspati and soap amounted to Rs. 2.94 crores during 1971-72 to 1977-78. About the cost to exchequer on account of interest subsidy for export of deoiled rice bran under

the Export Credit Scheme, the Ministry of Commerce in a note have stated:

“No separate provision is made for interest subsidy for export of deoiled rice bran under the export credit development scheme. The head of account covers interest subsidy paid to a whole range of items, by way of pre and post shipment credits. The total expenditure under this head covering a very large number of items in the last three years was as follows:

1977-78	. . . . .	Rs. 9.90 crores
1978-79	. . . . .	Rs. 12.99 crores
1979-80	. . . . .	Rs. 12.50 crores

1.7. As regards the loans given to rice mills at concessional rate of interest, the position has been stated by the Ministry of Commerce as under:

“Department of Food has no scheme to give any loans to rice millers nor does it monitor information on the extent of loans secured by the various rice mills from banks for modernisation. The role of the Department of Food is limited to requesting Department of Economic Affairs (Banking Division) of the Ministry of Finance to instruct public sector banks to provide loans for modernisation. The rice mills are to apply directly to the commercial banks for loans for the scheme of modernisation. The public sector banks were advised by the Banking Division of Department of Economic Affairs to examine the proposals and extend necessary financial assistance to the rice mills.”

1.8. The incentive of cash assistance was given for exort of deoiled rice bran. It was first sanctioned in 1970-71 from the Marketing Development Fund (MDF) to bridge the gap between cost of production and f.o.b. realisation. This concession was discontinued between April 1971 and March 1975 and was re-introduced from 1975-76.

1.9. The Committee desired to know the extent to which the desired objectives had been achieved by giving the various incen-

tives to encourage the production and utilisation of rice bran oil. The Secretary, Ministry of Commerce stated during evidence:

"The cash compensatory support was intended to increase the exports and also the indigenous production of rice bran oil. The situation was like this. Exports based on agricultural production were rather scanty and had not developed much. So, a study was made in the Ministry of Commerce about the manner in which various agricultural commodities could be developed for purposes of export earning. Rice bran was one of them. It was found that this commodity, rice bran, after the rice milling is available freely and this can be used directly as feed stock. Now, this contains lot of oil. So, the next step which can be done is that to remove the oil. The oil can be used to substitute for mutton tallow and can be used for vanaspati, or for soap manufacture and the cake, or the extraction can be used for cattle feed and can also be exported. Now, the current position was that not much of the rice bran was being converted into oil and the bran was not going to the extracting process at all. So, the intention was to try and see whether we can also be exported. Now, the current position was have a market for the extractions. If you look at the development that has taken place subsequently, it would indicate that the scheme that was introduced at that time did achieve the purpose which we had in mind, because as you notice, the exports of rice bran extracted increased from 1.25 lakh tonnes in 1970-71 to 4.45 lakh tonnes in 1978-79 and in 1979-80, they went up to 5.29 lakh tonnes. So, in terms of the performance for which the cash compensatory support was made these are judged with reference to the results they would seem to indicate that the introduction of such a scheme did achieve the objectives of the programme. There was increase in the production of rice bran oil which is a substitute for tallow and which is imported and which can be, as I mentioned, used for production of soap and also very beneficial for the edible oil industry also. The increase in the production of rice bran oil was 21,000 tonnes in 1970-71, and we reached a figure of 1.13 lakh tonnes in 1979-80. For domestic use also, the extraction that was sold for domestic consumption, went up from 19,000 tonnes in 1970-71 to 1,25,000 tonnes in 1979-80. So,

the savings in foreign exchange that it would have been spent for the import of equivalent amount of tallow from the foreign markets, was about 10.50 crores in 1970-71 would be roughly of the order of Rs. 56.50 crores in 1979-80. Rs. 261.00 crores is the total savings of foreign exchange because this has prevented import of mutton tallow which otherwise would have been used by the soap oil industry also, but the foreign exchange earned from the export of deoiled rice bran went up from Rs. 2.3 crores to Rs. 29.8 crores in 1979-80. So, if that is added, the total would come to Rs. 113.01 crores for this entire period. Thus, if you judge the scheme in terms of the results that are achieved, I would submit, that the figure indicated for the performance has been achieved by the introduction of the scheme."

Cash Assistance decision from 1970-71 to 1974-75

1.10. According to the Audit Para the cash assistance on deoiled rice bran was recommended by the Board of Trade Sub-Committee on oil seeds, oils and oil cakes in 1969 at the rate of 15 per cent of f.o.b. value.

During evidence the representative of the Ministry of Commerce explained the reasons which had then prompted the sub-committee of the Board of Trade to recommend the cash assistance as under:

"(a) exports had been previously confined only to the United Kingdom and it was considered that a saturation point had been reached there and new outlets were needed for the promotion of this export (b) with the closure of Suez Canal, freight rates had increased and that had neutralised whatever advantage, the devaluation of the Indian rupee might have had (c) it was thought that it would facilitate greater production of rice bran oil and as production of edible oil was accorded high priority in the Fourth Five Year Plan, this cash compensatory support was considered helpful in production of greater quantity of oil.

Yet another factor was that the quantum of 15 per cent was based on the economics of rice bran extractions produced. The sub-committee of the Board of Trade had gone into it. Even at that time it was considered that as compared to the extractions like cotton seed extractions, cost of processing was more in the case of rice bran extraction."

1.11. It is seen from Audit para that the cost data furnished by the exporters of deoiled rice bran were examined by the DGTD who held (January 1970) that it was difficult for him to check the cost data as the price of rice bran which varied from State to State, was dependent on the quality of bran, but observed that there was a case for cash incentive as there was an element of loss in exports and that the cost of rice bran and processing charges assumed by the exporters were quite reasonable. When enquired about the basis of such a conclusion by the DGTD, the Ministry of Commerce have in a note, stated:

"DGTD recorded the following note in respect of cost data:

"The price of rice bran varies from State to State and is dependent upon its quality and other factors like percentage of oil etc. The percentage of oil in the rice bran in various States ranged from 10.5 to 16.5 per cent. There is no published data available on the subject and individual State authorities have to be contacted for compilation of correct and authentic statistics.

In the Bombay region ex-factory price for rice bran (for a recovery of 15 per cent of oil) has been varying from Rs. 340 to Rs. 480/- per tonne during various months of 1968-69. In the beginning of the rice season, the availability of rice bran is easy and the price is around Rs. 350/- per tonne. It increases gradually as the supply position becomes a little tight and during the off-season it touches nearly 40 per cent higher than the price prevailing in the market in the beginning of the rice season.

Because of the factors as above, it is difficult for the DGTD to check the cost data and other data furnished by the exporters of deoiled rice bran. Cost of rice bran has been assumed by the rice bran extractions units to be Rs. 350/- per tonne (in the statement submitted by them to the Ministry)'.
'

Based on the above assessed cost of production and the actual sales realisation, it appears that there was an element of loss in export of rice bran extractions and there was thus a case for cash incentives."

1.12. Explaining the position in this regard the representative of the DGTD stated during evidence:

"During that period, the price of rice bran was of the order of Rs. 340-350 per tonne. So, we thought that during the off-season, the price may vary to the extent of Rs. 30/- to Rs. 40/-. We indicated the latter position. The Association had indicated Rs. 350/- as the price of rice bran material. The process cost in 1970-71 was estimated to be Rs. 80/- per tonne. The Cost Accounts Branch of the Ministry which had undertaken a review in 1975-76 had come to the conclusion that the processing cost would be of the order of Rs. 197/- per tonne of processed material. We conceded that even in 1970-71, that process cost would not have been unreasonable. We thought that there would be a difference of 40 per cent between prices in season and off-season."

1.13. In May 1970, the Ministry of Finance agreed to the proposal of cash assistance at the rate of 15 per cent of f.o.b. value for exports above 70,000 tonnes. One of the conditions of cash assistance was that exports were to be canalised through Solvent Extractors Association of India (SEAI). At the instance of the Committee, the Ministry of Commerce have furnished the following note indicating the basis on which the Ministry of Finance had agreed to grant the cash assistance:

- "(a) to encourage more rice bran extractions to be produced so that in the process the country's requirement of oil may also be met to a certain extent.
- (b) it was felt that UK which was the principal buyer of our rice bran could not take more than 70,000 tonnes of rice bran and if additional quantity was to be exported new markets had to be established for that purpose which would necessitate selling of rice bran extractions at a lower price in order to get a foothold in the new markets.
- (c) cash assistance at the rate of 15 per cent amounted to Rs. 10.5 lakhs if target of 90,000 tonnes was achieved and this amount was not considered to be a high price to pay for additional foreign exchange earnings of the order of Rs. 70 lakhs. The additional oil which would become available in the country on account of higher production of rice bran extraction would be another asset that would

result in further saving in foreign exchange as a correspondingly smaller quantity of oil would have to be imported from abroad."

1.14. It is seen from above that one of the reasons for agreeing to the proposal for grant of cash assistance was to get a foothold in the new markets. The Committee enquired whether the Government had succeeded in exporting deoiled rice bran to countries other than U.K. or non-traditional markets. In reply, the Secretary, Ministry of Commerce stated during evidence:

"The countries to which deoiled rice bran was exported were like this:

Singapore	86,300 tonnes
Czechoslovakia	20,200 tonnes
Holland	156,200 tonnes
U.K.	58,500 tonnes
West Germany	25,500 tonnes
Malaysia	20,100 tonnes
France	1,500 tonnes
Kuwait	200 tonnes
Taiwan	36,600 tonnes
Ireland	3,200 tonnes
Yugoslavia	36,200 tonnes
Belgium	1,500 tonnes"

1.15. When asked about the figures of world trade in deoiled rice bran, the Ministry of Commerce in a note have stated:

"The world trade in deoiled rice bran is extremely limited. The price of this item is not quoted in publications in which the prices of other oil cakes and feed ingredients are published. According to the information available the other country which has been exporting deoiled rice bran in the recent past is Thailand. Rice bran extraction replaces foodgrains in compound animal feed and the price which it can fetch in the international market depends on the availability and prices of feed grains."

1.16. Since the grant of cash assistance was agreed at the rate of 15 per cent of f.o.b. value for exports above 70,000 tonnes, the Committee desired to know the basis on which this cut off point of 70,000 tonnes was fixed. To this the representative of the Ministry of Commerce stated during evidence:

“At the time of taking this decision in May, 1970 it was brought to the notice of the Ministry of Finance that the exports were of the order of 70,000 tonnes. Therefore, a decision was taken that a minimum of 70,000 tonnes in any case had moved even in 1969-70 and so, to develop the rice bran industry anything above that figure could be allowed cash compensation.”

He added:

“There were several considerations for taking this decision. The decision was taken on considerations like the need to sell the rice bran extraction even at low price to get a foothold in the new markets. The Government had twin objectives—large availability of oil as well as increase of exports. The export could not take place unless the production also increased.”

1.17. According to Audit para formal sanction for the exports from 1 April 1970 to 31 March 1971 was issued in December 1971, i.e. 9 months after the close of the financial year with retrospective effect as an assurance had been given to the trade in June, 1970; and on the exports for 1970-71, Rs. 14.47 lakhs of cash assistance were paid in March-June 1973. The Committee desired to know as to who gave such assurance to the trade in June, 1970. In a note furnished to the Committee, the Ministry of Commerce have stated:

“The decision to grant cash assistance for exports from 1-4-70 was taken mainly with a view to encouraging extraction of oil from rice bran and the exports of rice bran extraction. A copy of the note recorded in the Ministry of Finance in which decision to grant cash assistance was taken is attached as Appendix II. It will be seen therefrom that it was specifically mentioned therein that cash assistance should be announced very quickly so that substantial results by way of conversion of rice bran into oil and rice bran extractions and additional exports could be ensured during the year 1970-71. This decision was conveyed to

the Solvent Extractors' Association in June, 1970. Formal sanction could not be issued immediately in June, 1970. Since cash assistance was related to the targeted exports, it was necessary to have an organisation through which cash assistance could be paid. Formalities with regard to organisation an Association of the rice bran exporters was a time consuming factor. In fact the Solvent Extractors' Association of India was formally incorporated under the Companies Act on 19-7-1971. Therefore, a formal sanction could be issued in December, 1971."

1.18. According to Audit Para the Ministry of Commerce in August 1971 made out a case for extension of cash assistance for the year 1971-72. The Ministry have stated that they based their recommendation for grant of cash assistance for the year 1971-72 on the following considerations:

- (a) to encourage the availability of rice bran oil and to reduce the import of vegetable oils to that extent by giving incentive to the industry for increasing extraction for export purposes.
- (b) to increase the exports of deoiled rice bran to earn foreign exchange therefrom.
- (c) to utilise more and more of rice bran for making extractions.
- (d) to utilise the capacity of the solvent extraction industry.
- (e) cash assistance paid in 1970-71 had paid rich dividends and the reasons for which these were given in 1970-71 were valid in 1971-72.

1.19. Audit para further points out that after analysing the cost data earlier examined by the DGTD, the Ministry of Finance observed (March 1972) that there was no justification for grant of cash assistance for the year 1971-72 as there was no loss in the exports. Further on analysis of the cost data furnished by the SEAI in June, 1972, the Ministry of Finance observed (July 1972) that they could not verify it as it appeared to be based on some "hypothetical" figures; in the cost data furnished (August 1973) by the SEAI, the Ministry of Finance found no loss. Since the SEAI could not produce reliable cost data to prove loss in

exports of deoiled rice bran, no cash assistance was granted for exports during 1971-72 to 1974-75. The position has been explained by the Ministry of Commerce thus:

“Cash Assistance for export of deoiled rice bran was discontinued between April 1971 and March 1975 as the Ministry of Finance were of the view that cash assistance should be given only if there was loss in undertaking exports. They desired to have cost data and justification on the basis of the costing of the product alone. They also did not agree with the viewpoint that increase in exports in 1971-72 was on account of any assurance given to the industry that they would continue to get cash assistance. There was protracted deliberation between the Ministry of Commerce and the Ministry of Finance on the desirability of giving cash compensatory support on export of Deoiled Rice Bran as an encouragement to the industry for producing more and more of rice bran oil. Thus no cash assistance could be given during the period from April 1971 to March, 1975.”

Reintroduction of cash assistance in 1975

1.20 It is seen from Audit para that the Ministry of Commerce, in their proposal, maintained (February 1975) that exports of deoiled rice bran were falling after 1970-71 due to withdrawal of cash assistance. They held that deoiled rice bran required sales promotion and export acceptance by the buyers and recommended cash assistance of Rs. 60 per tonne of exports above 80,000 tonnes and 10 per cent of f.o.b. value as market development assistance.

1.21 According to Audit para the export of deoiled rice bran in 1970-71 were 1.20 lakh tonnes and there rose to 1.69 lakh tonnes in 1971-72 and then during 1972-73, 1973-74 and 1974-75 these were 1.23; 1.24 and 1.19 lakh tonnes respectively. The exports after 1970-71 were either more or about the same as in 1970-71. When asked to indicate the basis on which the Ministry of Commerce while recommending cash assistance on deoiled rice bran in February, 1975 maintained that the exports of deoiled rice bran were falling after 1970-71 due to withdrawal of cash assistance.

the Ministry of Commerce in a note furnished to the Committee have stated:

“Export figures in respect of deoiled rice bran as given by SEAI are given below:—

Year	(In lakh tonnes)	
	Production	Exports
1971-72	1.82	1.47
1972-73	1.36	1.18
1973-74	1.46	1.06
1974-75	1.37	1.02

It will be seen from the above table that there has been a decline in exports as compared to the export figures of 1971-72. There was abundant availability of raw material and in fact it was the intention to obtain more and more of rice bran oil which was going waste in the form of rice bran. It was felt that there could have been growth in exports from 1970-71 onwards. But the decline in exports with reference to the figures of 1971-72 indicated that withdrawal of cash assistance had an adverse effect. Even on the basis of DGCIS figures cited by audit it should be observed that the exports declined subsequent to 1971-72. The recommendation in February, 1975 was based on the figures of SEAI.”

1.22. According to audit para the f.o.b. unit value in case of export of deoiled rice bran during 1970-71 to 1974-75 was as under:

Year	f.o.b. unit value (Rs. per tonne)
1970-71	176
1971-72	177
1972-73	218
1973-74	392
1974-75	374

1.23. While referring to the increased realisation of f.o.b. unit value per ton in the years 1973-74 and 1974-75, the Committee desired to know the basis on which the Ministry of Commerce

took up the case for grant of cash assistance for the year 1975-76. In a note furnished to the Committee the Ministry of Commerce have stated:

“The case for grant of cash assistance was taken up after making a study of the production of rice bran oil and after holding discussion with the interests concerned. Rice bran through the solvent extraction process can yield 14 per cent of the rice bran oil which is used in soap manufacture and in the manufacture of fatty acids. A sharp fall in the supply against demand of vegetable oil was witnessed in the few years preceding 1975-76 which was apparent from the sharp increase in the prices of groundnut oil as indicated below:

Year	Average Groundnut Oil Price Bombay Rs. per ton
1970-71	4210
1971-72	4100
1972-73	6600
1973-74	9000
1974-75	7400

There has been close relationship between the total deficit between supply and demand of vegetable oil and in the increase in the groundnut oil price which is the premier oil. Edible oils, oilcakes, oilseeds and oil based products constitute 13 per cent of the general price index and keeping oil prices down was considered important from the point of view of inflation. Mutton tallow for which rice bran oil is a good substitute cost US \$ 550—600 per tonne. It was felt that one tonne of rice bran oil could save US \$ 600 foreign exchange and relieve the pressure on groundnut oil prices.

Rice bran oil was the only source of vegetable oil which had considerable prospect of growth. It was estimated that if 50 per cent of rice bran was processed, production of rice bran oil could be 1.82 lakh tonnes which could be a substitute for Mutton Tallow worth US \$ 9.70 crores.

IIFT's "Report on Oilcakes" had recognised that processing cost of rice bran in the solvent extraction process were higher than processing groundnut extraction. The advantages in giving market development subsidy were assessed in terms of increase in animalfeed exports & increase in rice bran oil production.

Production cost data for the period January—June, 1974 were provided by the SEAI. This revealed that the poor economics of rice bran processing was due to higher cost of processing, greater problem in exporting de-oiled rice bran as compared to groundnut extractions.

A "Paper" was prepared on the production of rice bran oil and exports. It was considered at the meeting of the Policy Advisory Committee under the chairmanship of Commerce Secretary which was attended by Secretary, Export Production, Additional Secretary, Ministry of Finance, Director General, IIFT, representatives of Ministry of Agriculture. It was felt that there was need to popularise the use of rice bran oil. Consequently a meeting was held with the representatives of the soap manufacturers which was also attended by Additional Secretary (Agriculture) and Financial Adviser. After holding discussions with the soap manufacturers a comprehensive paper on export of deoiled rice bran was submitted to the MDF Main Committee. The Committee decided on 10th March, 1975 to grant cash assistance at the rate of 15 per cent of the f.o.b. value on exports above the level of one lakh tonnes during 1975-76."

1.24. In this connection, the Secretary, Ministry of Commerce stated during evidence,

"You will notice that when there was no cash assistance the exports fell down from 1.69 to 1.23 and 1.24 and in 1974-75 they were as low as 1.19 lakh tonnes. That was a stage when study had been made about rice bran oil industry and it was suggested that we could utilise this segment by giving support to increase production of rice bran oil and also of the extractions that had to be exported. The view of the Ministry was that the withdrawal of cash compensatory support in the intervening years was one of the major reasons why export bran figures went down and production of it had not been maintained even at the earlier level. It had gone down steadily."

1.25. On being asked whether it would be correct to say that rice production itself had gone down and consequently rice bran had a fall in export rather than availability or otherwise of cash assistance, the representative of DGTD stated:

“I would only like to submit that even as of now the total rice bran that is being extracted is not more than 50 per cent. Utilisation of the solvent extraction ranges between 40 to 50 per cent.”

The witness added:

“It has to be looked at in the total overall context of what we have done by giving support to the export of deoiled rice bran whether we have achieved national objective of having to increase overall production of rice bran oil and whether it has gone in the edible use or for industrial use. If this was not available, we would have used edible oil.

* * * * *

Even in 1979-80, if you look at the estimated production of rice bran, the availability was 700,000 tonnes and the rice bran oil produced was 115,000 tonnes; this would have left the total quantum of deoiled rice bran at 5,85,000 tonnes. In 1970-71, the local consumption was 20,000 tonnes and in 1979-80, it was 1,25,000 tonnes.

* * * * *

If we had not encouraged solvent extraction, we would have sent the un-deoiled rice bran as such with the result that 14 per cent of the oil would have been wasted.”

1.26. Audit para points out that out of 103 rice bran processors, major share of exports (68 to 83 per cent) and cash assistance (69 to 82 per cent) went to 15 leading processors and 19—21 merchant exporters only during 1976-77 to 1978-79. Referring to the view expressed above that Government wanted encouragement to be given to the extraction plants, the Committee desired to know the justification for giving cash assistance on exports of deoiled rice bran to those who were not processors. In reply the Secretary, Ministry of Commerce stated:

“Our incentive is given to the parties who export this. It is all on record that the assistance went to fifteen leading processors who were both doing processing and exporting it. There were 19 or 20 merchant exporters. They are buying it from the processors and are exporting it.”

1.27. In a note subsequently furnished to the Committee in this regard, the Ministry of Commerce have clarified:

“As all the units producing deoiled rice bran may not have the requisite infra-structure and skill for undertaking exports, merchant exporters have been buying deoiled rice bran from the processors and arranging exports. While the merchant exporters will no doubt be retaining their margin in the context of the availability of cash compensatory support for the item when exported, the manufacturers will be getting a better price for their produce. To that extent, part of the benefit arising out of the cash assistance will go to the producers thereby inducing larger processing of rice bran and export of deoiled rice bran. It may also be pointed out that the scheme of cash compensatory support for exports, does not ordinarily deny such support to a merchant exporter on the ground that he does not undertake the manufacture of the product exported.”

1.28. In March 1975, the Main Marketing Development Fund (MMDF) Committee decided to grant cash assistance at 15 per cent of the f.o.b. value of exports in excess of the first one lakh tonnes. When asked whether MMDF Committee was competent under any rules, regulations or standing orders to grant cash assistance in March, 1975 the Ministry of Commerce have stated that the Committee was constituted to administer the Marketing Development Fund which was to be utilised *inter alia* for export assistance for exportable commodities including transport assistance *vide* notification dated 5-7-1963. The composition of MMDF Committee is as follows:

- (i) Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs....Chairman*.
- (ii) Secretary to the Govt. of India, Ministry of Finance, Department of Expenditure..... Member.
- (iii) Secretary to the Govt. of India, Ministry of Commerce* (from January, 1970 the Chairman is Commerce Secretary.)

1.29. When asked to state whether this decision of MMDF Committee to grant cash assistance had the approval of the Ministry of Finance, the Ministry of Commerce have stated:—

“The decision had the approval of the Ministry of Finance as the Marketing Development Assistance Committee in-

cludes two representatives from that Ministry. Once a decision is taken by the MDA Committee, the concurrence of the Ministry of Finance is not obtained separately."

1.30. The Committee drew the attention of the witnesses during evidence to the fact that the Ministry of Finance had reiterated in February 1975 that it was not advisable to re-introduce cash assistance on *ad hoc* basis without a proper detailed cost study by the Cost Accounts Branch and enquired as to why the Ministry of Commerce could not wait till a proper detailed cost study was completed. The representative of the Ministry of Commerce deposed:

"A very detailed paper had been prepared in the Ministry of Commerce in December 1974, and this was subjected to a thorough examination in the Policy Advisory Committee in January 1975. It was noticed that after 1971-72, exports had fallen by about 50,000 tones, and the case for cash assistance to be introduced in 1975-76 was based on several factors—not only the fall in exports but also other factors. They are; deoiled rice bran, unlike ground nut is not a usual ingredient of compound feed produced by foreign manufacturers. The Commodity requires sales promotion and product acceptance by buyers, thereby justifying some cash assistance support.

Deoiled rice bran is a value bulk product, its freight rates by liner vessels being as high as 200 per cent of f.o.b. value and by chartered vessels at about 130 per cent of f.o.b. This needed additional compensation. Very high rates stood in the way of developing new markets.

Rice bran oil is the only source of vegetable oil which has considerable prospect of growth. Since domestic demand for extractions was not very high, if rice bran oil is to be produced, the extractions will have to find a market in exports.

The production of rice bran oil was going down since 1971-72, whereas its use in the soap industry had been going up in the same period. This was a paradoxical situation. The more the need for oil by the soap industry, if domestic substitutes of rice bran oil were not available, we would have had to import mutton tallow which would involve outgo of foreign exchange. Ministry of Finance had to

keep this in mind. Even though they felt that the costing factor would have to be gone into, they also at the same time pointed out that in view of the urgency, there was no harm in giving the cash compensatory support for a limited period. The matter was placed before MDA Main Committee, which took this decision. In the Committee, 2 Additional Secretaries from the Ministry of Finance were also present, apart from the Commerce Secretary."

1.31. To a question as to why they did not wait for cost study, the Secretary, Ministry of Commerce explained the position thus:

"It was not one of the decision-maker at that time. But it appears that cash assistance was reintroduced in 1975-76 taking into account: (i) the study that has been made about potential of exports by giving incentives like cash assistance for export of deoiled rice bran, (ii) there was a drop in exports, which was visible from the data of the previous year: (iii) there was need for increasing the total export earnings from agricultural commodities as a whole. In this context it appears that decision was taken to introduce cash compensatory support and the concept of cost study was also included in the decision at that time. But later on apparently the decision was different, perhaps there was a fear in their mind that if this is withdrawn, exports will not take place and the purpose of introduction of the scheme would perhaps not be realised. This I assume, must have been predominant in their mind at that time. From 12th April, 1976, new guidelines had been introduced about this not being quantified on the basis of cost study but on the basis of judgement of the facts. This is just prior to that period. This is what I assume would be the explanation for this."

1.32. Audit para points out that MMDF Committee while granting cash assistance in March 1975 had directed that detailed cost study be completed in any case before September 1975, on the basis of which the rate of cash assistance, could be reviewed or revised for prospective application. When enquired as to whom the MDF Committee had directed to undertake the detailed cost study, the Ministry of Commerce have in a note, stated:

"Action on the irection of the Main Market Development Committee was to be taken by the Ministry of Commerce. However, the detailed study was to be undertaken by the Cost Study Unit of the Ministry of Finance."

It was proposed in March, 76 and also in July, 76 that in the light of the new criteria, the cost study might be dropped and the sanction already issued in respect of the year 1975-76 might be treated as final. However, the Ministry of Finance did not agree to this. As there was no condition with regard to the cost study in the sanctions for 1976-77, the Ministry of Finance were requested to reconsider their decision. The Ministry of Finance did not agree to waive the cost study. Thus there was a time lag in getting the cost study completed."

1.37. Initially the cost study was to be made taking into consideration five units, but later on cost study was made on the basis of three units, namely 1. M/s. Foods, Fats and Fertilizers Ltd., Tadepattigudam 2, M/s. East-Coast Oil Corporation, Bhimavaram (AP), and 3. M/s. Godrej Soaps Ltd., Bombay. When enquired about this discrepancy the representative of the Ministry of Commerce stated during evidence:

"The 'Solvent Extractors' Association initially gave the names of three units. Subsequently followed up with two name, because cost study was to be made of three out of five units."

1.38. In reply to a query as to why the study initially earmarked for five units should be reduced to three, the witness stated:

"Because the Cost Accounts Branch selected three out of five. In any case, they were going to base their study on a sample of three out of five units."

The witness added:

"I shall try to explain it like this, Five units were selected because the Cost Accounts Branch of the Ministry wanted the names. Out of these, the Cost Account Officer selected three for detailed cost study. Why he chose three units, I am not in a position to say."

1.39. It is seen from the Audit para that the SEAI furnished the cost date only in January 1977 although it was asked to do so in April 1975. According to the Cost Study reports in respect of firms 'A', 'B' and 'C' (April-May 77), return on capital of A and B expressed as percentage of capital during 1973-74, 1974-75 and

1975-76 and average f.o.b. cost and average f.o.b. realisation for 1975-76 (in case of 'C' 1976) were as under:

	Percentages of return on Capital			Average f.o.b. cost per tonne	Average f.o.b. realisation per tonne	Percentage of profit on f.o.b. cost
	1973-74	1974-75	1975-76			
				Rs.	Rs.	
	(Profit before interest charges, tax and bonus)					
'A'	16.6	27.3	11.7	351.22	429.27	22.2
'B'	18.5	36.2	27.0	316.11	346.00	9.5
'C'	..	..	..	340.93	511.70	50.1

(Source: Reports of Cost Accounts Branch).

1.40. The Cost Accounts Branch observed (February 1978) that the 3 units whose cost of production was studied, were representatives of the industry as their exports during 1975-76 were about 30 per cent of the total exports and that there existed no case for any cash assistance on the exports during 1975-76.

1.41. Before the cost study reports were received, the Joint Chief Controller of Imports and Exports, Bombay disbursed cash assistance amounting to Rs. 52 lakhs in December 1976 and Rs. 4.22 lakhs in March, 1977. Rs. 1.56 lakhs were paid in May 1979 and Rs. 0.57 lakh in June 1980.

1.42. Audit para points out that the Ministry of Finance had asked the Ministry of Commerce in November, 1976 to withhold the payment of cash assistance till the cost study was completed but no orders to this effect were issued by the Ministry of Commerce. Explaining the reasons for not issuing orders for withholding the payment, the Ministry of Commerce in a note have stated:

"In a meeting in the Commerce Secretary's room on 26-10-1976 it was decided that the cost study for 1975-76 should be completed as early as possible and the report should be considered both by the Commodity Division and the Ministry of Finance. In case the cost study revealed that recovery should be made from the exporters and if the Commodity Division felt that recovery should not be made, the matter would be put up to the MDF with the comments of the Commodity Division and Finance

Ministry It will thus be noted that in the meeting taken by Commerce Secretary on 26-10-76 there was no decision regarding withholding of payment of CA till completion of the cost study.

The Financial Adviser in his note dated 2nd November, 1976 did not specifically advise the Ministry to withhold the payment till the study was completed. He only mentioned that it would be difficult to make recoveries in case the cost study revealed that CA was not justified. As the matter had been discussed with the Commerce Secretary in the presence of Financial Adviser only a few days earlier, no further action was taken in pursuance of FA's suggestion contain in his note dated 2-11-1976.

It may also be mentioned that even if the payments had not been released then, the amounts would have had to be ultimately paid in the light of the advice given by the Ministry of Law in April, 1978."

1.43. As regards the payment of cash assistance for exports of deoiled rice bran during 1975-76, the Financial Adviser of the Ministry of Commerce had recorded the following note on 26-10-1976:

"I hope pending cost study if there is any undisbursed cash assistance for the period 1-10-75 to 31-3-76, the same will not be released at this juncture."

Again on 2-11-1976, he had recorded:

"At the same time if cash assistance for the whole year is now paid, it will be very difficult to make recoveries in case cost study reveals that Cash Assistance is not justified. On the contrary, if payments are kept pending and cost study is completed quickly, amounts can be released, provided cost study justifies the cash assistance."

1.44. During evidence the Committee drew the attention of the witnesses to the above notes recorded by the Financial Adviser and desired to know as to who took the decision to pay to SEAI the cash assistance after these notings. To this, the representative of the Ministry of Commerce stated:

"Both these notings were based on a discussion which was held in the Commerce Secretary's room on the 26th of

October, 1976. One noting emanated from my then Director of Finance. Another note was from the Joint Secretary concerned, who was also present in the meeting. Although both of them more or less reproduced what happened in the Commerce Secretary's room, the Joint Secretary in the Department concerned, when he saw the Director of Finance's note, wanted the scheme of cost study to be cleared early. When Finance pointed out to him the problem, he wanted a special effort be made to complete the scheme of cost study. But it was agreed that if the compensatory support has not been paid so far, probably it would be wise not to make the payment because once the payments were made, recoveries would be more difficult in the event of the cost study revealing that it is not justified. But basically the decision of the Commerce Secretary, prior to my noting of 2-11-1976 was that (a) the Cost Accounts Study should be proceeded with most expeditiously and completed as early as possible; and (b) in case the cost study report shows that there was no justification for the cash compensation and if recovery is not possible for some reason or the other, the whole matter should be brought before the MDA Main Committee. Apparently, the Ministry should have taken this to that Committee then itself, but ultimately in any case it was brought up before the MDA Main Committee for a decision which I think, was some time in March-April, 1978, after the Cost Accounts Report was received. The main MDA Committee examined it, came to the conclusion that we should have a second opinion from the Law Ministry and go on the basis of the advice given by the Law Ministry. The Ministry went to the Law Ministry for a second time. Then the Law Ministry said that in these cases there was no question of recovery of cash compensatory support and therefore whatever was paid was to be treated as final."

1.45. In reply to a question as to who is responsible for not withholding the payment, the witness stated:

"I would like to submit that on 2-11-1976, I had made the suggestion that it would be more advisable to withhold the payment. The information then was that upto November, 1976 the Joint Chief Controller, Bombay had not made the payment. This was the suggestion made

on 2-11-1976 against that background which is to be based on the result of the cost study."

He added:

"As Financial Adviser of the Ministry, I had suggested that the payment should be withheld because if later on, if the cost study justifies the payment, it can always be made. This was the suggestion of 2-11-1976."

1.46. When the Committee desired to know the views of Finance Ministry in this regard, the witness stated:

"Finance Ministry does not withhold. I representing the Finance Ministry was suggesting the withholding of this payment."

1.47. In reply to a query as to who withheld this, the witness stated:

"The file does not indicate that. Based on this, the next noting was done by the Joint Secretary."

In this connection, the witness further stated:

"The next noting on the file is dated 12-11-76, in which the Joint Secretary had said:

'I called the Chairman, Solvent Extractors Association, and have clearly told him that cash assistance for 1975-76 would not be made available at all until they fully cooperate and have the cost study for 1975-76 completed. FA may kindly ask his staff to get in touch with him for further action.'

Subsequently, the Finance Division had asked the Cost Accounts Branch of the Ministry of Finance to get in touch with these people to get the cost study done. The money got paid, because the Joint Chief Controller had received the sanction earlier. Since there was no letter from the administrative side asking for withholding of payment, they applied the normal checks and made the payment in December, i.e. on 22-12-76."

He further added:

"After Mr. Pande's noting, it goes on, on a different line I am unable to say anything from the file as to why administrative side could not send instructions. I can only make some guesses."

1.48. When enquired about the level at which the letters are sent regarding payment to be made to JCCIE, Bombay the witness stated:

"In this case, it will go from the Agriculture Division of the Ministry of Commerce."

1.49. Further elaborating the witness stated:

"As Financial Adviser, I would say that a suggestion was made, and it had to be examined by the administrative side of the Commerce Ministry, in this case by the Joint Secretary dealing with Agricultural Commodities, viz. Mr. Pande. He examined it and noted on 12th November, stating that he had called the Chairman of the Solvent Extractors Association and had given him instructions, and that FA's staff had to contact him. FA's staff took further action, to take it up with the Cost Accounts Branch for completing the studies quickly. In fact, he told the Agriculture Division of the Commerce Ministry "Agriculture Section may kindly see and complete the particulars, so that we can request Cost Accounts Branch to take up the matter with them."

1.50. In this connection the Secretary, Ministry of Commerce, stated:

"The Financial Adviser gave his advice in a note if one is to go by what is on record, then the note of Mr. Pande does not indicate that he had authorised the issue of instructions stopping payment. It is silent on that point. One presumption can be that he did not agree with the recommendations of the FA about stopping payments."

1.51. The Committee desired to know the consideration on which the provisional sanction for 1975-76 was converted into the final sanction without completing the cost study. The Ministry of Commerce have, in a note, stated:

"The sanction for 1975-76 provided that any change in the rate of cash assistance as a result of the cost study would be made applicable in respect of exports made on or after the date of issue of relevant orders. Thus the sanction had a seal of finality in so far as exports made till the issue of fresh orders were concerned. No orders

were issued till 31st March, 1976 for revising the rate of cash assistance. The Ministry of Law opined that no recovery could be made in respect of cash assistance already paid to the exporters. This opinion of the Ministry of Law was considered at the meeting of the MDF Committee held on 23rd May, 1978. It was decided that the advice of the Ministry of Law should be obtained again and further action taken on its basis and that the case need not be brought up again before the Main Committee. The Ministry of Law who were consulted again did not change their opinion. There was, therefore, no alternative but to treat the sanction as final. The Ministry of Finance, however, suggested that Government should take into account the position brought out in the cost study and try to lower the rates of cash assistance suitably for the next financial year. It was pointed out by Commerce Ministry that since the units which got the cash assistance for the year 1975-76 would not necessarily be the units eligible for cash assistance in the next year also, it would not be appropriate to lower the rates of cash assistance which would otherwise be justifiable. As rate of cash assistance for 1978-79 had already been sanctioned, it was finally agreed by Finance that no change need be made in the rates of cash assistance for that year."

1.52. During evidence the representative of the Ministry of Law informed the Committee in this connection:

"The opinion of the Law Ministry was in relation to the question whether cash assistance granted in pursuance of letter dated 19-4-75 could be withdrawn. There is a crucial paragraph in this letter which says:

"Cash Assistance sanctioned in para 1 is subject to review on basis of detailed cost study to be completed before 30th September, 1975 Government, therefore, reserve the right to reduce or withdraw cash assistance even before 31-3-76. However, such change in rate of cash assistance will not be given retrospective effect and will be made-

applicable in respect of exports made on or after the date of issue of relevant orders."

After this letter was issued, it appears in December, 1976 some amount was paid."

1.53. To a question whether there was any reference to the recovery in that letter, the witness stated:

"Not at all. We said, Government has acquiesced in this and you cannot recover. We also referred to the principle of promissory estoppel."

1.54. Clarifying the position in this regard the representative of Ministry of Commerce stated:

"There were two questions; (a) whether it was legally possible to deny cash assistance; (b) if it is legally possible to deny cash assistance, whether such denial should be for the whole year or part of the year. The reference made to the Law Ministry clearly said that if the answer to (a) and (b) above is in the affirmative, whether the amount of cash assistance can be adjusted against pending claim or subsequent claims. So, adjustment against a subsequent claim could mean recovery."

1.55. On being enquired whether by the process of adjustment, the amount would be considered as having been recovered the representative of the Ministry of Law stated:

"In the concluding para of our opinion, we have said, it is not possible."

1.56. When asked about the promise of the Government with reference to the cost study, the representative of the Law Ministry stated:

"It is stated in our opinion that the Association pointedly brought it to the notice of the Government that exports had increased by above 25 per cent mainly due to the announcement of cash assistance of 15 per cent under the letter in question. In other words, that letter shows that the Association had acted upon the scheme of cash assistance and has increased the exports in expectation of the promise of cash assistance. This would create a promissory estoppel against the Government."

1.57. In reply to a query as to whether it was a condition precedent to be entitled to the cash assistance that the recipients of the assistance would subject themselves for scrutiny of their accounts, the witness stated:

“The point was not considered in detail regarding that aspect.”

The witness further stated in this connection:

“Regarding the time-limit for this cost study report, that is, 30th September, 1975, we have stated here even though 30th September 1975 expired no communication was sent to the Association to the effect that since it was not cooperating in giving information on the basis of which cost study would be made, cash assistance contemplated under the letter was not to be given. That is one circumstance. Another is regarding this promissory estoppel and thirdly even after expiry of 30 September, 1975, the Department has been corresponding with the Association.”

1.58. When asked whether the promissory estoppel could be stopped them, the witness replied:

“In October, 1975, the Government sent a letter purporting to substitute one Clause of the letter by a new Clause. All this indicated that Government has acquiesced.”

Sanction of cash assistance for 1976-77

1.59. In January 1976 new guideline for sanctioning of cash assistance were issued which necessitated review of the existing cash assistance rates. According to these guidelines the revised criteria for fixing rate of cash assistance from 1-4-1976 provided that rates of cash assistance were to be determined by a balanced judgement of the following criteria:—

- (a) export potential and domestic availability as well as supply elasticity of the products;
- (b) import content and domestic value added;
- (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;
- (f) cost of entry into new markets; and
- (g) a cut off point upto which subsidy is to be allowed.

1.60. The inter-ministerial committee on cash assistance in its meeting in March 1976 decided to grant cash assistance at the rate of 17.5 per cent of f.o.b. value provided exports during 1976-77 were not less than 1.5 lakh tonnes; exports of the first one lakh tonnes did not qualify for assistance. When asked about the consideration on which this decision was taken by the inter-ministerial committee on cash assistance, the Ministry of Commerce in a note furnished to the Committee has stated:

“According to the decision taken by the Cabinet Committee on Exports on the recommendations of the Bose Mullick Committee the cash assistance rates which were to be enforced from 1-4-76 had to be determined by a balance judgement of the seven-criteria. In order to enable the authorities concerned to formulate proposals in accordance with the revised guidelines the inter-ministerial committee decided at its first meeting held on 4th March, 1976 to continue grant of cash assistance at the rates which were prevalent upto 31-3-75 for a period of three months viz. upto 30-6-1976. However, there were certain items, viz. deoiled rice bran on which cash assistance was admissible subject to certain conditions. These items were considered at a meeting of the inter-ministerial committee held on 19th March, 1976 under the Chairmanship of Commerce Secretary when Additional Secretary of the Department of Economic Affairs and Expenditure and Ministry of Industrial Development were also present. It was decided to grant cash assistance at the rate of 17.5 per cent provided exports were not less than 1.5 lakh tonnes and also subject to the condition that exports of the first one lakh tonnes would not qualify for cash assistance.”

1.61. Elaborating the position further in this regard the Secretary, Ministry of Commerce stated during evidence:

“As you will notice in the efforts made to develop exports, cash assistance has been an important component and

the concept of cash assistance has changed over the times. From April 1976 there was a total consideration of seven factors which went to determine the quantum of cash assistance. Prior to that there was the concept of differential between the cost of production and that of f.o.b. earnings. Gradually as domestic requirements increased and the installed capacity did not keep pace there is the problem of 'pull' of the domestic market. One has to take into account all these factors to see that there is sufficient increase in export earnings also. Plan document talks of 10 per cent growth. Unless there is some motivation for a fellow to export why should be? In that background there was a distinct change in the concept about the method of determining cash assistance with effect from 1st April, 1976."

1.62. Audit para points out that while submitting the proposal for the continuance of cash assistance for the year 1976-77 to the inter-ministerial committee, the condition that the cash assistance for 1975-76 was provisional and was subject to the detailed cost study to be completed before 30 September, 1975 was not mentioned in the agenda papers. When discrepancy was pointed out during evidence, the representative of the Ministry of Commerce stated:

"In February or March 1976, when the agenda was put up, the revised guidelines, bringing out mostly the Bose Mullick Committee's recommendations accepted by Government, had come into force. Because of this, it was merely a factual statement as to the previous rate of cash assistance."

1.63. The criteria of cash assistance were changed in January 1976 from compensation for loss to development assistance. In reply to a question as to why the criteria were changed, the Ministry of Commerce have, in a note, stated:

"The Cabinet Committee on Export in its meeting held on 1-10-75 decided that a Group should be set up to examine and advise whether the marginal cost of production should continue to be the basis for determining the level of cash assistance to be given for export products in which excess domestic capacity existed. In pursuance of this directive of the Cabinet Committee, a Committee was constituted in November, 1975. The Committee recommended that the system of cash assistance should be

suitably revised as a means of boosting our export effort. It should continue. No scheme of import entitlement in lieu of cash assistance should be considered. For this purpose the Committee felt that the determination of the rate of cash assistance should not be based on any mechanical application of the rigid formula like the difference between f.o.b. price realisation and the so called marginal cost of production as it was extremely difficult to determine the marginal cost of production for an industry as a whole even when full information regarding cost and production from all the units in an industry was available. In practice information was available only from a few units and their cost, efficiency and scale of production varied from unit to unit as well as from time to time. The Committee felt that any attempt to determine the marginal cost of industry and comparison of such cost with a fluctuating f.o.b price introduced an element of ad-hoc judgement even if it was concealed under the mechanical formula of marginal cost and f.o.b comparison. Further, unless a particular export capacity has an excess capacity and that excess capacity is also only due to lack of effective demand, the determination of cash assistance on the marginal cost would not neutralise the disadvantages sought to be removed by the cash assistance. The Committee, therefore, recommended that cash assistance should be determined on a balanced judgement of several criteria. The Cabinet Committee on Export at its meeting held on 29th January, 1976 approved *inter-alia* the above recommendation of the Committee with regard to the criteria to be taken into consideration for grant of cash assistance."

1.64. During evidence the Committee referred to a communication from the Joint Secretary of the Ministry of Commerce to the President of SEAI dated 1 January, 1976 which *inter alia* stated:

"You will realise that if the industry was making profits, there would be no case for development subsidy also. The net result of our analysis was that as the profitability is marginal, the export should be developed through subsidy."

1.65. When enquired whether this view that if the industry was making high profits there should be no case for cash assistance had

been changed, the representative of the Ministry of Commerce stated:

"By the end of January 1976 revised guidelines had been issued and the determination of cash assistance in 1976-77 was based only on the revised guidelines which did not have the costing aspect at all."

1.66. While sanctioning cash assistance for 1976-77 the target of exports was fixed at 1.5 lakh tonnes. The Committee desired to know the basis for fixing this target which was lower than the actual exports of 1.95 lakh tonnes achieved during the previous year. In a note furnished in this regard the Ministry of Commerce have stated:

"The export target for grant of cash assistance was fixed at 1 lakh tonnes in 1975-76 and no cash assistance was admissible on the first one lakh tonnes. There was no change in this figure in so far as grant of cash assistance was concerned. However, a further condition was imposed in 1976-77 that cash assistance would not be admissible if the total export is not more than 1.5 lakh tonnes. This was the minimum target and not an upper ceiling. Since cash incentive was available on exports exceeding one lakh tonnes it was anticipated that the trade would try its best to maximise exports. The target of 1.5 lakh tonnes was fixed in order to give a fillip to exports so that the trade should try to attain the target of 1.5 lakh tonnes at its earliest and then try to increase exports further."

Sanction of cash assistance for 1977-78 and 1978-79

1.67. While the cost study for 1975-76 was still being conducted by the Cost Accounts Branch of the Ministry of Finance, the Ministry of Commerce proposed (February 1977) the grant of cash assistance for three years from 1977-78 to 1979-80 at the rate of 20 per cent of the f.o.b. value over the exports above one lakh tonnes subject to a minimum export ceiling of 3 lakh tonnes. When asked to state the consideration on which the Ministry of Commerce proposed the grant of cash assistance for 3 years from 1977-78 to 1979-80 when the cost study for 1975-76 was yet to be completed, the Ministry of Commerce have, in a note, stated:

"The rates for the year 1976-77 were determined on the basis of the new criteria which came into force from 1-4-1976. The non-completion of the cost study for the year 1975-76

was not relevant for the subsequent years because of the change in the basic criteria/guidelines for determination of the cash assistance."

1.68. In this connection the representative of the Ministry of Commerce stated during evidence:

"This was because, the new guidelines have been brought into force to have effect from 1st April 1976. That is why in spite of the fact that the Commerce Ministry had proposed that cost accounts study need not be insisted upon for 1975-76, it was pointed out that as far as 1975-76 was concerned, one should proceed with the cost accounts, but when it came to 1976-77, it was decided to go by a broad judgement based on that 7 criteria listed out in the Bose Mullick Committee's report."

1.69. The Committee referred to the fact that the average unit value realisation per tonne on exports of deoiled rice bran had increased from Rs. 457 per tonne in 1975-76 to Rs. 565 per tonne in 1976-77 and desired to know as to why the aspects of profitability of exports were not examined before extending the cash assistance for 1977-78. In reply, the Ministry of Commerce have, in a note stated:

"The marginal economics of rice bran oil and deoiled rice bran production was examined before extending the cash assistance for 1977-78 on the basis of the production cost sheet and realisations supplied by the three biggest producers of these items which were certified by independent cost accounts and chartered accountants. The cost accountants had certified that 85 per cent of the installed capacity should be taken as the optimum level of production while the percentage of utilisation of the capacity already installed was lower than 60. The cost data revealed shortfalls in f.o.b. realisation. However, the grant of cash assistance was sanctioned on the basis of criteria outlined above."

1.70. According to the audit para. in February 1977 the Cash Assistance Review Committee (CARC) agreed to grant cash assistance at the rate of 12½ per cent of f.o.b. value for 1977-80 on the condition that exports should not be less than 3 lakh tonnes. When asked to state the reasons for abandoning the floor level of one lakh tonnes the Ministry of Commerce in their reply have stated:

"The proposal made to the Cash Assistance Review Committee was that CA should be given at the rate of 20 per cent

of f.o.f. realisation over exports above 1 lakh tonnes, subject to a minimum ceiling of 3 lakh tonnes. In other words, no assistance was proposed on the first 1 lakh tonnes of exports. However, the Committee decided to give assistance at the reduced rate of 12.5 per cent subject to the condition that exports are not less than 3 lakh tonnes. The exclusion of initial 1 lakh tonnes, was also discontinued. Since the rate was reduced from the earlier year's level of 17½ per cent to 12½ per cent and the minimum level of exports to qualify for CA was also increased from 1.5 lakh tonnes to 3 lakh tonnes, it was decided not to exclude the first 1 lakh tonnes for the purpose of CCS. The financial implication of abandoning the floor level of 1 lakh tonnes and reducing the rate was taken into consideration by the Committee which felt that the slight increase in the overall quantum of assistance could be justified in view of the increase in the minimum export target."

1.71. The proposal for grant of cash assistance for exports during 1978-79 was not submitted to the CARC as it had; while agreeing to the cash assistance for 1977-78, agreed in principle to extent the cash assistance till 1979-80. However, the Ministry of Finance observed (March 1978) on the proposal that the cost study undertaken for 1975-76 had not established any loss in exports, that the exports were already lucrative, and that the need for cash assistance required fresh review, by the CARC.

1.72. It was decided by the Ministry of Commerce (March 1978) that 'a quick cost review' bringing out the justification for cash assistance for 1978-79 would be taken up before 30 June, 1978. The sanction for cash assistance for 1978-79 was, however, issued on 3 April, 1978 and it contemplated a review to be completed before 30 June, 1978 on the basis of 'detailed study'. The formal orders issued contained a condition that cash assistance was subject to such a review and Government reserved the right to reduce or withdraw cash assistance even before 31-3-79. The information supplied by the SEAI in May 1978 indicated that the exports were made at losses ranging from Rs. 71 to Rs. 204 per tonne during 1975-76. from Rs. 31 to Rs. 159 during 1976-77 and from Rs. 109 to Rs. 231 per tonne during 1977-78. The Ministry of Commerce analysed the data and recommend (May 1978) extension of cash assistance for the whole year 1978-79. The Committee enquired why the Ministry of Commerce did not ask the Cost Accounts Branch to carry out a quick cost review

to ascertain the justification or otherwise of cash assistance for 1978-79, and instead relied on the figures supplied by SEAI. In reply the Ministry of Commerce have stated in a note:

“The revised criteria for grant of cash assistance was framed on the basis of the recommendation made by the Bose Mullick Committee. The Committee had come to the conclusion that any attempt to determine the marginal cost of an industry and comparison of such cost with a fluctuating f.o.b. price introduced an element of *ad-hoc* judgment. The Committee, therefore, did not recommend detailed cost study before the grant of cash assistance. The figures supplied by the Association had been certified by independent cost accountants and chartered accountants. Cash assistance was not given solely on the basis of the cost data furnished by the Association.”

1.73. Replying to a question whether the figures supplied by SEAI were verified by the Cost Accounts Branch of the Ministry of Finance, the Ministry of Commerce have stated:

“The figures supplied by the Association were not verified by the Cost Accounts Branch of the Ministry of Finance as it would have been a time consuming process, and according to the revised criteria such a study was not an essential pre-requisite for recommending grant of cash assistance.”

1.74. In reply to a question during evidence as to whether the Government would continue to rely on the SEAI data for this purpose, the representative of the Ministry of Commerce stated:

“That has already been listed as an item to be brought up for review before the CARC as its meeting in the near future.”

1.75. The Ministry of Finance observed (June 1978) that it was difficult to imagine that the industry was exporting at a loss of Rs. 100 per tonne even after taking into account the cash assistance. The cost study for 1975-76, which was conducted during March—May 1977, had shown no loss and that there was no justification for the cash assistance. They advised that a proper cost study would be necessary for the continuance of cash assistance for 1978-79 and onwards. The Ministry of Commerce stated that no cost study was to be undertaken by the Cost Account Branch of the Ministry of Finance in 1978-79 because of the change in the basic

criteria/guidelines for determination of the cash assistance which came into force from 1-4-1976.

1.76. The decision to grant cash assistance for the year 1978-79 was reviewed by the CARC at its meeting held on 18 September, 1978 and it was decided that the rate of cash assistance of 12.5 per cent should be confirmed upto 31 March, 1979.

1.77. On being asked whether the CARC undertook a continuous study, the representative of the Ministry of Commerce stated in reply:

“When the Committee meets on the average about once a month or once a month and half, cases based on a review which has been indicated earlier—either they come up or cases for continuance of cash assistance come up of totally new cases for introduction or cash assistance come up. These are the three types of cases which come up.”

1.78. In reply to another question whether CARC have rejected any claim for cash assistance on any commodity recently the witness stated:

“We have rejected cases also in the recent past. In certain cases cash assistance has been reduced and certain new cases of cash assistance have also been introduced.”

Cash assistance for 1979—82:

1.79. For the year 1979-80 and onwards the policy of cash assistance was to be revised in the light of the recommendations of the Alexander Committee's Report (January 1978). The observations regarding the principles of cash assistance for exports made in para 4.17 and 4.18 of the Alexander Committee's Report are as under:

“4.17... 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 pattern of cash assistance should be identified on the basis of well-defined

principles. After discussing various alternatives of approaches in this regard the Committee has identified the following three basic principles for cash assistance scheme:

- (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 inputs 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; and
- (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.

4.18. ...The principles highlight the importance of the fact that export industry should make its production activity competitive on its 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 become eligible for the cash assistance. It is recommended that a detailed review of the existing cash assistance schemes 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 1 April, 1979 and pending this, the present cash assistance system should continue."

1.80. It is seen from audit para that CARC, while deciding extension of the cash assistance upto 1st March, 1979, had desired that beyond that date the case should be examined under new criteria framed for the period 1979-80 onwards. When enquired about these new criteria, the Ministry of Commerce in a note have stated:

- “(i) According to the new criteria framed for the period 1979-80 onwards, CA is to be granted for neutralisation of the handicaps encountered by the exporters in the shape of:
- (a) Indirect taxes including sales tax on inputs imported or domestically purchased that remain unrefunded after duty drawback;
 - (b) Higher rates of interest payable in India on working capital for export production; and
 - (c) Higher cost of capital goods required in export production.
- (ii) Nature of industry producing the item—whether small scale and cottage sector etc.
- (iii) Labour intensive industries and agriculture based products;
- (iv) Cost of entry into new markets; and
- (v) Cost of development of new products.”

1.81. On the basis of recommendations of the Ministry of Commerce for grant of cash assistance at 15 per cent of f.o.b. value for 1979-80 on the exports of deoiled rice bran the CARC decided to grant cash assistance at 12.5 per cent of f.o.b. value for a period of three years. Accordingly, sanction was issued to this effect in January 1979.

1.82. The Committee referred to the observations of the Alexander Committee Report and pointed out that cash assistance for any commodity should be available only for a limited period when that particular commodity suffers from some kind of disadvantages in the international market. To this the Secretary, Ministry of Commerce replied during evidence:

“In 1978 we had the Alexander Committee which recommended a different criteria for determination of cash assistance and that is the criteria which is now being followed. There we have accepted that one ought not give cash assistance for a long period of time. There ought to be

cut off The new concept suggest by the Alexander Committee was that it should be for a period of three years so that there is an element of continuity as well. The basic decision now taken is that it would basically be the intention to compensate for indirect taxes which are not refunded. Then we were trying to off-set additional costs which are required for entry to new markets or for entry for developing new markets. The intention was that for the extra cost to enter into a new market, some kind of assistance might be required. That was the second basic component. Thirdly, we have accepted the principle that it is not the intention to continue it indefinitely. Taking all these factors into consideration the whole range of products for which cash assistance is available till March 1982 will be reviewed."

1.83. The Committee desired to know how far the grant of cash assistance on export of deoiled rice bran has made it competitive in the export market. In reply, the Secretary, Ministry of Commerce stated:

"This judgment can be made through various ways. The judgment that was made about the lack of competitiveness and other possible arrangements that were existing was due to the fact that at the time the cash assistance was not given, the exporters had cut down the export and the production and when cash assistance was introduced, production had gone up, exports had gone up. That is one criterion which can be used to judge that the existing package of schemes should not be related to export but to one for total production, domestic or otherwise, but not sufficient to motivate people to export. There has been an increase in the quantum of export which would generally justify the decision taken about the nature of the scheme to create additional export. Now, 12.5 per cent which has been fixed is much lower than the 19 per cent calculated for the unrefunded indirect taxes. Even taking the first test, the quantum does not seem to be excessive".

1.84. The Committee desired to know whether there would be certain disadvantages if cash assistance was not provided for export of deoiled rice bran and in relation to its competitiveness in the

international market. To this, the representative of the Ministry of Commerce stated:

“When cash assistance was first introduced in 1970-71, exports went up from about 70,000 tonnes to 1,25,000 tonnes in 1970-71. For 1971-72, though it is a fact that cash assistance was not given, no such decision was actually indicated to them and for that year the exporters were under the impression that the cash assistance was going to be continued and the exports increased to 1.69 lakh tonnes. When they knew that the cash assistance was not going to be available in 1972-73, 1973-74 and 1974-75, there was actually a drop in export from 1.69 lakh tonnes to 1.23 lakh tonnes, 1.24 lakh tonnes and 1.19 lakh tonnes in the consecutive years. This was fairly a steep fall. As far as the annual export performance was concerned, there was a drop of 30 per cent. So, we thought that it was a fairly a steep fall and this was the main reason for introducing again the cash compensatory support in 1975-76. So once the cash compensatory support was stopped, there was a fall. CCS was therefore considered necessary then we came to 1978-79 and even in 1979-80 it continued.”

1.85. The Committee drew the attention of the witnesses to the fact that disbursement of cash assistance is a direct outgo from the Consolidated Fund of India through the marketing development fund mechanism and expressed the view that neither such payments had adequately been supported by the cost studies nor have any justifiable claims been put up by the Ministry of Commerce for spending these amounts. In this connection, the Secretary, Ministry of Commerce stated:

“I fully appreciate the concern of the Committee. The Audit report has been formulated because of this reason. I was trying to submit one thing. You would appreciate the kind of tools and instruments that we have. At the time when the decisions are taken, as I mentioned earlier, that was in terms of data from the DGCI&S which are our initial data collector. There is some time lag and since we have set up Committees, we try to see that they expedite it. We found that there was extreme reluctance or strong opposition to the introduction of any mechanisation which would improve the speed at which the data would become available. What we are now getting from them is after about two months' gap or so. These are only grant totals or the aggregates. Also sometimes they do

not come to us because data has not come from the various Customs Houses. Practically there is a lot of difficulty. What we are now trying to do is to set up a parallel system. There is no other way to get data. We realise fully that these are outgoings from the Consolidated Fund of India. We are responsible to the tax-payers; we must be able to satisfy as to what we are doing in the context of the need to increase the export. It is important. With whatever available instruments and data we have, we have tried to see progressively that we have tried to make it more and more rationale and logical. As we have gained experience, the whole system gets a little more sophisticated. Certainly cost data has not been ignored. Earlier we used to determine on the basis of the cost of production *vis-a-vis* the FOB realisation. That, I submitted, was not included in the criterion that was accepted in 1976. We have gone away from that criterion. According to the Alexander Committee we are only to get the quantification of the unrefunded indirect taxation. We are certainly trying to see that that kind of principles, when introduced, is accepted by Government by both the Ministries of Commerce as well as by the Ministry of Economic Affairs and Finance and Expenditure. We have tried to work out the system where we can exercise as much control as possible and that is maintained within the existing situation."

In a subsequent note* furnished to the Committee on 1 April, 1981 the Deptt. of Commerce have stated:

"Cash assistance on export of deoiled rice bran has been withdrawn w.e.f. 1 April, 1981. It is however proposed to undertake a review in the light of relevant factors including the outcome of a cost study to assess the profitability of export of this item."

Domestic requirements vis-a-vis exports of deoiled rice bran

1.86. Audit para points out that at the time of re-introduction of cash assistance in 1975-76, in the Policy Advisory Committee meeting held in January 1975, the representative of the Ministry of Agriculture had indicated that the exports of deoiled rice bran would raise the domestic prices of poultry feed and might affect the poultry development in the country. However, when the policy on cash

*Not vetted in Audit.

assistance on deoiled rice bran was discussed in the meetings of the MMDF Committee and the CARC held in March 1975, March 1976 and February 1977, the representatives of the Ministry of Agriculture were not invited by the Ministry of Commerce. When the Committee pointed out this omission during the course of evidence, the representative of the Ministry of Commerce stated:

“As far as the M. D. Main Committee’s decision of March, 1975, is concerned, as I am able to make out from the file, the question had been discussed in the policy advisory Committee in January, 1975, in which the Joint Commissioner for Agriculture had been present. At that time it was decided to recommend 15 per cent cash assistance for this item. Apparently, on account of this, when the M.D. Main Committee met in March, 1975, they did not invite the Agriculture Ministry’s representative. In any case, I do not think there was any deliberate omission to exclude the Agriculture Ministry.”

1.87. In the CARC meeting held in September 1978, the representative of the Ministry of Agriculture had observed that instead of subsidising exports of deoiled rice bran, its production should be encouraged to increase its domestic use within the country. The Committee desired to know the considerations on which the Ministry of Commerce allowed unrestricted export of deoiled rice bran contrary to the observations of the Ministry of Agriculture. The Ministry of Commerce in their reply have, in a note, stated:

“Deoiled rice bran is used only as an energy source and not as a protein source. It is not a concentrate. Even with all the incentives provided to the industry, the maximum quantity of rice bran deoiled has been only a small percentage of the total rice bran available in the country. It has also been noticed that development of export of deoiled rice bran helped in increasing the processing of rice bran for extraction of oil which was badly needed in the country. The Department of Civil Supplies who are concerned with oil economy of the country as also with the solvent extraction industry, were of the firm view that export of deoiled rice bran should be encouraged in order to help in realising more and more of rice bran oil in the country. Deoiled rice bran is mostly accounted for by utilisation by compound animal feed manufacture. The demand from this sector cannot sustain in the deoiling of 6 lakh tonnes of rice bran and therefore, export had to be allowed if deoiling was to continue.”

1.88. Explaining how the exports of deoiled rice bran have affected domestic requirements in relation to poultry and cattle feed programmes, the representative of the Ministry of Agriculture stated during evidence:

“Poultry and Dairy development programmes do require larger quantities of cattle feed and deoiled rice bran is one of the ingredients. There are many other ingredients but deoiled rice bran is forming a substantial part of the ingredient, especially in the poultry feed and we have been receiving representations from poultry feed manufacturers that there should be no export of deoiled rice bran. This matter was discussed in the inter-Ministerial high power committee.”

The witness added:

“Every time it is coming up in that committee and very recently also it came up where the Commerce Secretary and Agriculture Secretary and the Secretaries of all other concerned Ministries were also absent. While we have certainly said that we required a considerable quantity of deoiled rice bran for domestic requirements, the point considered was that if we did not export, the quantity of rice bran which is going to the solvent extraction units for extracting oil might be reduced because rice bran is also directly feed to the cattle. Instead of this oil is extracted and the deoiled rice bran is also used for the compound cattle feed. In this connection we have been restricting the export of deoiled rice. That is why we have now a quota system unlike in the past where the exports were freely allowed.”

1.89. When asked about the quantity of deoiled rice bran required for domestic purposes, the witness replied:

“It is very difficult to mention the percentage for this reason that the figures are shown against the total production. Against a total production of 7 lakh tonnes of deoiled rice bran, almost 6 or 5.5 lakh tonnes are exported. That shows that the consumption in the home market was less. The poultry-feed manufacturers are asking that because exports are permitted, they may not be getting enough material for their own consumption. On the other side, if we do not permit exports, then there will not be production at this level. That is why some balance has to

be struck. First 2 lakh tonnes were permitted in the current year. About a month back another 3 lakh tonnes were permitted for exports."

1.90. When the Committee referred to an observation made in the audit para that the Ministry of Agriculture had recommended (May 1977) to the Ministry of Commerce restrictions on exports of deoiled rice bran upto 1.5 lakh tonnes during 1977-78 and to withdraw cash incentive as it increased the domestic prices, the representative of the Ministry of Agriculture stated:

"We have been consistently taking the stand in the Ministry of Agriculture on two points. One is that the exports should be regulated and restricted. Second is that there should not be any cash assistance on deoiled rice bran. We have taken a similar stand on the cotton seed extractions also."

The witness further stated:

"We have very strong views on the matter. So far as cash assistance is concerned, for the last 3 years and at least ever since 1977 we have been consistently suggesting that this cash assistance should not be there. In the Cash Assistance Review Committee also we have specifically mentioned that we do not want to encourage exports of this commodity and also we are not in favour of any cash assistance. That stand we have consistently taken."

1.91. When enquired whether the stand taken by the Agriculture Ministry in this regard was correct, the witness replied:

"I think it is correct because the reason is that we are unable to subsidise the deoiled rice bran for domestic requirements. The real point is that there is definitely a need to encourage the rice bran extraction industry. Whether the assistance should be by way of subsidising the exports or by some other method is a point which needs consideration. We, from the Agriculture Ministry feel that for our own poultry we have to pay a certain price for deoiled rice bran. Why should we subsidise the products for the foreign buyers? That is one aspect. The second aspect is that if we subsidise the exports, there is some impact on the price in the domestic market and the availability will also become a problem and there will be artificial loss

because the export price would be higher than what the the manufacturers get within the country. So, because of these reasons, we had been opposed to any cash assistance."

1.92. Explaining the position in this regard the Secretary, Ministry of Commerce stated:

"There is a view of the Department of Agriculture which emphasizes about the cattle-feed aspect of rice bran as such; rice bran as such could directly go as a cattle-feed with the oil remaining inside the rice bran. And there is the other aspect that we could extract the rice bran oil and use the deoiled rice bran as cattle-feed; we might extract oil from rice bran and make that oil available to the Ministry of Civil Supplies for increasing the total oil availability which goes for soap production and also as edible oil. A part of deoiled rice bran goes as animal feed and a part is exported. We were interested in the export aspect."

He added:

"The Agriculture Secretary is the Chairman of the Committee which considers the determination of quota for the export of this item. He himself as the Chairman of a Committee has clearly stated the quota allocation for the export of rice bran extraction. As far as the price is concerned, the quantum is related to the quota and not to the price. The price aspect is a different thing altogether. It should not be mixed up with the quantum. The quantum is the quota and that determines the total availability."

1.93. According to audit para AMUL (Khaira District Cooperative Milk Producers Union Ltd., Anand) had represented on 19-5-1979, to the Ministries of Commerce and Agriculture about the scarcity and price rise of deoiled rice bran due to export. It had indicated that the price of deoiled rice bran had gone up from Rs. 350 per tonne in July 1978 to Rs. 625 in May 1979 and had requested not only for abolition of cash incentive but also for levying export duty to enable local feed manufacturers to purchase feed ingredients at reasonable rates. When asked about the action taken on this representation, the Ministry of Commerce in a note have stated:

“Kaira Cooperative Milk Producers’ Association had represented about increase in prices of deoiled rice bran and necessary instructions were issued to the Solvent Extractors Associations to get in touch with them and to meet their requirements at mutually agreed prices.”

Export duty levied on the rice bran

1.94. It is seen from audit para that from 22 January 1977 to 13 May 1977, export duty at the rate of Rs. 125 per tonne was imposed on the exports of deoiled rice bran. An amount of Rs. 1.54 crores was recoverable from the exporters of deoiled rice bran, out of which only Rs. 16 lakhs could be recovered during the period, the balance being yet to be recovered (30 June 1979). When enquired about the present position of recovery of the balance export duty of Rs. 1.38 crores from the exporters, the Ministry of Commerce furnished a note* explaining the position thus:

“Demands for the recovery of export duty amounting to Rs. 1,27,64,750.41 which had been short levied in respect of deoiled rice bran exported during the period 22nd January, 1977 to 13th May, 1977, were issued by the Customs Authorities of Bombay, Madras, Kakinada, Jamnagar and Cochin. Since the 30th June, 1979 an amount of Rs. 7,31,316.76 has been recovered.”

1.95. During evidence the representative of the Ministry of Finance in this connection stated:

“So far as past recovery is concerned, parties have been pressing that the amount should not be collected as the export duty. We have said, ‘No’. They have moved the High Courts challenging the actual levy itself as not valid. The Andhra Pradesh High Court; the largest amount is out-standing there. That writ has been decided. They have asked the Department to determine the liability for duty. The Collector has taken steps to proceed in the matter now.”

1.96. When the Committee pointed out that why in the meanwhile subsidy was continued to be paid, the witness stated:

“Subsidy is paid by the Commerce Ministry.”

*Not vetted in audit.

When asked whether any advice was given by the Finance Ministry to the Commerce Ministry in this regard, the witness replied;

"In one or two cases, action has been taken in terms of section 142 of the Customs Act, that is, stopping the exports, not allowing the goods to be cleared without payment. In one or two cases, we were asked to readjudicate and we had to pass an order before enforcement could be done."

1.97. In reply to a query as to whether Commerce Ministry was kept informed about these developments, the witness stated:

"In a general way, the Commerce Ministry would know that there is problem regarding recovery. We have not specifically told them that we have not recovered."

1.98. When enquired whether the Commerce Ministry recommended at any time, that the export duty need not be recovered, the witness stated:

"Their representation was forwarded—the representation from the Association and some exporters."

Distribution of cash assistance

1.99. According to the sanctions for cash assistance on exports of deoiled rice bran issued from 1970-71, cash assistance was to be drawn by the SEAI through a single consolidated claim. When enquired about the basis on which the Association was entrusted the function of distribution of cash assistance among the exporters, the Ministry of Commerce have, in a note, stated:

"When cash assistance on export of deoiled rice bran was introduced in 1970-71 it was admissible only on exports above the initial 70,000 tonnes. It would have been improper to disallow cash assistance to those exporters who participated in the exports constituting the initial 70,000 tonnes. The total amount was therefore to be distributed among all the exporters on an equitable basis. It was also necessary to install an institution to see that the exports developed. It was therefore decided to channelise the distribution of cash assistance through an Association of exporters. Even when cash assistance on this item was re-introduced in 1975-76, the initial one lakh tonnes did not qualify for cash assistance. The same was applicable for the exports in 1976-77 also. The export of deoiled rice bran was canalised through the

Solvent Extractors' Association of India, a body of exporters incorporated under Indian Companies Act, 1956. There have practically been no complaints about the manner of distribution of cash assistance by this Association. The payment of cash assistance to individual exporters would have involved a lot of clerical labour. It would have been difficult for JCCI&E, Bombay the officer designated for disbursement of cash assistance on this item to take over this work with the existing staff strength."

1.100. On being asked about justification for payment of cash assistance by SEAI, the Secretary, Ministry of Commerce stated during evidence:

"At that time, certain portion, which was not qualified for cash compensatory support and there was the actual man who was to get the cash compensatory support. Government routed the cash beneficiaries, i.e. the applications of those who were to get the cash compensation support through this organisation of exporters. The amount which was actually distributed by this organisation to the individual exporters, but the total only would be transferred to this organisation."

1.101. When pointed out that in other words it meant putting money voted by Parliament and coming out of Consolidated Fund of India in the hands of a private agency, the representative of Ministry of Commerce stated:

"Even though the consolidated bill was drawn by the Association, the main safeguard taken by Government was that this consolidation was to be supported by the individual's certificates showing the realisation of the foreign exchange on the basis of the exports; then they also submit the copies of invoices drawn by the exporters and statement of the bank, and copies of shipping bills, authenticated by the Customs, etc."

He added:

"It was a new procedure designed to meet a certain situation where exports above a certain quantity alone were to qualify for cash compensatory support. The decision makers at that time took the view that perhaps routing it through such an organisation would be more administratively convenient."

1.102. It is seen from the audit para that for the years 1975-76 and 1976-77 the SEAI distributed the cash assistance on tonnage basis for 1975-76, but adopted f.o.b. value basis for 1976-77 and 1977-78. When enquired about the basis on which the cash assistance had been distributed since 1978-79, the Ministry of Commerce in a note have stated that cash assistance was to be distributed by the Solvent Extractors' Association of India and therefore Government was not concerned with the procedure to be followed by it for disbursement.

1.103. In this connection the Secretary, Ministry of Commerce stated during evidence:

"The total amount payable out of the budget was determined by the actual bills of lading and actual documentation. It is not a question of extra funds going out of the budget more than what qualified for getting such support. The internal distribution system is settled by them. They have followed one system for two years and another system subsequently. It is true we did not interfere with the internal arrangement."

1.104. When the Committee pointed out that Government should find a suitable alternate mechanism within the Government, the witness replied:

"There are only two or three areas where cash compensatory support is given for exports above a certain target. If it is done only through governmental offices, there may be difficulty in identifying them. We shall certainly consider the point you have raised."

1.105. In a note subsequently furnished to the Committee the Ministry of Commerce have stated;

"The matter has however been considered in the light of the evidence before the PAC on 27-12-1980 and a decision has since been taken to disburse cash assistance admissible on this item for the exports in 1980-81 directly to the exporters and not through the Association of exporters as in the past."

1.106. Cash assistance on the export of deoiled rice bran was recommended for the first time in 1969 by the Board of Trade Sub-Committee on oil seeds, oils and oil cakes at the rate of 15 per cent of f.o.b. value. According to the Ministry of Commerce, the considerations which weighed with the Sub-Committee while recommending cash assistance on export of deoiled rice bran were (a) that exports hitherto of this item were confined only to U.K. and new outlets were needed for the promotion of this export; (b) with

the closure of Suez Canal, freight rates had increased and that had neutralised the advantages of devaluation of Indian rupee; (c) cost of processing was more in the case of rice bran extraction as compared to other extractions like cotton seed extractions; and (d) it would facilitate greater production of rice bran oil in the country. The cost data furnished by the exporters of deoiled rice bran in 1969 was forwarded to D.G.T.D. who held in January, 1970 that it was difficult for him to check the cost data as the price of rice bran which varied from State to State was dependent on the quality of bran. At the same time he observed that there was a case for cash assistance as there was an element of loss in exports and that the cost of rice bran and processing charges assumed by the exporters were quite reasonable. In May 1970, the Ministry of Finance agreed to the proposal of cash assistance at the rate of 15 per cent of f.o.b. value for exports above 70,060 tonnes with a view to encouraging production of rice bran extractions and oil. Accordingly, cash assistance was sanctioned for the year 1970-71.

1.107. The Ministry of Commerce made out a case in August 1971 for the extension of cash assistance for the year 1971-72 on the plea is that it would encourage the availability of rice bran oil and increase the exports of deoiled rice bran thereby earning more foreign exchange therefrom. However no cash assistance was allowed during the years 1971-72 to 1974-75 as in the cost data furnished by the Solvent Extractors' Association of India (SEAI) the Ministry of Finance found no loss and they were of the opinion that cash assistance should be given only if there was loss in undertaking exports.

1.108. In December 1974, the SEAI submitted a statement showing the cost of rice bran processing and realisation on the sale of oil and extractions in justification for its claim for cash assistance. According to this statement, the f.o.b. realisation was Rs. 282 per tonne on an average. The Ministry of Commerce have stated that this cost data for the period January-June 1974 "revealed that the poorer economics of rice bran processing was due to higher cost of processing, greater problem in exporting deoiled rice bran as compared to groundnut extractions."

1.19. The SEAI also furnished figures indicating that exports of deoiled rice bran during the years 1971-72, 1972-73, 1973-74 and 1974-75 amounted to 1.47, 1.18, 1.06 and 1.52 lakh tones respectively. The Ministry of Commerce have stated that the decline in exports with reference to the figures of 1971-72 indicated that withdrawal of cash assistance had an adverse effect. The Ministry accordingly recommended cash assistance of Rs. 60 per tonne of exports above

80,000 tonnes and 0 per cent of f.o.b. value as market development assistance.

1.110. The Committee observe that according to the statistics published by the Directorate General of Commercial Intelligence and Statistics, Calcutta, the average f.o.b. realisation on sale of exports of deoiled rice bran during the relevant period in 1974 was Rs. 369 per tonne as against the average of Rs. 282 per tonne indicated by the data furnished by SEAI. Further, according to DGCIS figures, exports during the years 1970-71, 1971-72, 1972-73, 1973-74 and 1974-75 were 1.25, 1.69, 1.23, 1.24, and 1.19 lakh tonnes respectively which meant that the exports after 1970-71 were either more or about the same as in 1970-71 when no cash assistance was allowed on these exports. The Committee consider that it was unwise on the part of the Ministry of Commerce to have recommended grant of cash assistance only on the basis of the figures furnished by a private organisation. Before considering the question of grant of cash assistance the proper course was to have verified the data furnished by SEAI with the figures furnished by the DGCIS, Calcutta which is the primary Government agency for compilation of such information...

1.111. In this context, the Secretary, Ministry of Commerce stated during evidence that the DGCIS figures become available after a gap of two months or so and that there were practical difficulties in expediting the same. The Committee would like to emphasise that cash assistance is a direct outgo from the Consolidated Fund of India and is given on several commodities. It is therefore necessary that decisions on grant of cash assistance should be based on verified data. The Committee therefore desire that the cause of delays in compiling the data by DGCIS, which is also under the administrative control of the Ministry, should be gone into and improvements effected to expedite the same. The argument of the Ministry of Commerce that they had to depend upon the data furnished by the SEAI is not wholly tenable because although the latest figures of 1974-75 might not have been available with them at the time of recommending extension of the cash assistance, the figures of 1971-72, 1972-73 and 1973-74 (which clearly showed larger exports than which had been shown by SEAI) were entirely available with them from the D.G.C.I.S.

1.112. In their proposal, the Ministry of Commerce had maintained (February 1975) that exports of deoiled rice bran were falling after 1970-71 due to withdrawal of cash assistance. The recommendation of the Ministry of Commerce for grant of cash assistance

was not accepted by the Ministry of Finance who reiterated that it was not advisable to reinroduce cash assistance without a proper detailed cost study by the Cost Accounts Branch of the Ministry of Finance. However, in March 1975 the Main Marketing Development Fund Committee (which includes representatives of the Ministry of Finance) considered the matter and decided to grant cash assistance at 15 per cent of the f.o.b. value of exports in excess of the first one lakh tonnes. The MMDF Committee also directed that detailed cost study be completed in any case before 30 September 1975 on the basis of which cash assistance could be reviewed or revised for prospective application. In pursuance of this decision sanction for grant of cash assistance for the period 1-4-1975 to 31-3-1976 was issued on 19-4-1975. It was stipulated therein that Government reserved the right to reduce or withdraw cash assistance even before 31-3-1976 and that the change would have no retrospective effect, but would be made applicable prospectively.

1.113. In pursuance of the decision of the MMDF Committee, the SEAI was asked in April 1975 to furnish the names of five rice bran processing units which might be willing for the cost study by Government Cost Accountants. In January 1975, the SEAI furnished names of three representative units for cost study. Cost data of these firms was furnished only in January 1977. The reports of cost study done by the Cost Accounts Branch in April-May 1977 indicated profit of 22.2 per cent and 9.5 per cent on f.o.b. cost in the case of two firms on the basis of figures of 1973-74 to 1975-76, when no cash assistance was allowed, and 50.1 per cent in the case of the third firm taking into account the data for 1976 only. The Cost Accounts Branch observed that these three units were representative of the industry as their exports during 1975-76 were about 30 per cent of the total exports and that there exists no case for any cash assistance on the exports during 1975-76. The representative of the Ministry of Commerce also conceded during evidence saying that there was no loss on exports...

1.114. In January 1976, new guidelines for sanctioning of cash assistance from 1-4-1976 were issued on the basis of the recommendations of the Bose-Mullick Committee. In the revised guidelines, it was provided that the rates of cash assistance were to be determined by a balanced judgement of the following criteria: (a) export potential and domestic availability as well as supply elasticity of the products; (b) import content and domestic value added; (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; (f) cost of entry into

new markets; and (g) a cut off point upto which subsidy is to be allowed. The issue of the revised guidelines necessitated review of the existing cash assistance rates. A meeting of the inter-ministerial committee on cash assistance was held in March 1976 under the Chairmanship of Commerce Secretary where Additional Secretary of the Department of Economic Affairs and Expenditure and Ministry of Industrial Development were also present. This Committee decided to grant cash assistance at the rate of 17.5 per cent of the f.o.b. value provided exports during 1976-77 were not less than 1.5 lakh tonnes and also subject to the condition that exports of the first one lakh tonnes did not qualify for cash assistance. While submitting the proposal for the continuance of cash assistance for the year 1976-77 to the inter-ministerial Committee in March 1976, the condition that the cash assistance on deoiled rice bran for 1975-76 was subject to detailed cost study to be completed before 30-9-1975 was not mentioned in the agenda papers. Thus, by not indicating the condition of cost study, full facts of the case were not brought before the inter-ministerial Committee... ..

1.115. The Committee deplore the fact that in spite of the decision taken by the Main Marketing Development Fund Committee in March 1975 that the cost study should be completed in any case before September 1975 on the basis of which cash assistance could be reviewed or revised, the Ministry of Commerce recommended in March 1976 grant of cash assistance for the year 1976-77 although cost study had not been completed by that time. What is more distressing is the fact that in the agenda papers placed before the inter-ministerial Committee, the fact that cash assistance on deoiled rice bran for 1975-76 was subject to detailed cost study was not mentioned. The Committee consider this as a serious omission.

1.116. When asked during evidence as to why cash assistance was recommended for 1976-77 even before completion of cost study, the Secretary, Ministry of Commerce referred to the revised criteria laid down by the Bose-Mullick Committee and observed: "Those are the seven items which are mentioned. Cost study was eliminated. It was decided that cost study would not be the criteria to decide whether support should be given or not". The Committee are surprised that such interpretation was given to the revised criteria. The criteria referred to by the Bose-Mullick Committee were in the nature of general assessments and were not capable of objective analysis on the basis of quantification. Further, it was nowhere stated that cost study should not be done. The Committee are of the view that the concept that cash assistance is intended to span

the gap between the cost of production of an export product and the f.o.b. realisation accruing from its export as also a detailed examination of the cost structure are relevant even after the issue of revised criteria laid down by the Bose-Mullick Committee and those laid down later by the Alexander Committee. As cash assistance is given on a wide range of commodities, the Committee would like the Government to examine the matter and clarify the policy in this regard.

1.17. Further, the Committee observe that as per figures published by DGCIS, the average f.o.b. realisation from export of deoiled rice bran was Rs. 374 per tonne in 1974-75 and Rs. 457 per tonne in 1975-76. The profitability of the exports was not, however examined by the Ministry of Commerce before extending cash assistance for 1976-77. Considering also the fact that in January, 1976, the Ministry of Commerce had clearly indicated to the SEAI that if the industry was making high profits, there would be no case for development subsidy also, the submission of proposal by the Ministry of Commerce for 1976-77 and the grant of cash assistance at the increased rate of 17.5 per cent for 1976-77 as against the rate of 15 per cent for 1975-76 by the inter-ministerial Committee in March 1976 was, in the view of the Committee, not justified.

1.118. In March, 1976, the Ministry of Commerce proposed to make the provisional sanction for 1975-76 valid as final sanction and not to pursue the cost study. The Ministry of Finance did not agree as the pre-condition of cost study was not waived by the MMDF Committee.

1.11. In a meeting held by the Commerce Secretary on 15-10-1976, it was decided that the cost study for 1975 should be considered both by the Commodity Division of the Ministry of Commerce and the Ministry of Finance. Subsequently on 2-11-1976 the Financial Adviser of the Ministry of Commerce had suggested: "If cash assistance for the whole year is now paid, it will be very difficult to make recoveries in case cost study reveals that cash assistance is not justified. On the contrary, if payments are kept pending and cost study is completed quickly, amounts can be released provided cost study justifies the cash assistance." The next note recorded on the file on 12-11-76 was by the Jt. Secretary of the Ministry of Commerce dealing with Agriculture which read: "I called the Chairman, Solvent Extractors' Association and have clearly told him that

cash assistance for 1975-76 would not be made available at all until they fully cooperate and have the cost study for 1975-76 completed. FA may kindly ask his staff to get in touch with him for further action." As, according to the Ministry of Commerce, in this case the letters regarding payments to be made to SEAI by the Jt. Chief Controller of Imports and Exports, Bombay were to be issued by the Agriculture Division of the Ministry of Commerce, no information seems to have been communicated to JCCIE, Bombay suggesting stoppage of the payment till the cost study was completed. When asked why no such communication was sent to JCCIE, the Additional Secretary of the Ministry of Commerce stated during evidence: "I am unable to say anything from the file as to why administrative side could not send instructions." In this context, the Secretary, Ministry of Commerce stated: "The Financial Adviser gave his advice in a note. If one is to go by what is on record, then the note of (Jt. Secretary) does not indicate that he had authorised the issue of instructions stopping payment. It is silent on that point." In the absence of any instructions from the Ministry of Commerce for stopping payment, the JCCIE, Bombay disbursed cash assistance amounting to Rs. 52 lakhs in December, 1976 and Rs. 4.22 lakhs in March, 1977 on the basis of the claims sent by the SEAI on exports made during 1975-76. Balance of Rs. 1.57 lakhs was paid in May 1979. The Committee take a serious view over the non-issue of instructions by the Ministry of Commerce to JCCIE for stoppage of payment of cash assistance resulting in the disbursement of Rs. 57.79 lakhs to SEAI. They would therefore like the matter to be investigated by a team of senior officers outside the Ministry of Commerce with a view to fixing responsibility and identifying the lacuna in procedure so that such costly lapses do not recur. The report of the Team should be furnished to the Committee within six months.

1.120. While the cost study for 1975-76 was still being conducted by the Cost Accounts Branch of the Ministry of Finance, the Ministry of Commerce proposed (February, 1977) the grant of cash assistance for three years from 1977-78 to 1979-80 at the rate of 20 per cent of the f.o.b. value over the exports above one lakh tonnes subject to a minimum ceiling of 3 lakh tonnes. In February, 1977, the Cash Assistance Review Committee agreed to grant cash assistance at the rate of 12.5 per cent of f.o.b. value for 1977-1980 on the condition that exports should not be less than 3 lakh tonnes. Sanction for cash assistance was issued in April, 1977 for the year 1977-78 only. Flood level of one lakh tonnes on which cash assistance was not available earlier was, however, abandoned.

1.121. The proposal for grant of cash assistance for exports during 1978-79 was not submitted to the Cash Assistance Review Committee as it had, while agreeing to the cash assistance for 1977-78, agreed in principle to extend the cash assistance till 1979-80. However, the Ministry of Finance observed (March, 1978) on the proposal that the cost study undertaken for 1975-76 had not established any loss in exports, that the exports were already lucrative, and that the need for cash assistance required fresh review by the CARC. The Ministry of Commerce then decided that a "quick cost review" bringing out justification for cash assistance would be taken up before 30-6-1978. Instead of waiting till the results of this review the Ministry of Commerce in the meantime issued on 3.4.1978 sanction for cash assistance for 1978-79 which contemplated a review to be completed before 30-6-1978 on the basis of "detailed study".

1.122. The Committee feel that viewed from the fact that the orders issued on 3-4-1978 contained a condition that cash assistance was subject to a review before 36.6.1978, it would have been clear to the Ministry of Commerce that such a review was to be conducted on the basis of "detailed study". No such detailed review was done. What is more surprising is the fact that even Cash Assistance Review Committee did not press for a proper cost study and decided in its meeting held in September, 1978 to extend the cash assistance upto 31.3.1979 despite the reservations expressed by the representative of the Ministry of Finance that since the oil prices had gone up, it was profitable to export the by-products and that the cost study undertaken earlier had not justified the grant of cash assistance.

1.123. The information furnished by the SEAI in May 1978 indicated that the exports were made at losses ranging from Rs. 71 to Rs. 204 per tonne during 1975-76, from Rs. 31 to Rs. 159 during 1976-77 and from Rs. 109 to 231 per tonne during 1977-78. The Ministry of Commerce themselves analysed the data and recommended in May 1978 extension of cash assistance for the whole year 1978-79. According to the Ministry, the figures supplied by SEAI had been certified by independent cost accountants and chartered accountants and that the cost data revealed shortfall in f.o.b. realisation. The Ministry have added that the figures supplied by SEAI were not verified by the Cost Accounts Branch of the Ministry of Finance as it would have been a "time-consuming process" and according to the revised criteria laid down by the Bose Mullick Committee such a study was not an essential pre-requisite for recommending grant of cash assistance.

1.124. The Committee have already, commented upon in their earlier reports on various cash assistance schemes regarding the undesirability of placing total reliance on unverified data. Here they would like to point out that there was no justification for the Ministry of Commerce to have by-passed the requirement of verification of data furnished by SEAI on the ground that it would have been a time consuming process or that cost study was not necessary under the revised criteria. The Committee must express their displeasure over the fact that the decisions had been taken by the Ministry of Commerce and approval given by the Main Marketing Development Fund Committee, Inter-Ministerial Committee and the Cash Assistance Review Committee for grant of cash assistance on deoiled rice bran for the years 1975-76 onwards inspite of the reservations expressed repeatedly by the Ministry of Finance. The Ministry of Finance had on several occasions asserted that there was no loss on the exports of deoiled rice bran and in any case it was necessary to have cost study done on the basis of authentic data. On the basis of the information placed before the Committee, it is clear that the Ministry of Commerce did not seriously consider the objections raised by the Ministry of Finance from time to time and for no plausible reasons the completion of cost studies was delayed.

1.125. The Committee also do not appreciate why the Ministry of Finance inspite of their reluctance in the initial stages had ultimately agreed to the grant of cash assistance knowing fully that their main objection of non-compliance of cost study had not been met before the case for further extension of cash assistance was mooted by the Ministry of Commerce. The Committee find that cash assistance on export of this commodity was sanctioned in 1970-71 and then re-introduced in 1975-76 and continued upto 31.3.1981 without any cost study which established any loss on exports. Thus, the entire payment of Rs. 13.79 crores made on this account upto December 1980 was not justified.

1.126. The question of cash assistance was further examined by the Alexander Committee which recommended in its report dated 31st January, 1978 that cash assistance should be based on (a) compensation for those indirect-taxes in the production cost which are not refunded through the duty draw-back system; (b) compensation for freight and other cost differentials; and (c) for providing initial promotional expenditure for new products and in developing new markets. The Alexander Committee recognised that the cash assistance should be available only for a limited period during which

the relevant disadvantages could be eliminated by conscious efforts. In any case, the cash assistance should not continue indefinitely.

1.127. The question of grant of cash assistance for deoiled rice bran for the year 1979-80 and onwards was examined by the Ministry of Commerce. On the basis of the recommendations of the Ministry for grant of cash assistance at 15 per cent of f.o.b. value for 1979-82, the Cash Assistance Review Committee decided to grant cash assistance at 12.5 per cent of f.o.b. value for a period of three years. The minimum target subject to which cash assistance was to be admissible was, however, increased from 3 lakh tonnes to 3.5 lakh tonnes. Government have recently decided that cash assistance on deoiled rice bran which was valid upto 31st March, 1982 would now be available upto 31st March, 1981. Cash assistance on this commodity thus stands withdrawn with effect from 1st April, 1981.

1.128. Besides cash assistance which amounted to Rs. 7.91 crores during the years 1970-71 and 1975-76 to 1978-79 Government had also provided incentives like total exemption of excise duty (Rs. 4.55 crores from 1970-71 to 1978-79) for production of rice bran oil, excise rebate (Rs. 2.94 crores from 1971-72 to 1977-78) to soap and vanaspati industry for use of rice bran oil, and interest subsidy for encouraging production of rice bran and promoting export of rice bran extractions.

.. 1.129. As per latest information furnished by the Ministry of Commerce, the cost to the exchequer on account of excise rebate on the use of rice bran oil in soap making during the years 1977-78, 1978-79 and 1979-80 amounted to Rs. 148.42 lakhs, Rs. 193.50 lakhs and Rs. 133.29 lakhs respectively. Further, the revenue foregone due to total exemption of excise duty on the production of rice bran oil during the calendar years 1977, 1978 and 1979 amounted to Rs. 53 lakhs, Rs. 94 lakhs and Rs. 152 lakhs respectively.

1.130. The Committee hope that with the various incentives already available for the production of rice bran oil and its use in soap and vanaspati industry, interest subsidy for export of rice bran extractions, loans to rice mills at favourable rates of interest, etc. it would be possible for the exporters of de-oiled rice bran to sustain their export performance and compete in the international market without having to depend on cash assistance.

1.131. The Committee are informed by the Ministry of Agriculture that poultry and dairy development programmes require larger

quantity of cattle feed and that de-oiled rice bran is an important ingredient in the cattle-feed. The Ministry had observed that they had been constantly suggesting to the Ministry of Commerce for imposition of quota restrictions on the export of deoiled rice bran. The representative of the Ministry of Agriculture also stated before the Committee during evidence: "So far as cash assistance is concerned, for the last three years and at least ever since 1977 we have been consistently suggesting that the cash assistance should not be there. In the Cash Assistance Review Committee also we have specifically mentioned that we do not want to encourage exports of this commodity and also we are not in favour of any cash assistance". In this context, the Secretary, Ministry of Commerce stated: "The Commerce Ministry with the tools and instruments available with it is charged with the responsibility of increasing the exports at 7 per cent per year. We have now increased it to 10 per cent. We have also the responsibility to try and persuade all sectors of Indian economy to make their respective contributions in the export efforts". It is evident that there has been divergence of views between the Ministries of Agriculture and Commerce in this matter. As apprehended by the Ministry of Agriculture, unrestricted export of deoiled rice bran could result in price escalation and shortage of this commodity within the country. The Committee therefore expect that there would be closer coordination and a balance struck so that exports of this commodity are restricted and not encouraged by grant of cash assistance but regulated in such a way that the total production of rice bran oil and rice bran extraction is not affected and escalation in domestic prices affecting poultry and dairy development in the country is not experienced.

1.132. The Committee find that ever since 1970 when cash assistance was sanctioned on the export of deoiled rice bran, it has been drawn by the Solvent Extractors' Association of India through a single consolidated claim and disbursed to the individual exporters. The Ministry of Commerce have stated that even though the consolidated bill was submitted by the Association, it was always supported by the necessary documents of individual exporters. The Secretary of the Ministry of Commerce stated before the Committee during evidence that "it was a new procedure designed to meet a certain situation when exports above a certain quantity alone were to qualify for cash compensatory support. The decision makers at that time took the view that perhaps routing it through such an organisation would be more administratively convenient". The Committee have been informed that there had practically been no

delay on the part of SEAI in disbursing the amounts to individual exporters. In a later reply furnished to the Committee on 31st January, 1981, the Ministry of Commerce have informed that "the matter has however been considered in the light of the evidence before the PAC on 27th December, 1980 and a decision has since been taken to disburse cash assistance admissible on this item for exports in 1980-81 directly to the exporters and not through the Association of exporters as in the past."

1.133. While the Committee take note of the above decision, they would like to be informed whether there are other commodities also where cash assistance is distributed by Government through the associations of exporters.. The desirability or otherwise of continuing payments of cash assistance in such manner may also be reviewed and the result thereof intimated to the Committee.

NEW DELHI;
April 20th, 1981.
Chaitra 30, 1903 (S).

CHANDRAJIT YADAV,
Chairman,
Public Accounts Committee.

APPENDIX I

CASH ASSISTANCE FOR EXPORT OF DEOILED RICE BRAN

Audit Para

During the process of rice milling, the layer round the endosperm is removed together with a portion of the polishing. This separated layer is called 'rice bran'. By the solvent extraction process rice bran can yield 14 per cent of oil leaving 84 per cent of deoiled rice bran. The deoiled rice bran is mainly used as an ingredient for mixed feed for cattle, poultry and pigs. Extraction of rice bran oil was undertaken as part of the national programme for increasing the production of edible oils in the country in order to meet the shortfalls. The total potential of rice bran oil at the end of the 5th plan was estimated at 3.4 lakh tonnes.

In July 1979, there were 103 rice bran oil (besides other vegetable oil) processing units registered with the Director General of Technical Development (DGTD). The annual capacity for rice bran extraction was of the order of 15.48 lakh tonnes of raw bran. The oil produced was mainly of industrial grade for consumption in the soap industry, excepting a small percentage of edible grade used in the manufacture of vanaspati.

The quantity of rice bran processed, rice bran oil and deoiled rice bran produced during 1975-76 to 1978-79 are given below:—

Year	Rice bran processed	Rice bran oil produced	Deoiled rice bran produced
1	2	3	4
(In lakhs of tonnell)			
1975-76	2.65	0.36	2.20
1976-77	5.40	0.70	4.65
1977-78	5.66	0.80	4.81
1978-79	6.60	0.97	5.60

Source: Solvent Extractors' Association of India (SEAI).

To encourage the production and utilisation of rice bran oil, Government had given from time to time the following incentives:—

- total exemption of excise duty (Rs. 112 per tonne) on the production of rice bran oil since 1960;
- excise rebate on the use of rice bran oil in soap making (Rs. 350 per tonne of oil used) and in manufacture of vanaspati (Rs. 100 per tonne of oil used);
- provision of loans to rice mills (Rs. 7.5 crores to 500 mills every year) at favourable rates of interest;
- interest subsidy for export of deoiled rice bran under the Export Credit Scheme; and
- cash assistance on exports of deoiled rice bran.

The principal countries importing deoiled rice bran from India are Holland, Singapore, U.K., West Germany, Taiwan and Malaysia. The exports and internal consumption of deoiled rice bran during 1970-71 to 1978-79 were as follows:—

Year	Exports (In lakhs of tonnes)	F.o.b. value (Rs. in crores)	F.o.b. unit value (Rs. per tonne)	Quantity sold locally (In lakhs of tonnes)
	(a)	(b)	(c)	(d)
1970-71	1.25	2.20	176	0.19
1971-72	1.69	2.99	177	0.40
1972-73	1.23	2.68	218	0.40
1973-74	1.24	4.85	392	0.34
1974-75	1.19	4.46	374	0.35
1975-76	1.95	8.91	457	0.35
1976-77	4.07	23.00	565	0.63
1977-78	3.23	16.07	497	1.01
1978-79	4.45	17.96	403	1.10

Source: (a, b, c) upto 1977-78 Director General, Commercial Intelligence and Statistics (DGCIS), 1978-79, DEAI, (d) SEAI.

2. Cash assistance—Cash assistance for export of deoiled rice bran was sanctioned in 1970-71 from the Marketing Development Fund (MDF) to bridge the gap between cost of production and f.o.b. realisation; it was discontinued between April 1971 and March 1975 and was reintroduced from 1975-76. The rates of cash assistance were as follows:—

Period	Rates (in percentage of .o.b. value)
1st April 1970 to 31st March 1971	15 per cent for exports above 70,000 tonne
1st April 1971 to 31st March 1975	Nil
1st April 1975 to 31st March 1976	15 per cent for exports above 1 lakh tonnes
1st April 1976 to 31st March 1977	17 1/2 per cent for exports above 1 lakh tonnes provided exports reached 1.5 lakh tonnes.
1st April 1977 to 31st March 1982	12 1/2 per cent subject to the exports being not less than 3 lakh tonnes during 1977-78 to 1978-79 and 3.5 lakh tonnes during 1979-80 to 1981-82.

3. Cash assistance decision from 1970-71 to 1974-75:

In 1969, the Board of Trade Sub-committee on oil seeds, oils and oilcakes had recommended cash assistance on deoiled rice bran at the rate of 15 per cent of f.o.b. value. The cost data furnished by the exporters of deoiled rice bran were examined by the DGTD who held (January 1970) that it was difficult for him to check the cost data as the price of rice bran, which varied from State to State, was dependent on the quality of bran, but observed that there was a case for cash incentive as there was an element of loss in exports and that the cost of rice bran and processing charges assumed by the exporters were quite reasonable. Thus, even though the DGTD could not check the cost data, he made the erroneous observation that the processing charges assumed were reasonable. In May 1970, the Ministry of Finance agreed to the proposal of cash assistance at the rate of 15 per cent of f.o.b. value for exports above 70,000 tonnes with a view to encouraging production of rice bran extractions and oil. One of the conditions of cash assistance was that exports were to be canalised through the SEAI.

Formal sanction for the grant of cash assistance for exports from 1st April, 1970 to 31st March, 1971 was issued in December 1971, i.e., nine months after the close of the financial year with retrospective effect as an assurance had been given to

the trade in June 1970; and on the exports for 1970-71, Rs. 14.47 lakhs of cash assistance were paid in March—June 1973. The Ministry of Commerce stated (December 1979) that the issue of formal orders was kept pending for finalisation of institutional arrangements and that the formal sanction was issued in December 1971 in continuation of the earlier assurance of June 1970.

In August 1971, the Ministry of Commerce made out a case for extension of cash assistance for the year 1971-72. After analysing the cost data earlier examined by the DGTD, the Ministry of Finance observed (March 1972) that there was no justification for grant of cash as assistance there was no loss in the exports.

The matter remained under correspondence between the SEAI, the Ministry of Finance and the Ministry of Commerce. On analysis of the cost data furnished by the SEAI in June 1972, the Ministry of Finance observed (July 1972) that they could not verify it as it appeared to be based on some "hypothetical" figures; in the cost data furnished (August 1973) by the SEAI, the Ministry of Finance found no loss. Since the SEAI could not produce reliable cost data to prove loss in exports of deoiled rice bran, no cash assistance was granted for exports during 1971-72 to 1974-75.

4. Re-introduction of cash assistance in 1975:

In December 1974, the SEAI submitted statement showing the cost of rice bran processessing and realisation on the sale of oil and extractions for the period January 1974 to August 1974 in justification for its claim for cash assistance. According to this statement, while processing of rice bran was shown as profitable to the extent of Rs. 51 to Rs. 53 per tonne in two months, there was loss of Rs. 20 to Rs. 103 per tonne during the remaining six months. The f.o.b. realisation for these 8 months as adopted by the SEAI varied from Rs. 251 to Rs. 307 per tonne (average Rs. 282 per tonne), whereas according to the statistics published by the Director General, Commercial Intelligence and Statistics (DGCIS), the f.o.b. realisation ranged from Rs. 300 to Rs. 559 per tonne (average Rs. 269 per tonne). The average f.o.b. realisation for the previous year, i.e. 1973-74 was Rs. 392 per tonne. The cost data were not based on the records of any representative unit.

In their proposal, the Ministry of Commerce maintained (February 1975) that exports of deoiled rice bran were falling after 1970-71 due to withdrawal of cash assistance. They held that deoiled rice bran required sales promotion and export acceptance by

the buyers and recommended cash assistance of Rs. 60 per tonne of exports above 80,000 tonnes and 10 per cent of f.o.b. value as market development assistance.

The Ministry of Finance reiterated (February 1975) that it was not advisable to re-introduce cash assistance on an ad hoc basis without a proper detailed cost study by the Cost Accounts Branch. They, however, stated that in case the Ministry of Commerce felt strongly that the cash assistance should be introduced without waiting for detailed cost study, it could be introduced at the rate of 15 per cent of the f.o.b. value over 1.15 lakh tonne of exports provisionally subject to adjustment on the basis of rate that might be fixed after detailed cost study.

The Cost Accounts Branch of the Ministry of Finance observed (February 1975) that the cost data furnished by the SEAI were not susceptible of verification by it and from those figures the overall position of cost and realisation for the entire period or for 1974 could not be worked out. In March 1975, the Main Marketing Development Fund (MMDF) Committee considered the matter and decided to grant cash assistance at 15 per cent of the f.o.b. value of exports in excess of the first one lakh tonnes. The Committee directed that detailed cost study be completed in any case before September 1975, on the basis of which the rate of cash assistance could be reviewed or revised for prospective application.

On 19th April 1975, the Ministry of Commerce issued a sanction stipulating, *inter alia*, that:—

- the cash assistance would be admissible only to exporters registered with the SEAI and on exports routed through the latter which would submit a single consolidated application for cash assistance to the Joint Chief Controller of Imports and Exports (JCCIE), Bombay, by 30th June, 1976 along with prescribed documents;
- the amount of cash assistance was to be calculated on the basis of export figures of the DGCIS, Calcutta;
- the cash assistance was subject to review on the basis of detailed cost study to be completed before 30th September, 1975, Government reserving the right to reduce or withdraw cash assistance even before 31st March, 1976; and

change in the rate would have no retrospective effect, but would be made applicable prospectively.

On 17th October 1975, an amendment was issued laying down that cash assistance would be admissible on the basis of export figures furnished by the SEAI or DGCIS, whichever were less.

5. Results of cost study for 1975-76.

In pursuance of the decision of the MMDF Committee, the SEAI was asked in April 1975 to furnish the names of five rice bran processing units which might be willing for the cost study by Government Cost Accountants. Without furnishing the cost data, the SEAI stated in September and December 1975 that the case was based on the need for developmental assistance and not on the plea of losses incurred by the industry. The Ministry of Commerce pointed out (January 1976) that the decision for grant of cash assistance was based on both marginal profitability and the possibility of expansion of exports. The SEAI was also told that in case the industry was making high profits, there would be no case for developmental assistance also and if the SEAI persisted in its attitude. Government would be left with no alternative but to accept the recommendations of the Ministry of Finance to stop cash assistance. In January 1976, the SEAI furnished names of three representative units for cost study.

Instead of proceeding further with the cost study, the Ministry of Commerce proposed (March 1976) to make the provisional sanction for 1975-76 valid as final sanction and not to pursue the cost study. The Ministry of Finance did not agree as the precondition of cost study was not waived by the MMDF Committee. In November 1976, they asked the Ministry of Commerce to withhold the payment of cash assistance till the cost study was completed, but no orders to this effect were issued by the Ministry of Commerce. Had such orders been issued, payment of cash assistance would have been withheld by the JCCIE.

The SEAI furnished the cost data only in January 1977 although it was asked to do so in April 1975. According to the cost study reports in respect of firms 'A', 'B' and 'C' (April—May 1977), return on capital of 'A' and 'B' expressed as percentage of capital during 1973-74, 1974-75 and 1975-76 and average f.o.b. cost and

average f.o.b. realisation for 1975-76 (in case of 'C' for 1976) were as under:

	Percentages of return of capital			Average f.o.b. cost per tonne	Average f.o.b. realisation per tonne	Percentage of profit on f.o.b. cost
	1973-74	1974-75	1975-76	Rs.	Rs.	
	(Profit before interest charges, tax and bonus)					
'A'	16.6	27.3	11.7	351.22	429.27	22.2
'B'	18.5	36.2	27.0	316.11	346.00	9.5
'C'	..	..	..	340.83	511.70	50.1

Source: Reports of Cost Accounts Branch)

The Cost Accounts Branch observed (February 1978) that the 3 units, cost of production of which was studied, were representative of the industry as their exports during 1975-76 were about 30 per cent of the total exports and that there existed no case for any cash assistance on the exports during 1975-76.

Before the cost study reports were received, the JCCIE, Bombay disbursed cash assistance amounting to Rs. 52 lakhs in December 1976 and Rs. 4.22 lakhs in March 1977 on the basis of the claims sent by the SEAI on exports made during 1975-76, balance of Rs. 1.57 lakhs was paid in May 1979. Thus, Government did not invoke its right to withdraw cash assistance even when, the SEAI did not furnish cost data for completion of cost study before 30 September, 1975. Had Government invoked its right to withdraw the cash assistance when cost study was not completed by 30th September 1975 and had orders been issued by the Ministry of Commerce as advised (November 1976) by the Ministry of Finance to withhold payments of cash assistance, the aforesaid payments (Rs. 56.22) lakhs) would not have been made by the JCCIE. Besides, although the sanction was provisional, no specific bond for claiming refunds of payments already made was taken from the SEAI while disbursing cash assistance in December, 1976 and March 1977.

The Ministry of Law, whose advice was sought in March 1978, observed (April 1978) that:—

"The Government reserved its right to reduce or withdraw cash assistance even before 31st March, 1976 provided, however, that such change in the rate of cash assistance was not be given retrospective effect....

.....even though 30th September 1975 expired, no communication was sent to the Association (SEAI) to the effect

that since it was not cooperating in giving information (on the basis of which cost study could be made), the cash assistance contemplated under letter dated 19th April 1975 was not to be given.....Not only this, it appears that on 17th October, 1975 the Government sent a letter to the Association purporting to substitute clause (f) of the letter dated 19th April, 1975 by a new clause. This could show that the Government not only did not elect to put an end to the scheme of cash assistance.....but also acquiesced in that letter and the scheme remaining in force even after the expiry of 30th September 1975.

In its telex message dated 6th December 1975, the Government said that the non-cooperation of the Association in carrying out cost study..... may result in suspension of cash assistance..... no suspension of cash assistance was in fact made even thereafter. In fact, in terms of the letter dated 19th April 1975, the Association would have submitted a single consolidated application for the grant of cash assistance..... by 30th September 1976, a portion of cash assistance, namely Rs. 52 lakhs was given in December 1976 and another Rs. 4.22 lakhs were paid in March 1977..... This would be further evidence of acquiescence on the part of the Government.

In view of the above, it does not appear to be legally permissible to deny cash assistance.....for the exports made during 1975-76."

It was accordingly decided (June 1978) on the advice of the Ministry of Finance that Government would take into account the fact of overpayment and would try to lower the rate of cash assistance suitably for 1979-80. No action was, however, taken on this decision. Thus, by not implementing the decision of the MMDF Committee for getting the cost study done before 30th September 1975, the Ministry of Commerce made unjustified payment of Rs. 57.79 lakhs to the SEAI on the basis of provisional sanction of 19th April, 1975.

6. *Sanction of cash assistance for 1976-77.*

In January 1976 new guidelines for sanctioning of cash assistance were issued which necessitated review of the existing cash assistance rates. The inter-ministerial committee on cash assistance in its meeting in March 1976 decided to continue the existing rates of cash assistance up to 30th June, 1976 only. In the case of deoiled

rice bran, the agenda paper circulated for the meeting indicated that cash assistance at 15 per cent of the f.o.b. value had been allowed on exports of deoiled rice bran made during the year 1975-76 subject to the condition that exports of first one lakh tonne would not qualify for cash assistance. The Committee decided to grant cash assistance at the rate of 17.5 per cent of f.o.b. value provided exports during 1976-77 were not less than 1.5 lakh, tonnes; exports of the first one lakh tonnes did not qualify for assistance. however, issued (April 1977) for the year 1977-78 only.

While submitting the proposal for the continuance of cash assistance for the year 1976-77 to the inter-ministerial committee, the condition, that the cash assistance for 1975-76 was provisional and was subject to detailed cost study to be completed before 30th September 1975, was not mentioned in the agenda papers. Thus, by not indicating the condition of cost study, which could not be conducted till March 1976 due to non-cooperation of the industry, full facts of the case were not brought to the notice of the Committee. Had the aforesaid position been brought before the committee, it might not have sanctioned the cash assistance by overruling the decision of the MMDF Committee, as was done in a similar case of dehydrated onions where the condition of cost study was mentioned in the agenda papers of 18th March 1976 and the committee did not agree to the continuance of cash assistance.

The criteria of cash assistance were changed in January 1976 from compensation for loss to development assistance. But the target was fixed at 1.5 lakh tonnes which was lower than the actual exports of 1.95 lakh tonnes of the previous year (1975-76). Thus, a lesser target than the previous year's export performance was fixed, but the rate of cash assistance was increased from 15 to 17.5 per cent of f.o.b. value; this was done notwithstanding the fact that in January 1976, that Ministry of Commerce had clearly indicated to the SEAI that if the industry was making high profits, there would be no case for development subsidy also.

As per published figures of the DGCIS, Calcutta the average f.o.b. realisation was Rs. 374 per tonne in 1974-75 and Rs. 457 per tonne in 1975-76. The profitability of the exports was not, however, examined before extending cash assistance for 1976-77. Thus, there was hardly any justification in March 1976 for the grant of cash assistance (which amounted to Rs. 3.07 crores during 1976-77) before the completion of cost study.

7. Sanction of cash assistance for 1977-78 and 1978-79.

While the cost study for 1975-76 was still being conducted by the Cost Accounts Branch of the Ministry of Finance, the Ministry

of Commerce proposed (February 1977) the grant of Cash Assistance for three years from 1977-78 to 1979-80 at the rate of 20 per cent of the f.o.b. value over the exports above one lakh tonnes subject to a minimum export ceiling of 3 lakh tonnes. In February 1977, the Cash Assistance Review Committee (CARC) agreed to grant cash assistance at the rate of 12½ per cent of f.o.b. value for 1977-80 on the condition that exports should not be less than 3 lakh tonnes. The reasons for abandoning the floor level of one lakh tonnes were not indicated in the decision. Sanction for cash assistance was, however, issued (April 1977) for the year 1977-78 only.

In reply to an audit query as to why the floor level of one lakh tonnes was given up the Ministry of Commerce stated (August 1979) that the cash assistance was reduced from 17.5 per cent to 12.5 per cent and it was allowed on every tonne of deoiled rice bran exported. While the rate was reduced, there was no reduction in the overall quantum of cash assistance paid and it proved more advantageous to the exporters. The SEAI claimed cash assistance for exports during 1977-78 at the rate of 12.5 per cent on Rs. 14.80 crores being the f.o.b. value of 3.09 lakh tonnes of deoiled rice bran, which worked out to Rs. 1.85 crores whereas calculated at the rate of 17.5 per cent on 2.09 lakh tonnes (after deduction of proportionate f.o.b. value of one lakh tonnes), it came to Rs. 1.75 crores only. Thus, without making any comparative study of the amount of cash assistance payable on the old as well as the revised basis with reference to exports (value: Rs. 23 crores) in 1976-77, and by giving up the floor level of the first one lakh tonnes of exports, Government had to pay cash assistance of Rs. 10 lakhs more for exports during 1977-78.

It may be mentioned that the average unit value realisation per tonne on exports of deoiled rice bran increased to Rs. 565 per tonne in 1976-77 from Rs. 457 per tonne in 1975-76. This aspect of profitability was not kept in view while extending the cash assistance for 1977-78.

The proposal for grant of cash assistance for exports during 1978-79 was not submitted to the CARC as it had, while agreeing to the cash assistance for 1977-78, agreed in principle to extend the cash assistance till 1979-80. However, the Ministry of Finance observed (March 1978) on the proposal that the cost study undertaken for 1975-76 had not established any loss in exports, that the exports were already lucrative, and that the need for cash assistance required fresh review by the CARC. It was decided (March 1978) by the Ministry of Commerce that 'a quick cost review' bringing out the justification for cash assistance would be taken up before

30th June, 1978. The sanction for cash assistance for 1978-79 was, however, issued on 3rd April, 1978 and it contemplated a review to be completed before 30th June, 1978 on the basis of 'detailed study'. The information supplied by the SEAI in May 1978 indicated that the exports were made at losses ranging from Rs. 71 to Rs. 04 per tonne during 1975-76, from Rs. 31 to Rs. 159 during 1976-77 and from Rs. 109 to Rs. 231 per tonne during 1977-78. The Ministry of Commerce analysed the data and recommended (May 1978) extension of cash assistance for the whole year 1978-79.

The Ministry of Finance observed (June 1978) that it was difficult to imagine that the industry was exporting at a loss of Rs. 100 per tonne even after taking into account the cash assistance. They held that the data furnished by the SEAI could not be accepted unless corroborated by the Cost Accounts Branch of the Ministry of Finance. The cost study for 1975-76, which was conducted during March—May 1977, had shown no loss and that there was no justification for the cash assistance. They advised that a proper cost study would necessary for the continuance of the cash assistance.

In June 1978, a meeting of the Committee of Secretaries was held wherein a general decision was taken that more emphasis should be laid on development of market need than on f.o.b. realisation vis-a-vis cost of manufacture. In September 1978, the CARC considered the case where the representative of the Ministry of Finance again observed that since the oil prices had gone up, it was profitable to export the by-products and that the cost study undertaken earlier had not justified the grant of cash assistance. Nevertheless, the CARC decided to extend the cash assistance up to 31st March, 1979 and desired that beyond that date the case would be examined under new criteria framed for the period 1979-80 onwards.

8. Cash assistance for 1979— 82:

On the recommendations (January 1978) of the Alexander Committee, the pattern of cash assistance was to be revised. The Alexander Committee, while recognising the promotional role of cash assistance in the country's export efforts, recommended that cash assistance should be given for a limited period only. On the basis of recommendations of the Ministry of Commerce for grant of cash assistance at 15 per cent of f.o.b. value for 1979—82, the CARC decided to grant cash assistance at 12.5 per cent of f.o.b. value for a period of three years. Accordingly, sanction was issued to

this effect in January 1979. The sanction did not contain any provision for withdrawal, reduction or revision of the rate of cash assistance. It would be seen that deoiled rice bran was being exported from the country for the last 15 years and cash assistance had been continuing since 1970-71 except for 1971-72 to 1974-75; this was contrary to the recommendations of the Alexander Committee.

9. Domestic requirements vis-a-vis exports of deoiled rice bran:

The National Commission on Agriculture estimated that in 1978-79 the requirement of concentrates for cattle and poultry feed would be 25.445 million tonnes the total availability had been estimated at 16.464 million tonnes leaving a gap of 9 million tonnes. The Commission recommended (1976) that livestock feed which includes rice bran should be diverted from exports and feed to high producing livestock. The Alexander Committee had also recommended (January 1978) that in respect of products of agricultural origin it would be necessary to limit exports to specific quantities.

At the time of re-introduction of cash assistance in 1975-76; in the Policy Advisory Committee meeting held in January 1975, the representative of the Ministry of Agriculture had indicated that the exports of deoiled rice bran would raise the domestic prices of poultry feed and might affect the poultry development in the country. However, when the policy on cash assistance on deoiled rice bran was discussed in the meetings of the MMDF Committee and the CARC held in March 1975, March 1976 and February 1977, the representatives of the Ministry of Agriculture were not invited by the Ministry of Commerce. The Ministry of Agriculture recommended (May 1977) to the Ministry of Commerce restriction on exports of deoiled rice bran up to 1.5 lakh tonnes during 1977-78 and to withdraw cash incentive as it increased the domestic prices. In the CARC meeting held in September 1978, the representative of the Ministry of Agriculture observed that instead of subsidising exports of deoiled rice bran, its production should be encouraged to increase its domestic use within the country. The Ministry of Agriculture had also objected (March 1977) to the proposal of exemption of export duty on the deoiled rice bran.

Notwithstanding the aforesaid position, the Ministry of Commerce, while recommending the cash assistance had also along estimated the demand of deoiled rice bran within the country below one lakh tonnes and permitted unrestricted exports. The exports

of deoiled rice bran during 1975-76 to 1978-79 were between 67 per cent and 89 per cent of the total production.

AMUL (Kaire District Co-operative Milk Producers Union Ltd. Anand), which is the major producer of milk products and supplies pasteurised milk to the Mother Dairy, Delhi, Greater Bombay Milk Scheme and the Defence Services, represented on 19th May, 1979 to the Ministries of Commerce and Agriculture about the scarcity and price rise of deoiled rice bran due to the exports. It had indicated that the prices of deoiled rice bran had gone up from Rs. 350 per tonne in July 1978 to Rs. 625 in May 1979 and had requested not only for abolition of cash incentives but also for levying export duty to enable local feed manufacturers to purchase feed ingredients at reasonable rates.

The Ministry of Agriculture stated (June 1979) in reply to an audit query that "exports of agricultural commodities including livestock feeds are controlled by the Ministry of Commerce and this Ministry has been constantly suggesting to the Ministry of Commerce for imposition of quota restrictions on the export of deoiled rice bran. It appears that the Ministry's advice had not been heeded by Ministry of Commerce.....Exports of precious raw material such as livestock feed which are required indigenously would be against the national interest..... The Department of Agriculture is against providing cash incentives for export of livestock feed. This matter has already been communicated to the Ministry of Commerce..... Exports of rice bran should be immediately brought under quota restriction".

Nevertheless, cash assistance on exports of deoiled rice bran has been decided to be continued up to 1981-82.

10. Export duty levied on the deoiled rice bran:

From 22nd January, 1977 to 13th May, 1977, export duty at the rate of Rs. 125 per tonne was imposed on the exporters of deoiled rice bran. An amount of Rs. 1.54 crores was recoverable from the exporters of deoiled rice bran, out of which only Rs. 16 lakhs could be recovered during the period; the balance was yet to be recovered (30th June, 1979). The exporters had been representing for exemption from the payment of export duty. On 30th July, 1977, the Ministry of Commerce took up the matter with the Ministry of Finance for retrospective exemption on the ground that the exporters were being paid cash assistance for promoting exports. The

Ministry of Finance held (August 1977) that post-export adjustment of duties was not possible and suggested that if exporters incurred a loss, the Ministry of Commerce could consider compensating them by cash assistance.

The SEAI was, accordingly, asked to submit the cost data which were received in October 1978. The SEAI indicated a loss of Rs. 107 to Rs. 179 per tonne; the cost data were not with reference to the records of any representative unit. The Cost Accounts Branch of the Ministry of Finance, while analysing the cost data, observed (June 1979) that the SEAI had over stated the processing charges and certain recoveries available had not been adjusted while working out the loss. They held that if these factors were taken into account there would be a profit of Rs. 46 to 65 per tonne for January 1977 to May 1977.

Rejecting the case for re-imbusement of export duty from the MDF, the Ministry of Finance held (July 1979) that the data furnished by the SEAI were unrealistic and that the cost study for the year 1975-76, which was completed in March—May 1977, had already proved that the exports were overpaid Rs. 57.79 lakhs as cash assistance for 1975-76.

11. Quantum of cash assistance and other benefits to exporters:

Exports of deoiled rice bran amounting to Rs. 68.14 crores had been made during the years 1970-71 and 1975-76 to 1978-79, on which cash assistance would work out to Rs. 7.91 crores out of which a sum of Rs. 5.57 crores had been paid till July 1979. In addition, excise duty foregone on production of 4.06 lakh tonnes of rice bran oil during the years 1970-71 to 1978-79 amounted to Rs. 4.55 crores. Besides, rebate in excise for use of rice bran oil in production of vanaspati and soap amounted to Rs. 2.94 crores during 1971-72 to 1977-78.

In spite of all these concessions, no research and development work to increase the production of edible grade rice bran oil has been undertaken by the industry; bulk of the oil produced is of industrial grade and used in soap industry.

It was noticed in audit that out of the 103 rice bran processors, major share of exports (68 to 83 per cent) and cash assistance (69 to 82 per cent) went to 15 leading processors and 19—21 merchant-exporters only during 1976-77 to 1978-79.

12. Distribution of cash assistance:

According to the sanctions for cash assistance on exports of deoiled rice bran issued from 1970-71, cash assistance was to be drawn by the SEAI through a single consolidated claim. However, Government had not laid down any guidelines regarding the actual manner of distributing the cash assistance among the exporters. For the years 1975-76 and 1976-77, when cash assistance was admissible on the exports above the first one lakh tonnes, the SEAI distributed the cash assistance on tonnage basis for 1975-76, but adopted f.o.b. value basis for 1976-77 and 1977-78. The Ministry stated (December 1979) that from 1977-78 onwards cash assistance was admissible on every tonne of export as a percentage of f.o.b. value. Distribution should, therefore, be strictly in accordance with the quantity exported by each exporter.

13 Summing up:

The following are the main points that merge:—

- For encouraging production of rice bran oil and promoting export of rice bran extractions, Government provided incentives of total exemption of excise duty (Rs. 4.55 crores from 1970-71 to 1978-79) for production of rice bran oil, excise rebate (Rs. 2.94 crores from 1971-72 to 1977-78) to soap and vanaspati industry for use of rice bran oil interest subsidy for export of extraction and cash assistance (Rs. 7.91 crores up to 1978-79) on exports of the extraction during 1970-71 and 1975-76 to 1981-82. The latter was introduced in 1970-71 without cost studies. The cost data furnished by the trade in 1969 was not based on the records of any representative unit, but was based on assumed figures which, when analysed by the Ministry of Finance in 1971-72, proved no loss, but confirmed profitability of exports; cash assistance for exports; cash assistance for exports during 1970-71 was given (December 1971) retrospectively; payment of Rs. 14.47 lakhs (made in March—June 1973) for 1970-71 was, thus, unjustified.
- Cash assistance was suspended during the years 1971-72 to 1974-75 following the cost studies which showed profit. But it was again introduced from 1975-76 and made operative up to 1982 without any cost study in spite of the advice of the Ministry of Finance to the contrary. Government failed to invoke its right to suspend cash

assistance before 30th September, 1975, which resulted in unjustified payment of Rs. 57.79 lakhs made on the basis of provisional sanction which stipulated a pre-requisite condition of cost study before 30th September, 1975.

- Cash assistance for 1976-77 was sanctioned by the inter-ministerial committee without condition of cost study set by the MMDF Committee being brought to its notice by the Ministry of Commerce; exports amounting to Rs. 68.14 crores during 1970-71 and 1975-76 to 1978-79 attracted cash assistance of Rs 7.91 crores which was not justified.
- Abandonment of floor level and reduction in the rate of cash assistance in 1977-78 was more advantageous to the exporters and involved additional payment of Rs. 10 lakhs.
- Unrestricted exports of deoiled rice bran till 1982 had been allowed contrary to the advice of the Ministry of Agriculture, which recommended restrictions on exports, since it was adversely affecting the poultry and dairy development programmes of the country.
- As a result of export duty levied (January 1977) on this item, an amount of Rs. 1.54 crores was recoverable from the exporters; only Rs. 16 lakhs had been recovered so far (30th June, 1979).
- No guidelines were issued by Government for the distribution of cash assistance by the SEAI to the individual exporters.

[Paragraph 1 of the Advance Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Civil).]

APPENDIX-II

(Vide para 1.17)

**EXTRACTS FROM THE NOTING IN MINISTRY OF FINANCE
IN FILE NO. 12/31/69-EP (M&M) IN WHICH THAT MINISTRY
AGREED TO THE GRANT OF CASH ASSISTANCE W.E.F. 1-4-1970.**

MINISTRY OF FINANCE

(Department of Expenditure)

The proposal under consideration in this file relates to the grant of cash assistance on the export of rice bran extractions of large quantity of rice bran is produced in the country in the process of rice milling. This rice bran contains a certain proportion of oil the extraction of which is very important in the context of our shortage of oil in the country. However, the greater proportion of rice bran which comes out in the process of rice milling is used in India directly as a cattle-feed and only a small fraction is subjected to an extraction process in which the oil is extracted and what may be described as deoiled rice bran is left for used as cattle feed. The Ministry of Foreign Trade feel, however, that we should encourage extraction of oil from rice bran and the export of rice bran extractions. This proposal to give a subsidy on the export of rice bran extraction is based on the idea of encouraging more rice bran extractions to be produced so that in the process the country's requirement of oil may also be met at least to a certain extent.

2. Last year about 70,000 tons of rice bran extractions were exported, largely to U.K., without any cash assistance being allowed from Government. In order to encourage the conversion of larger quantities of rice bran into oil and rice bran extractions, the Ministry of Foreign Trade have suggested a 15% cash assistance on all export of rice bran extractions, on condition that a minimum target of 90,000 tons is achieved.

3. While the object of encouraging the larger conversion of rice bran into oil and rice bran extractions is certainly a laudable one, in the context of the shortage of oil in the country, the fact perhaps remains that if 70,000 tons of rice bran extractions could be exported last year without any cash assistance, it should be possible to do the same this year also. However the Ministry of Foreign Trade are of the view that U.K. which is our principal buyer of rice bran extraction, at present, cannot take any more of this commodity, if, therefore, any quantity above 70,000 tons is to be exported, new markets will have to be established for that purpose. The establishment of new markets for rice bran extractions would certainly necessitate the selling of rice bran extractions at lower prices in order to get a foothold in the new markets. Cash assistance on the excess amount exported above 70,000 tons could, therefore, be thought as justified.

4. The matter was discussed today in a meeting in the room of Secretary, Foreign Trade when Secretary agreed that no cash assistance need be

paid on the first 70,000 tons of rice-bran extractions exported during the current financial year but a cash assistance of 15% on f.o.b. realisation may be allowed on the excess quantity, over and above 70,000 tons which may be exported during the current financial year. For that purpose the Ministry of Foreign Trade would organise an Association of the Rice Bran Exporters or manufacturers and would make the cash assistance available through that Association. Actually the details of the arrangement may be worked out later but what seems to be necessary is that the cash assistance should be announced very quickly so that substantial results by way of added conversion of rice bran into oil and rice bran extractions, and additional exports, may be assured during the current financial year. For that reason, we may agree to 15% cash assistance being given on the quantity in excess of 70,000 tons exported during the current financial year.

5. The f.o.b. value of rice bran extraction is about Rs. 350 per ton. If the exports reach a figure of 90,000 tons, i.e. 20,000 tons more than last year, the additional f.o.b. realisation may be of the order of Rs. 70,000. The cash assistance at the rate of 15% will amount to about Rs. 10.5 lakhs which in the present context may not be too high a price to pay for additional foreign exchange earnings of the order of Rs. 70 lakhs. Side by side with that, the additional oil which will become available in the country on account of higher production of rice bran extractions will be another asset and that will result in further saving in foreign exchange as a correspondingly smaller quantity of oil will have to be imported from abroad.

6. Minister (K) may kindly see and approve the proposal.

Sd/-
(B. B. Lal)
Additional Secretary
19-5-1970

Sd/-
(R. K. Khadilkar)
23-5-70

APPENDIX-III

Statement of observations and Recommendations

Sl. No.	Para No. of the Report	Ministry/Deptt. concerned	Observation and Recommendation
(1)	(2)	(3)	(4)
1	1106	Commerce	<p>Cash assistance on the export of deoiled rice bran was recommended for the first time in 1969 by the Board of Trade Sub-Committee on oil seeds oils and oil cakes at the rate of 15 per cent of f.o.b. value. According to the Ministry of Commerce, the considerations which weighed with the sub-Committee while recommending cash assistance on export of deoiled rice bran were (a) that exports hitherto of this item were confined only to U.K. and new outlets were needed for the promotion of this export; (b) with the closure of Suez Canal, freight rates had increased and that had neutralised the advantage of devaluation of Indian rupee; (c) cost of processing was more in the case of rice bran extraction as compared to other extractions like cotton seed extractions; and (d) it would facilitate greater production of rice bran oil in the country. The cost data furnished by the exporters of deoiled rice bran in 1969 was forwarded to G.D.T.D. who held in January, 1970 that it was difficult for him to check the cost data as the</p>

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price of rice bran which varied from State to State was dependent on the quality of bran. At the same time he observed that there was a case for cash assistance as there was an element of loss in exports and that the cost of rice bran and processing charges assumed by the exporters were quite reasonable. In May 1970, the Ministry of Finance agreed to the proposal of cash assistance at the rate of 15 per cent of f.o.b. value for exports above 70,000 tonnes with a view to encouraging production of rice bran extractions and oil. Accordingly, cash assistance was sanctioned for the year 1970-71.

2 1' 107 Commerce

The Ministry of Commerce made out a case in August 1971 for the extension of cash assistance for the year 1971-72 on the plea that it would encourage the availability of rice bran oil and increase the exports of deoiled rice bran thereby earning more foreign exchange therefrom. However no cash assistance was allowed during the years 1971-72 to 1974-75 as in the cost data furnished by the Solvent Extractors' Association of India (SEAI) the Ministry of Finance found no loss and they were of the opinion that cash assistance should be given only if there was loss in under-taking exports.

3 1' 108 Commerce

In December 1974, the SEAI, submitted a statement showing the cost of rice bran processing and realisation on the sale of oil and extractions in justification for its claim for cash assistance. According to this statement, the f.o.b. realisation was Rs. 282 per tonne on average. The Ministry of Commerce have stated that this cost data for the period January—June 1974 revealed that the poorer economics of rice bran processing was to higher cost of processing greater

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			problem in exporting deoiled rice bran as compared to ground nut Iextractions".
4	I. 109	Commerce	The SEAI also furnished figures indicating that exports of deoiled rice bran during the years 1971-72, 1972-73, 1973-74 and 1974-75 amounted to 1.47, 1.18, 1.06 and 1.02 lakh tonnes respectively. The Ministry of Commerce have stated that the decline in exports with reference to the figures of 1971-72 indicated that withdrawal of cash assistance had an adverse effect. The Ministry accordingly recommended cash assistance of Rs. 60 per tonne of exports above 80,000 tonnes and 10 per cent of f.o.b. value as market development assistance.
5	I. 110	Commerce	The Committee observe that according to the statistics published by the Directorate General of Commercial Intelligence and Statistics, Calcutta the average f.o.b. realisation on sale of exports of deoiled rice bran during the relevant period in 1974 was Rs. 369 per tonne as against the average of Rs. 282 per tonne indicated by the data furnished by SEAI. Further, according to DGCIS figures, exports during the years 1970-71, 1971-72, 1972-73, 1973-74 and 1974-75 were 1.25, 1.69, 1.23, 1.24 and 1.19 lakh tonnes respectively which meant that the exports after 1970-71 were either more or about the same as in 1970-71 when no cash assistance was allowed on these exports. The Committee consider that it was unwise on the part of the Ministry of Commerce to have recommended grant of cash assistance only on the basis of the figures furnished by a

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private organisation. Before considering the question of grant of cash assistance the proper course was to have verified the data furnished by SEAI with the figures furnished by the DGCIS, Calcutta which is the primary Government agency for compilation of such information.

6 I.111 Commerce

In this context, the Secretary, Ministry of Commerce stated during evidence that the DGCIS figures become available after a gap of two months or so and that there were practical difficulties in expediting the same. The Committee would like to emphasise that cash assistance is a direct outgo from the Consolidated Fund of India and is given on several commodities. It is therefore necessary that decisions on grant of cash assistance should be based on verified data. The Committee therefore desire that the causes of delays in compiling the data by DGCIS which is also under the administrative control of the Ministry should be gone into and improvements effected to expedite the same. The argument of the Ministry of Commerce that they had to depend upon the data furnished by the SEAI is not wholly tenable because although the latest figures of 1974-75 might have not been available with them at the time of recommending extension of the cash assistance, the figures of 1971-72, 1972-73 and 1973-74 (which clearly showed larger exports than which has been shown by SEAI) were entirely available with them from the DGCIS.

7 I.112 Commerce

In their proposal, the Ministry of Commerce had maintained (February 1975) that exports of deoiled rice bran were falling after 1970-71

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due to withdrawal of cash assistance. The recommendation of the Ministry of Commerce for grant of cash assistance was not accepted by the Ministry of Finance who reiterated that it was not advisable to reintroduce cash assistance without a proper detailed cost study by the Cost Accounts Branch of the Ministry of Finance. However, in March 1975 the Main Marketing Development Fund Committee (which includes representatives of the Ministry of Finance) considered the matter and decided to grant cash assistance at 15 per cent of the f.o.b. value of exports in excess of the first one lakh tonnes. The MMDF Committee also directed that detailed cost study be completed in any case before 30 September 1975 on the basis of which cash assistance would be reviewed or revised for prospective application. In pursuance of this decision sanction for grant of cash assistance for the period 1-4-1975 to 31-3-1976 was issued on 19-4-1975. It was stipulated therein that Government reserved the right to reduce or withdraw cash assistance even before 31-3-1976 and that the change would have no retrospective effect, but would be made applicable prospectively.

8 1.113 Commerce

In pursuance of the decision of the MMDF Committee, the SEAI was asked in April 1975 to furnish the names of five rice bran processing units which might be willing for the cost study by Government Cost Accountants. In January 1976, the SEAI furnished names of three representative units for cost study. Cost data of these firms was furnished only in January 1977. The reports of cost study done by the Cost Accounts Branch in April-May 1977 indicated profit of 22.2

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per cent of and 9.5 per cent on f.o.b. cost in the case of two firms on the basis of figures of 1973-74 to 1975-76, when no cash assistance was allowed, and 50.1 per cent in the case of the third firm taking into account the data for 1976 only. The Cost Accounts Branch observed that these three units were representative of the industry as their exports during 1975-76 were about 30 per cent of the total exports and that there existed no case for any cash assistance on the exports during 1975-76. The representative of the Ministry of Commerce also conceded during evidence saying that there was no loss on exports.

9 1.114 Commerce

In January 1976, new guidelines for sanctioning of cash assistance from 1-4-1976 were issued on the basis of the recommendations of the Bose-Mullick Committee. In the revised guidelines, it was provided that the rates of cash assistance were to be determined by a balanced judgement of the following criteria: (a) export potential and domestic availability as well as supply elasticity of the products; (b) import content and domestic value added; (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; (f) cost of entry into new markets; and (g) a cut off point upto which subsidy is to be allowed. The issue of the revised guidelines necessitated review of the existing cash assistance rates. A meeting of the inter-ministerial committee on cash assistance was held in March 1976 under the Chairmanship of Commerce Secretary where Additional Secretary

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of the Department of Economic Affairs and Expenditure and Ministry of Industrial Development were also present. This Committee decided to grant cash assistance at the rate of 17.5 per cent of the f.o.b. value provided exports during 1976-77 were not less than 1.5 lakh tonnes and also subject to the condition that exports of the first one lakh tonnes did not qualify for cash assistance. While submitting the proposal for the continuance of cash assistance for the year 1976-77 to the inter-ministerial Committee in March 1976, the condition that the cash assistance on deoiled rice bran for 1975-76 was subject to detailed cost study to be completed before 30-9-1975 was not mentioned in the agenda papers. Thus, by not indicating the condition of cost study, full facts of the case were not brought before the inter-ministerial Committee.

10 I. 115 Commerce

The Committee deplore the fact that in spite of the decision taken by the Main Marketing Development Fund Committee in March 1975 that the cost study should be completed in any case before September 1975 on the basis of which cash assistance could be reviewed or revised, the Ministry of Commerce recommended in March 1976 grant of cash assistance for the year 1976-77 although cost study had not been completed by that time. What is more distressing is the fact that in the agenda papers placed before the inter-ministerial Committee, the fact that cash assistance on deoiled rice bran for 1975-76 was subject to detailed cost study was not mentioned. The Committee consider this as a serious omission.

11 I. 116 Commerce

When asked during evidence as to why cash assistance was recommended for 1976-77 even before completion of

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cost study, the Secretary, Ministry of Commerce referred to the revised criteria laid down by the Bose-Mullick Committee and observed: "Those are the seven items which are mentioned. Cost study was eliminated. It was decided that cost study would not be the criteria to decide whether support should be given or not". The Committee are surprised that such interpretation was given to the revised criteria. The criteria referred to by the Bose-Mullick Committee were in the nature of general assessments and were not capable of objective analysis on the basis of quantification. Further, it was nowhere stated that cost study should not be done. The Committee are of the view that the concept that cash assistance is intended to span the gap between the cost of production of an export product and the f.o.b. realisation accruing from its export as also a detailed examination of the cost structure are relevant even after the issue of revised criteria laid down by the Bose-Mullick Committee and those laid down later by the Alexander Committee. As cash assistance is given on a wide range of commodities the Committee would like the Government to examine the matter and clarify the policy in this regard.

12 1.117 Commerce

Further, the Committee observe that as per figures published by DGCIS, the average f.o.b. realisation from export of deoiled rice bran was Rs. 374 per tonne in 1974-75 and Rs. 457 per tonne in 1975-76. The profitability of the exports was not however examined by the Ministry of Commerce before extending cash assistance for 1976-77. Considering also the fact that in January 1976, the Ministry of Commerce had clearly indicated to the SEA,

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that if the industry was making high profits, there would be no case for development subsidy also the submission of proposal by the Ministry of Commerce for 1976-77 and the grant of cash assistance at the increased rate of 17.5 per cent for 1976-77 as against the rate of 15 per cent for 1975-76 by the inter-ministerial Committee in March 1976 was, in the view of the Committee, not justified.

13 I.118 Commerce

In March, 1976, the Ministry of Commerce proposed to make the provisional sanction for 1975-76 valid as final sanction and not to pursue the cost study. The Ministry of Finance did not agree as the pre-condition of cost study was not waived by the MMDF Committee.

14 I.119 Commerce

In a meeting held by the Commerce Secretary on 26-10-1976, it was decided that the cost study for 1975 should be considered both by the Commodity Division of the Ministry of Commerce and the Ministry of Finance. Subsequently on 2-11-1976 the Financial Adviser of the Ministry of Commerce had suggested: "If cash assistance for the whole year is now paid, it will be very difficult to make recoveries in case cost study reveals that cash assistance is not justified. On the contrary, if payments are kept pending and cost study is completed quickly, amounts can be released provided cost study justifies the cash assistance." The next note recorded on the file on 12-11-76 was by the Jt. Secretary of the Ministry of Commerce dealing with Agriculture which read: "I called the Chairman, Solvent Extractors' Association and have clearly told him that cash assistance for

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1975-76 would not be made available at all until they fully cooperate and have the cost study for 1975-76 completed'. FA may kindly ask his staff to get in touch with him for further action." As, according to the Ministry of Commerce, in this case the letters regarding payments to be made to SEAI by the Jt. Chief Controller of Imports and Exports, Bombay were to be issued by the Agriculture Division of the Ministry of Commerce, no information seems to have been communicated to JCCIE, Bombay suggesting stoppage of the payment till the cost study was completed. When asked why no such communication was sent to JCCIE, the Additional Secretary of the Ministry of Commerce stated during evidence: "I am unable to say anything from the file as to why administrative side could not send instructions." In this context, the Secretary, Ministry of Commerce stated: "The Financial Adviser gave his advice in a note. If one is to go by what is on record, then the note of (Jt. Secretary) does not indicate that he had authorised the issue of instructions stopping payment. It is silent on that point." In the absence of any instructions from the Ministry of Commerce for stopping payment, the JCCIE, Bombay disbursed cash assistance amounting to Rs. 52 lakhs in December, 1976 and Rs. 4.22 lakhs in March, 1977 on the basis of the claims sent by the SEAI on exports made during 1975-76. Balance of Rs. 1.57 lakhs was paid in May 1979. The Committee take a serious view over the non-issue of instructions by the Ministry of Commerce to JCCIE for stoppage of payment of cash assistance resulting in the disbursement of Rs. 57.79 lakhs to SEAI. They would therefore like the matter to be investigated by a

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team of senior officers outside the Ministry of Commerce with a view to fixing responsibility and identifying the lacuna in procedure so that such costly lapses do not recur. The report of the Team should be furnished to the Committee within six months.

15 I.120 Commerce

While the cost study for 1975-76 was still being conducted by the Cost Accounts Branch of the Ministry of Finance, the Ministry of Commerce proposed (February, 1977) the grant of cash assistance for three years from 1977-78 to 1979-80 at the rate of 20 per cent of the f.o.b. value over the exports above one lakh tonnes subject to a minimum ceiling of 3 lakh tonnes. In February, 1977, the Cash Assistance Review Committee agreed to grant cash assistance at the rate of 12.5 per cent of f.o.b. value for 1977-1980 on the condition that exports should not be less than 3 lakh tonnes. Sanction for cash assistance was issued in April, 1977 for the year 1977-78 only. Floor level of one lakh tonnes on which cash assistance was not available earlier was, however, abandoned.

16 I.121 Commerce

The proposal for grant of cash assistance for exports during 1978-79 was not submitted to the Cash Assistance Review Committee as it had, while agreeing to the cash assistance for 1977-73, agreed in principle to extend the cash assistance till 1979-80. However, the Ministry of Finance observed (March, 1978) on the proposal that the cost study undertaken for 1975-76 had not established any loss in exports, that the exports were already lucrative, and that the need for cash assistance required fresh review by the C.A.R.C. The Ministry of Commerce then decided that a "quick cost review" bringing out

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17	1.122	Commerce	<p>justification for cash assistance would be taken up before 30-6-1978. Instead of waiting till the results of this review, the Ministry of Commerce in the meantime issued on 3-4-1978 sanction for cash assistance for 1978-79 which contemplated a review to be completed before 30-6-1978 on the basis of "detailed study".</p>
			<p>The Committee feel that viewed from the fact that the orders issued on 3-4-1978 contained a condition that cash assistance was subject to a review before 30-6-1978, it would have been clear to the Ministry of Commerce that such a review was to be conducted on the basis of "detailed study". No such detailed review was done. What is more surprising is the fact that even Cash Assistance Review Committee did not press for a proper cost study and decided in its meeting held in September, 1978 to extend the cash assistance upto 31-3-1979 despite the reservations expressed by the representative of the Ministry of Finance that since the oil prices had gone up, it was profitable to export the by-products and that the cost study undertaken earlier had not justified the grant of cash assistance.</p>
18	1.123	Commerce	<p>The information furnished by the SEAI in May 1978 indicated that the exports were made at losses ranging from Rs. 71 to Rs. 204 per tonne during 1975-76, from Rs. 31 to Rs. 159 during 1976-77 and from Rs. 109 to Rs. 231 per tonne during 1977-78. The Ministry of Commerce themselves analysed the data and recommended in May 1978 extension of cash assistance for the whole year 1978-79. According to the Ministry, the figures supplied by SEAI had been certified by independent cost accountants and chartered accountants and that the</p>

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cost data revealed shortfall in f.o.b realisation. The Ministry have added that the figures supplied by SEAI were not verified by the Cost Accounts Branch of the Ministry of Finance as it would have been a "time-consuming process" and according to the revised criteria laid down by the Bose Mullick Committee such a study was not an essential pre-requisite for recommending grant of cash assistance.

19 1.124 Commerce

The Committee have already commented upon in their earlier reports on various cash assistance schemes regarding the undesirability of placing total reliance on unverified data. Here they would like to point out that there was no justification for the Ministry of Commerce to have by-passed the requirement of verification of data furnished by SEAI on the ground that it would have been a time consuming process or that cost study was not necessary under the revised criteria. The Committee must express their displeasure over the fact that the decisions had been taken by the Ministry of Commerce and approval given by the Main Marketing Development Fund Committee, Inter-Ministerial Committee and the Cash Assistance Review Committee for grant of cash assistance on deoiled rice bran for the years 1975-76 onwards inspite of the reservations expressed repeatedly by the Ministry of Finance. The Ministry of Finance had on several occasions asserted that there was no loss on the exports of deoiled rice bran and in any case it was necessary to have cost study done on the basis of authentic data. On the basis of the information placed before the Committee, it is clear that the Ministry of Commerce did not

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			seriously consider the objections raised by the Ministry of Finance from time to time and for no plausible reasons the completion of cost studies was delayed.
20	1.125	Finance/Commerce	The Committee also do not appreciate why the Ministry of Finance inspite of their reluctance in the initial stages had ultimately agreed to the grant of cash assistance knowing fully that their main objection of non-compliance of cost study had not been met before the case for further extension of cash assistance was mooted by the Ministry of Commerce. The Committee find that the cash assistance on export of this commodity was sanctioned in 1970-71 and then re-introduced in 1975-76 and continued up to 31-3-1981 without any cost study which established any loss on exports. Thus, the entire payment of Rs. 13.79 crores made on this account upto December 1980 was not justified.
21	1.126	Commerce	The question of cash assistance was further examined by the Alexander Committee which recommended in its report dated 31-1-1978 that cash assistance should be based on (a) compensation for those indirect-taxes in the production cost which are not refunded through the duty draw-back system; (b) compensation for freight and other cost differentials; and (c) for providing initial promotional expenditure for new products and in developing new markets. The Alexander Committee recognised that the cash assistance should be available only for a limited period during which the relevant disadvantages could be eliminated by conscious efforts. In any case, the cash assistance should not continue indefinitely
22	1.127	Commerce	The question of grant of cash assistance for deoiled rice bran for the year 1979-80 and onwards was examined

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			by the Ministry of Commerce. On the basis of the recommendations of the Ministry for grant of cash assistance at 15 per cent of f.o.b. value for 1979-82, the Cash Assistance Review Committee decided to grant cash assistance at 12.5 per cent of f.o.b. value for a period of three years. The minimum target subject to which cash assistance was to be admissible was, however, increased from 3 lakh tonnes to 3' 5 lakh tonnes. Government have recently decided that cash assistance on deoiled rice bran which was valid upto 31-3-1982 would now be available upto 31-3-1981. Cash assistance on this commodity thus stands withdrawn with effect from 1-4-1981.
23.	1.128	Commerce	Besides cash assistance which amounted to Rs. 7.91 crores during the years 1970-71 and 1975-76 to 1978-79 Government had also provided incentives like total exemption of excise duty (Rs. 4.55 crores from 1970-71 to 1978-79) for production of rice bran oil, excise rebate (Rs. 2.94 crores from 1971-72 to 1977-78) soap and vanaspati industry for use of rice bran oil, and interest subsidy for encouraging production of rice bran and promoting export of rice bran extractions.
24.	1.129	-do-	As per latest information furnished by the Ministry of Commerce, the cost to the exchequer on account of excise rebate on the use of rice bran oil in soap making during the years 1977-78, 1978-79 and 1979-80 amounted to Rs. 148.42 lakhs, Rs. 193' 50 lakhs and Rs. 133.29 lakhs respectively. Further, the revenue foregone due to total exemption of excise duty on the production of rice bran oil during the calendar years 1977, 1978 and 1979 amounted to Rs. 53 lakhs, Rs. 94 lakhs and Rs. 152 lakhs respectively.

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25	1' 130	Commerce . . .	The Committee hope that with the various incentives already available for the production of rice bran oil and its use in soap and vanasparti industry interest subsidy for export of rice bran extractions, loans to rice mills at favourable rates of interest, etc. it would be possible for the exporters of deoiled rice bran to sustain their export performance and complete in the international market without having to depend on cash assistance.
26	1' 131	Commerce . . . <hr/> Agriculture	The Committee are informed by the Ministry of Agriculture that poultry and dairy development programmes require larger quantity of cattle feed and that deoiled rice bran is an important ingredient in the cattle-feed. The Ministry has observed that they had been constantly suggesting to the Ministry of Commerce for imposition of quota restrictions on the export of deoiled rice bran. The representative of the Ministry of Agriculture also stated before the Committee during evidence : "So far as cash assistance is concerned, for the last three years and at least ever since 1977 we have been consistently suggesting that the cash assistance should not be there. In the Cash Assistance Review Committee also we have specifically mentioned that we do not want to encourage exports of this commodity and also we are not in favour of any cash assistance." In this context, the Secretary, Ministry of Commerce stated; "The Commerce Ministry with the tools and instruments available with it is charged with the responsibility of increasing the exports at 7 per cent per year. We have now increased it to 10 per cent. We have also the responsibility to try and persuade all sectors of Indian

economy to make their respective contributions in the export efforts." It is evident that there has been divergence of views between the Ministries of Agriculture and Commerce in this matter. As apprehended by the Ministry of Agriculture, unrestricted export of deoiled rice bran could result in price escalation and shortage of this commodity within the country. The Committee therefore expect that there would be closer coordination and a balance struck so that exports of this commodity are restricted and not encouraged by grant of cash assistance but regulated in such a way that the total production of rice bran oil and rice bran extraction is not affected and escalation in domestic prices affecting poultry and dairy development in the country is not experienced.

27 1.132 Commerce

The Committee find that ever since 1970 when cash assistance was sanctioned on the export of deoiled rice bran, it has been drawn by the Solvent Extractors Association of India through a single consolidated claim and disbursed to the individual exporters. The Ministry of Commerce have stated that even though the consolidated bill was submitted by the Association, it was always supported by the necessary documents of individual exporters. The Secretary of the Ministry of Commerce stated before the Committee during evidence that "it was a new procedure designed to meet a certain situation when exports above a certain quantity alone were to qualify for cash compensatory support. The decision makers at that time took the view that perhaps routing it through such an organisation would be more administratively-convenient." The Committee have been informed that there had practi-

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cally been no delay on the part of SEAI in disbursing the amounts to individual exporters. In a later reply furnished to the Committee on 31-1-81 the Ministry of Commerce have informed that "the matter has however been considered in the light of the evidence before the PAC on 17-12-1980 and a decision has since been taken to disburse cash assistance admissible on this item for exports in 1980-81 directly to the exporters and not through the Association of exporters as in the past."

28. 1' 133 Commerce . . . While the Committee take note of the above decision, they would like to be informed whether there are other commodities also where cash assistance is distributed by Government through the associations of exporters. The desirability or otherwise of continuing payments of cash assistance in such manner may also be reviewed and the result thereof intimated to the Committee.