63

EXPORT PROCESSING ZONES

MINISTRY OF COMMERCE

PUBLIC ACCOUNTS COMMITTEE 1993-1994

TENTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

SIXTY THIRD REPORT
PUBLIC ACCOUNTS COMMITTEE
(1993-94)

(TENTH LOK SABHA)

EXPORT PROCESSING ZONES

MINISTRY OF COMMERCE

[Action Taken on 10th Report of Public Accounts Committee
(10th Lok Sabha)]

Presented to Lok Sabha on 17 March, 1994
Laid in Rajya Sabha on 17 March, 1994

LOK SABHA SECRETARIAT
NEW DELHI

February, 1994/Phalguna, 1915 (Saka)

P.A.C. No. 1390

Price: Rs. 11.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and Printed by the Manager, Photo Litho Unit, Government of India Press, Minto Road, New Delhi-110002

CORRIGENDA TO 63RD REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (10TH LOK SABHA)

Page	Para	Line	For	Read
2	7	3 from bottom	veiw	view
3	9	17	Put (.) after GCA only	
4	13	3 from bottom	and	an
5	16	10	and	an
5	16	12	To	to
9	(v)	3	exceding	exceeding
13	2	-	Add 'Action Taken' below (Sl.No. 7 of Appendix II.....)	
15	2	2	Through	Though
17	2	5	15 plost	15 plots
22	-	2	Add 'DESIRE TO' After 'DO NOT'	
34	-	5	Bhawgwan	Bhagwan

CONTENTS

PUBLIC ACCOUNTS COMMITTEE
(1993-94)

CHAIRMAN

Shri Bhagwan Shankar Rawat

MEMBERS

Lok Sabha

2. Shri Nirmal Kanti Chatterjee
3. Dr. K.V.R. Chowdary
4. Shri Bandaru Dattatraya
5. Shri Sharad Dighe
6. Shri Jagat Veer Singh Drona
7. Shri Srikanta Jena
8. Smt. Krishnendra Kaur
9. Shri Rama Krishna Konathala
10. Smt. Geeta Mukherjee
11. Shri D.K. Naikar
12. Shri Mrutyunjaya Nayak
13. Shri Motilal Singh
14. Shri S.B. Thorat
15. Shri Satya Pal Singh Yadav

Rajya Sabha

16. Shri S.S. Ahluwalia
17. Shri Somappa R. Bommai
18. Shri Anant Ram Jaiswal
19. Miss Saroj Khaparde
20. Shri Murasoli Maran
21. Smt. Jayanthi Natarajan
22. Shri Viren J. Shah

SECRETARIAT

1. Shri G.L. Batra—*Additional Secretary*
2. Shri S.C. Gupta—*Joint Secretary*
3. Shri R.K. Chatterjee—*Deputy Secretary*
4. Shri P. Sreedharan—*Under Secretary*

INTRODUCTION

I, the Chairman of the Public Accounts Committee, do present on their behalf the sixty-third Report on action taken by the Government on the recommendations of the Public Accounts Committee, contained in their Tenth Report (Tenth Lok Sabha) on Export Processing Zones.

2. In their earlier Report while pointing out that the contribution of Export Processing Zones to the total exports was insignificant, the Committee had emphasised the need for improvement in export performance of EPZ units. In this Report, the Committee have observed that despite the instructions issued by the Ministry of Commerce to the Development Commissioners in this regard, as stated by them in the action taken reply, the percentage contribution of EPZs to total exports had fallen during the last two years touching low percentages of 2.67 and 2.58 in 1991-92 and 1992-93 respectively. In the opinion of the Committee this clearly shows that the instructions issued by the Ministry of Commerce are yet to achieve the desired results. The Committee have desired that in the light of the continuing poor export performance of EPZs, the Ministry of Commerce should further look into the impact of their instructions issued to the Development Commissioners and take effective steps so that the Export Processing Zones generate exports as per their laid down targets to the total exports from the country.

3. The Committee have noted that in pursuance of their recommendations, the Ministry of Commerce commissioned a study by the Indian Institute of Foreign Trade to identify the reasons for high mortality of EPZ units and to evolve a strategy for attracting foreign capital and technology into EPZs to accelerate the pace of their development in relation to exports to General Currency Area (GCA) countries. The Committee have been convinced that the functioning of the Export Processing Zones should be further looked into keeping in view the recommendations of the Committee the further inputs now provided by the Indian Institute of Foreign Trade in their report so as to streamline and revamp the policies and procedures and thereby achieve the basic objectives for which EPZs had been set up.

4. The Public Accounts Committee considered and adopted the Report at their sitting held on 16th February, 1994. Minutes of the sitting form Part-II of the Report.

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

6. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
21st February, 1994
2 Phalguna, 1915 (Saka)

BHAGWAN SHANKAR RAWAT
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations and observations contained in their 10th Report (Tenth Lok Sabha) relating to Export Processing Zones based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1988 (No. 16 of 1989), Union Govt. (Civil).

2. The 10th Report which was presented to Lok Sabha on 27 February 1992 contained 24 recommendations. Action taken notes have been received in respect of all the recommendations and these have been broadly categorised as follows:

(i) Recommendations and observations which have been accepted by Government:
Sl. No. 1, 2, 4, 7, 9, 12, 13, to 17, 19 to 24

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government.
Sl. No. 3, 8, 11, and 18.

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:
Sl. No. 5, 6, and 10

(iv) Recommendations and observations in respect of which Government have furnished interim replies:

—Nil—

3. The Committee will now deal with action taken on some of their recommendations/observations.

Functioning of Export Processing Zones

4. The basic concept of setting up of Export Processing Zones (EPZ) was to provide an internationally competitive duty free environment for export production at low costs so that exporting firms may operate successfully in the international market. The objectives to be achieved through these zones included, enhancing foreign exchange earnings, developing export oriented industries, stimulating domestic and foreign investment and generating employment opportunities. The first free trade zone was established at Kandla in Gujarat in 1965 and subsequently five more zones were set up at Santa Cruz (Bombay), Noida (UP), Falta (West Bengal), Cochin (Kerala) and Madras (Tamilnadu).

5. In their 10th Report (1991-92-10th Lok Sabha), The Committee while examining the Export Processing Zones had observed that a total expenditure of Rs. 94.85 crores was incurred on the establishment of the six zones till the end of March 1988; however, they had regretted to observe that the objectives with which the EPZs were set up had remained largely unfulfilled especially during the 1980s. Far from earning valuable foreign exchange, in fact, there was net outflow of foreign exchange from all the zones during the period 1981-82 to 1987-88 to the extent of Rs. 601.13 crores. The Committee had been unhappy to find that the annual export targets set in respect of various zones were consistently not achieved during the period 1985-86 to 1987-88 and the achievement as a percentage of target varied from 10.6% to 94.5%.

Export performance of EPZ Units

(S.No. 5-Paragraph 1.75)

6. While observing that the contribution of EPZs to the total exports was insignificant, the Committee in paragraph 1.75 of the Report had recommended:—

> "The Committee observe that the contribution of EPZs to total exports is quite insignificant ranging between two to three per cent during the period 1982-83 to 1989-90 as against the objective of 8% to 10% Product-wise comparison shows that the percentage contribution of EPZs (excluding Santacruz Zone) to the total exports of the product during 1989-90 constitutes 10.69 in the case of electronic items, 8.17 in the case of chemicals and related products and 2.96 in the case of readymade garments. In respect of engineering products the percentage contribution is merely 2.01% and almost insignificant in the case of food products and gems and jewellery. The Committee find that the import content for the broad commodity groups during 1989-90 in respect of different Zones widely vary. The average level of import content commodity-wise varied from 39.7% in the case of chemicals to 80.33% in the case of engineering goods
>
> The Committee recommend that export targets to non-domestic areas and especially GCA must be fixed for each Zone and each unit by the Development Commissioners alongwith approval of incentives and facilities to them. The linkage of the units to their foreign markets should be carefully grown by the Development Commissioners."

7. The Ministry of Commerce in their action taken note stated as under:—

> "Suitable instructions have been issued to the Development Commissioners of EPZs to take necessary steps to implement the recommendation of the Public Accounts Committee. It is, also pertinent to mention that in veiw of the changes that are taking place in the former Soviet Union, the quantum of RPA exports have decreased substantially and this trend is likely to continue. In these circumstan-

ces, most of the exports would in due course be directed to the GCA only."

8. In a further note furnished the Ministry indicated the yearwise contribution of EPZs exports to total exports during the last five years is as under:—

(Rs. crores)

Year	Total exports from India	Exports from EPZs	% contribution of EPZs in the total Exports
1988-89	20232	516.52	2.56
1989-90	27681	732.08	2.64
1990-91	32553	982.79	3.02
1991-92	44042	1177.14	2.67
1992-93	53351	1376.31	2.58

9. In their earlier report, the Committee had observed that the contribution of Export Processing Zones to total exports was quite insignificant ranging between two to three per cent during the period 1982-83 to 1989-90 as against the objective of 8 to 10% Emphasising the need for improvement in export performance, the Committee had recommended that export targets to non-domestic areas and especially General Curency Area (GCA) countries must be fixed for each Zone and each unit by the Development Commissioners alongwith approval of incentives and facilities to them and that the linkage of the units to their foreign markets should be carefully nurtured by the Development Commissioners. In their action taken note the Ministry of Commerce have stated that suitable instructions have been issued to the Development Commissioners of Export Processing Zones to take necessary steps to implement the recommendation of the Public Accounts Committee. According to them, in view of the changes in the former Soviet Union, the quantum of exports to Rupee Payment Area (RPA) countries have decreased substantially and most of the exports now would in due course be directed to GCA only From the yearwise data of contribution of EPZ exports to total exports during the five years period ending 1992-93, obtained by the Committee, it was however observed that the percentage contribution of EPZs to total exports had fallen during the last two years touching low percentages of 2.67 and 2.58 in 1991-92 and 1992-93 respectively. This clearly shows that the instructions issued by the Ministry of Commerce are yet to achieve the desired results. The Committee desire that in the light of the continuing poor export performance of EPZs the Ministry of Commerce should further look into the impact of their instructions issued to the Development Commissioners

and take effective steps so that the Export Processing Zones generate exports as per their laid down targets to the total exports from the country.

Performance of Units and Mortality Rate

(S. No. 6 and 10 Paras 1.76 and 1.80)

10. In Para 1.76 of the Report, the Committee had noted that study carried out by the Indian Council for Research on International Economic Relations (ICRIER) on Kandla Free Trade Zone and Santacruz Electronics Export Processing Zone had revealed that units with foreign equity participation had consistently performed better than their purely domestic counter-parts as the marketing problems were the least in the case of the former. They had desired that specific analysis on a zonal basis in terms of profit margins in exports and profit margins in trying to get into domestic area be done. Thereafter, the Committee desired that, a suitable strategy be evolved for attracting foreign capital and technology into the EP Zones in relation to export and earning of foreign exchange, In their opinion experience of foreign countries can be dovetailed with suitable modifications to accelerate the pace of development of the various zones in relation to exports to General Curreeny Areas.

11. The Committee in their 10th Report (10th Lok Sabha) had also observed with concern that despite having extended a number of fiscal and non-fiscal incentives to the EPZ units the rate of mortality of units was increasing and this was particularly so in Kandla and Santacruz Zones. In the Kandla Zone, the mortality rate of units upto March, 1982 and March 1988 was 30.2 and 25.4 per cent respectively. Similarly, in the Santacruz Zone, the mortality rate was 17.4 and 23.7 per cent at the corresponding points of time. While observing that no independent study had been conducted to identify the reasons for the high mortality rate that was prevailing, the Committee in Paragraph 1.80 of the Report had recommended that such a study be carried out forthwith and suitable corrective action taken to improve the export performance of those zones.

12. In an interim action taken note furnished, the Ministry of Commerce stated that the Indian Institute of Foreign Trade (IIFT) had been asked in June, 1992 to study both the aspects as recommended by the Committee in Paragraphs 1.76 and 1.80 of the Report, In a further note the Ministry stated that IIFT had since submitted the report in January, 1993.

13. Broadly, the IIFT in their Report on a study on India's Export Processing Zone analysed the performance of the existing units in the EPZs identified the problems and procedural bottlenecks faced by them, outlined the strategy for accelerating their exports and also had undertaken and examination of the operation of Export Processing Zones in selected developing countries particularly in the Asia pacific region like China, Mauritius, UAE, Malaysia, Indonesia etc. to draw lessons from their experiences.

14. The Ministry in their note also stated that pursuant to the IIFT study, Government had initiated certain action on certain aspects and that certain other proposals were under discussion with the Ministry of Finance and other Ministries concerned.

15. The complete text of the recommendations made by the Committee in paragraphs 1.76 and 1.80 of the Report and the action taken replies furnished by the Ministry are reproduced in Chapter IV.

16. The Committee note that in pursuance of their recommendations, the Ministry of Commerce commissioned a study by the Indian Institute of Foreign Trade to identify the reasons for high mortality of EPZ unit and to evolve a strategy for attracting foreign capital and technology into EPZs to accelerate the pace of their development in relation to exports to General Currency Area (GCA) countries. The IIFT in their study report has analysed the performance of the existing units in the EPZs identified the problems and procedural bottlenecks faced by them, outlined the strategy for accelerating their exports and also undertaken and examination of the operation of Export Processing Zones in selected developing countries particularly in the Asia Pacific region like China, Mauritius, UAE, Malaysia, Indonesia etc. To draw lessons from their experiences. The Committee are convinced that the functioning of the Export Processing Zones should be further looked into keeping in view the recommendations of the Committee and the further inputs now provided by the Indian Institute of Foreign Trade in their report so as to streamline and revamp the policies and procedures and thereby achieve the basic objectives for which EPZs had been set up.

Return on capital invested by Government and arrears in collection of lease rent
(S.No. 17—Paragraph 2.16)

17. The return on capital invested in an EPZ is reckoned as a percentage of the net annual receipts earned by the zone to the net progressive capital expenditure at the end of each financial year.

18. Commenting on the level of return on investment by Government in EPZs and also on the arrears in the collection of lease rent, the Committee in para 2.16 of the Report had recommended as follows:—

> "The Committee regret to note the low return on capital invested by Government in various Zones which ranged from 1.38% to 10.59% as on 31.3.90. They also view with concern that the dues from the units in respect of lease rent which are normally recovered on month to month basis have fallen into large arrears amounting to Rs. 2.44 crores. They see no reason for accumulation of such huge arrears. The Committee desire that a time bound programme be drawn up by the Development Commissioners to liquidate the arrears of rent as early as possible and compliance reported to them within a period

of six months. All efforts should also be made to optimally utilise the infrastructure developed to improve the rate of return on capital invested."

19. The Ministry of Commerce in their action taken note stated as follows:—

"The main objective of the EPZ Scheme is to provide the facilities in which competitive export industries could flourish. For this reason, no specific rate of return was envisaged while approving EPZs. In this connection, the following points are also relevant:—

(i) Lease rent in EPZs are calculated under the FR-45-B which *inter-alia* takes into account the cost of the site and capital expenditure incurred after acquisition on construction for the purpose of calculation of rent. According to this, the amount invested on SDF or development of a plot is recovered roughly in 10 years. This implies that the return cannot exceed 10% even when all industrial plots/sheds have been allotted.

(ii) The new Zones at Noida, Madras, Cochin and Falta are still in the gestation phase and additional investments are being made in these Zones to meet the increased demand. The rate of return of the older Zones at Kandla and Santacruz would thus be higher than the others where fresh infrastructure is being added while the space available has not been fully allotted. This will be evident from the rate of return for 1991-92 given below:—

SEEPZ	12.60%
MEPZ	6.51%
NEPZ	4.40%
CEPZ	4.20%
FEPZ	2.12%
KAFTZ	8.47%

(iii) The return on investment is also likely to be depressed owing to a rent concession extended on 11.2.91 to EPZ units in the four new Zones.

All DCs have also been requested to draw up a time bound programme to liquidate the arrears of rent and also make efforts to optimally utilise the infrastructure developed to improve the rate of return on capital invested. The latest position regarding recovery of lease rent is indicated below:—

(Rs. Lacs)

Zone	*Arrears as per the Report*	*Recoveries made so far*
KAFTZ	45.02	20.83
SEEPZ	138.22	110.43

(Rs. Lacs)

Zone	*Arrears as per the Report*	*Recoveries made so far*
MEPZ	32.78	20.10
NEPZ	24.11	23.29
FEPZ	2.89	2.40
CEPZ	1.00	—

The recoveries yet to be effected relate to the projects which have either been abandoned at the initial stage or units which are not in operation. Efforts are being made by the Development Commissioners to recover the arrears through auction of material/structures at the premises or through other legal action "

20. In their earlier report, the Committee had noted with regret that the return on capital invested by Government in various Export Processing Zones was low, ranging from 1.38% to 10.59% as on 31.3.1990. They had also viewed with concern that the dues from the units in respect of lease rent which are normally recovered on month to month basis had fallen into large arrears amounting to Rs. 2.44 crores. Stressing the need for prompt liquidation of the arrears, the Committee had also recommended that all efforts should be made to optimally utilise the infrastructure developed to improve the rate of return on capital invested. In their action taken note the Ministry of Commerce have stated that no specific rate of return was envisaged while approving EPZs and that the rate of return for 1991-92 ranged between 2.12% and 12.60%. They have also stated that as a result of the action taken pursuant to the recommendation of the Committee, the accumulated arrears of rent has now been brought down from Rs. 2.44 crores to about Rs. 67 lakhs. The fact that the EPZs have been able to liquidate the arrears considerably in such a short period after being pointed out by the Committee would clearly indicate that adequate action had not been taken earlier to realise the legitimate dues of Government which is a matter of concern to the Committee. The Committee expect the Ministry to make concerted efforts to realise the Governmental dues in time and that the infrastructure developed is utilised optimally to improve the rate of return on capital invested.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE

Recommendation

The Export Processing Zones set up as enclaves, separated from Domestic Tariff Area by fiscal barriers, are intended to provide an internationally competitive duty free environment for export production. The basic objectives of EPZs are to enhance foreign exchange earnings, develop export oriented industries, stimulate domestic and foreign investment and generate employment opportunities. The first Free Trade Zone was established at Kandla in Gujarat in 1965, and the Second at Santacruz in Bombay (Maharashtra) in 1972. Four more zones were set up at Noida (UP), Falta (West Bengal), Cochin (Kerala) and Madras (Tamil Nadu) in 1984. The 7th Zone for which infrastructure development is under way is to be set up at Visakhapatnam. A total expenditure of Rs. 9485.19 lakhs was incurred on the establishment of the six zones till the end of March, 1988. Of this total, capital expenditure accounted for Rs. 8138.63 lakhs and the balance of Rs. 1346.56 lakhs was towards revenue expenditure.

[Sl. No. 1 Appendix II Para 1.71 of Tenth Report of the PAC (Tenth Lok Sabha)].

Action Taken

The above paragraph indicates the salient features of EPZ Scheme.

[Ministry of Commerce O.M. No. 9/7/92-EPZ dated 26-10-1992].

Recommendation

The Indian Council for Research for International Economic Relations (ICRIER) which evaluated the working of the EPZs in relation to their objectives, in their report submitted in June, 1986, laid down a three-fold selection criteria in terms of minimum conditions the zone would be expected to satisfy. These include generation of aggregate net foreign exchange earning above a stipulated minimum in five years, a minimum share of foreign exchange equity participation or collaboration and demonstration of a wage component above a stipulated level in its turnover. All these aspects are stated to be kept in view by the Boards of

Approvals while approving the projects. The Committee desire that the minimum conditions in the selection criteria should be more clearly quantified to really serve as guidelines for approval of projects. In the view of the committee clarity in criteria and conditions is essential for the growth of EPZs alongwith growth in export earnings from them.

[(Sl. No. 2 Appendix II para 1.72 of Tenth Report of the PAC (Tenth Lok Sabha)].

Action Taken

Minimum selection criteria for the guidance of the entrepreneurs have since been clearly spelt out and notified.

The Development Commissioners of EPZs have been empowered to give automatic approvals if the project fulfills the following minimum requirements mentioned in Department of Industrial Development press Note No. 13 (1991 Series):

(i) The Project is not included in Schedule-I or II of Notification No. 477 (E) dated 25.7.91 issued under the Industries (Development & Regulation) Act, 1951;

(ii) Availability of space and conformity with the environmental and other standards of the EPZ.

(iii) The project undertakes to achieve value addition as per the norms appearing in the Appendix to the Press Note, or at least 35%, if the item does not feature in the Appendix.

(iv) The CIF value of imported capital goods is financed through foreign equity, or FE required for 50% of the value of the plant and equipment (net of taxes) is within the ceiling of Rs. 3 crores and the capital goods are not second-hand;

(v) The foreign technology agreement, if any entered into by the unit, is restricted to a lumpsum payment of Rs. 1 crore and royalty not exceeding 8% (net of taxes), over a period of 5 years from the commencement of production.

(vi) The exports by the units are to be physically made to the General Currency Area;

(vii) The unit meets the requirements of the Customs authorities in so far as;

(a) it involves manufacturing activities within the ambit of Section 3 of the Central Excise and Salt Act, 1944;

(b) it is amenable to bonding by the Customs;

(c) all the manufacturing operations are carried out in the same premises and the proposal does not envisage sending out of the bonded area any raw materials or intermediate products for any other manufacturing or processing activity.

(viii) The conditions relating to DTA Sale enjoined in REP Circular No. 36/91 dated 11.9.91 and subsequent amendments thereof are adhered to.

(ix) The project undertakes to achieve minimum exports of Rs. 5 crores in the case of Computer Software and Rs. 10 crores in respect of other items over a period of 5 years.

If a project falls outside the purview of automatic approval, it is considered by the Board of Approvals. Some factors that are kept in view by the Board of Approvals while considering the projects under the Export Processing Zone Scheme, have been incorporated as Appendix-XXX in the handbook of procedures, 1992-97 for guidance of entrepreneurs. These are:—

1. *Marketing/Buy Back Arrangement*

Weightage is given to projects having buy-back/firm marketing arrangements. Mere absence of marketing arrangement need not, however, lead to rejection of the application as the experience and track record of the promoters is also taken into account.

2. *Foreign Equity Participation*

Foreign equity participation is encouraged in EPZs not only on account of inflow of foreign exchange but also because such ventures are likely to meet greater success as the foreign equity holder can be expected to play a more effective role in overseas marketing.

3. *Manufacturing Content*

Although there is no specific restriction on setting up of projects envisaging assembly operations, the Board does not normally look upon them favourably as in the absence of manufacturing the scope for reasonable level of value addition and continuity of exports is limited.

4. *Raw Materials Tie-up*

Normally raw material tie-ups are not insisted upon but this may be necessary in such cases where availability of raw material is contingent upon Government leases etc.

5. *Norms of foreign exchange outgo on account of technology tie-ups, Marketing Commission etc:*

Under the revised procedure of processing applications brought out in Press Note No. 13 dated 9.10.91 of the Department of Industrial Development, payment of lumpsum amount upto Rs. 1 crore and 8% royalty (net of taxes) over a period of 5 years from the commencement of production is allowed under the 'automatic approval' procedure in the case of foreign technology agreements. In addition, 5% selling agency commission is permissible as per RBI norms. Even in cases under the non-automatic route, the Board normally goes by the above norms in respect of technology agreements, sale commission etc. however, variations from the norms can be considered on the merits of each case.

6. *Currency Balancing*

In order to maximise earnings of free foreign exchange, units envisaging exports to Rupee Payment Areas are expected to ensure that outgo of free foreign exchange on account of imports of capital goods, raw materials and other outflows are at least balanced by matching exports to General Currency Areas.

7. *External Commercial Borrowings*

In case involving high outgo of foreign exchange for capital goods and raw materials, the Board prefers raising of funds through External Commercial Borrowing. Detailed guidelines for financing of the foreign exchange requirements of export oriented projects are available in circulars dated 7.11.91 and 8.12.91 of the Department of Economic Affairs.

[Ministry of Commerce O.M. No. 9/7/92-EPZ dated 26-10-1992]

Recommendation

The Committee are unhappy to find that the annual export targets set in respect of various Zones were consistently not achieved during the period 1985-86 to 1987-88 (except SEEPZ in 1986-87) and the achievement as a percentage of target varied from 10.6% to 94.5%. Even thereafter targets were not achieved by four Zones in 1988-89 and by two Zones in 1989-90. In addition to non-realisation of export targets both in the Kandla and Santacruz. Zones only 9% of the working units accounted for a major portion of the exports during 1983-84 to 1987-88. Further, though exports from Kandla and Santacruz Zones increased at current prices by 29.9% and 102.6% respectively during 1982-88, in real value terms, taking 1960 as the base, the exports declined by 13.4% from the Kandla Zone and increased by 35% only from the Santacruz Zone.

[Sl. No. 4 Appendix II para 1.74 of Tenth Report of the PAC (Tenth Lok Sabha)].

Action Taken

The latest position regarding achievement of export target by the Zones during 1990-91 *vis-a-vis* 1985-86 is indicated below:—

(Rs. Crores)

ZONE	1985-86			1990-91		
	Target	Achievement	%Achievement	Target	Achievement	%Achievement
KAFTZ	300	236.86	78.9	350	456.55	130.4
SEEPZ	110	84.49	76.8	335	389.90	116.4
NEPZ	NIL	—	—	75	44.67	59.5
MEPZ	3	0.55	18.3	50	61.32	122.6
CEPZ	NIL	—	—	20	5.46	27.3
FEPZ	5	2.30	46.0	20	25.02	124.7
	418	324.20	77.5	850	982.92	115.7

Export target is fixed on the basis of past export achievement, the number of new units expected to commence production and export during the year and the export projections made by these units. Actual exports are often affected by fluctuations in the international market which could not be anticipated at the time of fixing the target. The shortfall in achievement of target in respect of Madras and Falta EPZ in 1985-86, the first year of operation of these Zones, was owing to the failure of a number of units to commence production on time as expected. During 1990-91, export performance of CEPZ and to a lesser extent that of the NEPZ was affected by the fact that the latex gloves units in these Zones could not export their products owing to a sudden fall in the international price of gloves.

[Ministry of Commerce O.M. No. 9/7/92— EPZ dated 26/10/1992]

Recommendation

Apart from providing the basic infrastructure facilities the units established in the Zones are given a number of fiscal and non-fiscal package of incentives and concessions which include duty-free import of capital goods, raw material and consumable spares under OGL, grant of deemed export benefits to supply from DTA, facility of remittance of profit and dividends earned by foreign investors after payment of taxes, permission to repatriate foreign capital invested without capital appreciation, value of investment, reimbursement of Central Sales Tax and Corporate Tax Holiday for a period of five years in a block of eight years. The Committee find that despite extending a number of concessions and incentives by the Central

Government, State Governments and other agencies, the number of units actually established in different Export Processing Zones fell far short of the number of approvals accorded. In absolute numbers, 173 units were established against 679 for which approvals were accorded in the case of Kandla, while in the case of Santacruz and Madras, the corresponding figures were 97 out of 227 and 23 out of 124. The picture is even more dismal if one compares the figures of the units actually working against the approvals accorded. The percentage of working units against the number actually approved at the end of 1987-88 stands at 19, 33 and 18 in the case of Kandla, Santacruz and Madras respectively. Coupled with this it is seen that the mortality rate in the various Zones are quite high and this is particularly so in the case of Kandla and Santacruz zones. In the Kandla Zone the mortality rate of units upto March 1982 and March 1988 was 30.2 and 25.4 per cent respectively. In the Santacruz Zone the mortality was 17.4 and 23.7 per cent at the corresponding points of time.

[Sl. No. 7 of Appendix II Para 1.77 of the Report of the PAC (Tenth Lok Sabha].

The number of approvals given are related to the number of project applications received. Actual implementation of the projects by the entrepreneurs can be delayed for reasons such as lack of interest on the part of the promoters, changes in the international market situation, failure to get terms loan from financial institutions and problems with foreign collaborators.

The Zone administration extents all possible help to the enterpreneurs to implement their project. In cases where there are no prospects of implementation the approvals are cancelled to permit allotment of the premises to other applicants.

[Ministry of Commerce O.M. No. 9-7-92—EPZ dated 16.10.1992]

Recommendation

The Committee were also informed that no restriction is placed at present about the size of the unit to be located in the Zone in terms of capital investment, exports, etc. In an effort to avoid high mortality rate in the case of smaller units, a proposal to fix a threshold limit of Rs. 10 crores turn-over, over a period of five years for all products in general and in the case of computer services a turn-over of Rs. 5 crores over a period of 5 years is under consideration by the Ministry.

[Sl. No. 9 of Appendix II Para 1.79 of the Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

In an effort to minimise mortality, a threshold limit of alteast Rs. 5 crores exports in 5 years has been set in the case of computer software units and Rs. 10 crores in repect of others.

[Ministry of Commerce O.M. No. 9/7/92-EPZ dated, 16.10.1992]

Recommendation

The Committee also desire that a comprehensive review for upgrading the quality of products and constant monitoring of the pricing of the products be undertaken by the Development Commissioner to encourage exports to the General Currency Areas.

[Sl. No. 12 Appendix II, Para 1.82 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The Development Commissioners of EPZs have been directed to undertake a comprehensive review for upgrading the quality of products with a view to increase exports to General Currency Areas.

[Ministry of Commerce, O.M. 9/7/92-EPZ dated 26.10.02]

Recommendation

The EPZs are under the administrative control of Ministry of Commerce and for each Zone there is a high level policy making body known as the authority headed by the Commerce Secretary. A Board constitued separately for each Zone accords single point clearance for setting up of new industrial units in the Zone.

[Sl. No. 13 Appendix II, Para 1.83 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The paragraph which is factual brings out the administrative structure of EPZs.

[Ministry of Commerce, O.M. 9/7/92-EPZ dated 26.10.02]

Recommendation

The Committee note with dismay that the authority which is the highest policy making b y in respect of each EPZ which is the required to monitor and revi w the functioning of the Zone, to give directions, to take decisions on additional fiscal and other concessions needed to attract the right type of entrepreneurs for the industrial growth of the Zone and to review the policy issues relating to the Zone, has not met for the last five years though it was supposed to meet twice in a year. The Secretary of the Ministry of Commerce, conceded during evidence before the Committee that there was no justification for this serious lapse on the part of the Ministry. In the absence of such monitoring and lack of follow up with the desired remedial measures, the dismal functioning of the EPZs is not surprising. The Committee hope that in future the meetings of the authority would be regularly held to review the performance of all the Zones.

[Sl. No. 14 Appendix II, Para 1.84 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The Authority meetings of all the Export Processing Zones have since been held. Such meetings would, in future, be held regularly.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee find that at present the Development Commissioners do not have the powers of Collector of Customs and Central Excise. Through the Customs Staff are borne on the strength of the Zone Administration, they are under the charge of Collector of Customs. According to Ministry of Commerce this duality of control results in avoidable delays. The Committee desire that the matter may be examined in detail and measures as considered necessary be taken to improve the functioning of Zones administration to avoid bottlenecks and delays. The Committee may be informed of the bottlenecks identified and the manner of their removal.

[Sl. No. 15, Appendix II, Para 1.85 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

Department of Revenue have amended the exemption Notifications applicable to the Export Processing Zones so as to delegate, in many cases, the powers of Collectors of Customs to the Assistant Collectors of Customs for the various purposes specified in the Notification. This step would substantially improve the functioning of the Zone units.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee desire that the purpose of the relevant notification should be more clearly spelt out so that no private party is in a position to take undue advantage of the notification without fulfilling the objectives of EPZs. The Committee would like the Ministry of Commerce to coordinate with the Ministry of Finance and modify, if necessary, the relevant notification to avoid any such exercise of the provisions contained therein which may result in avoidable loss of revenue to the Government.

[Sl. No. 16, Appendix II, Para 2.8 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The definition of "manufacture" has now been clearly stipulated in the Export-Import Policy, 1992—97.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee regret to note the low return on capital invested by Government in various Zones which ranged from 1.38% to 10.59% as on

31.3.90. They also view with concern that the dues from the units in respect of lease rent which are normally recovered on month to month basis have fallen into large arrears amounting to Rs. 2.44 crores. They see no reason for accumulation of such huge arrears. The Committee desire that a time bound programme be drawn up by the Development Commissioners to liquidate the arrears of rent as early as possible and compliance reported to them within a period of six months. All efforts should also be made to optimally utilise the infrastructure developed to improve the rate of return on capital invested.

[Sl. No. 17, Appendix II, Para 2.16 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The main objective of the EPZ Scheme is to provide the facilities in which competitive export industries could flourish. For this reason, no specific rate of return was envisaged while approving EPZs. In this connection, the following points are also relevant:—

(i) Lease rent in EPZs are calculated under the FR-45-B, which *inter-alia* takes into account the cost of the site and capital expenditure incurred after acquisition on construction for the purpose of calculation of rent. According to this, the amount invested on SDF or development of a plot is recovered roughly in 10 years. This implies that the return cannot exceed 10% even when all industrial plots/sheds have been allotted.

(ii) The new Zones at Noida, Madras, Cochin and Falta are still in the gestation phase and additional investments are being made in these Zones to meet the increased demand. The rate of return of the older Zones at Kandla and Santacruz would thus be higher than the others where fresh infrastructure is being added while the space available has not been fully allotted. This will be evident from the rate of return for 1991-92 given below:—

SEEPZ	12.60%
MEPZ	6.51%
NEPZ	4.40%
CEPZ	4.20%
FEPZ	2.12%
KAFTZ	8.47%

(iii) The return on investment is also likely to be depressed owing to a rent concession extended on 11.2.91 to EPZ units in the four new Zones.

All DCs have also been requested to draw up a time bound programme to liquidate the arrears of rent and also make efforts to optimally utilise the infrastructure developed to improve the rate return on capital invested.

The latest position regarding recovery of lease rent is indicated below:—

(Rs.Lacs)

Zone	Arrears as per the Report	Recoveries made so far
KAFTZ	45.02	20.83
SEEPZ	138.22	110.43
MEPZ	32.78	20.10
NEPZ	24.11	23.29
FEPZ	2.89	2.40
CEPZ	1.00	—

The recoveries yet to be effected relate to the projects which have either been abandoned at the initial stage or units which are not in operation. Efforts are being made by the Development Commissioners to recover the arrears through auction of material/structures at the premises or through other legal action.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee find that in each Zone a number of plots/sheds have not been allotted so far thereby incurring loss of revenue on the capital invested in the construction of these sheds and plots. In the Kandla Zone 20 out of 270 sheds are presently lying vacant, while in the case of Madras zone out of 74 plots and 64 sheds, 15 plost and 30 sheds are still to be allotted. The Committee desire that suitable guidelines may be evolved for invitation of applications and selection of parties for allotment expeditiously so that the plots/ sheds are allotted as soon as they are ready for possession to avoid loss of revenue.

[Sl. No. 19, of Appendix II, para 2.24 of the Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

SDF sheds and plots are allotted to Export Processing Zone entrepreneurs as and when the approved entrepreneurs come to set up the units. There is always a leadtime between construction and actual allotment of sheds. The present position is that almost all the plots and SDF areas are either already allotted or are just adequate to meet requirements of the entrepreneurs whose applications have been approved. For meeting future requirements, additional construction works are in progress/under consideration.

Suitable guidelines have also been issued to Development Commissioners to keep in view the factors such as the nature of the entrepreneurs's requirements, number of applications pending for allotment of plots/built up space, total area required and likely future demand while undertaking infrastructural development activities.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee regret to note that advances amounting to Rs. 31.25 crores paid to the various agencies for construction and maintenance works in the six zones have not been adjusted even though the works had been completed long back. The Committee need hardly emphasize that the monitoring system should be strengthened by the Development Commissioners so as to ensure that the financial transactions are completed within the shortest possible time after the works are completed and the advances get adjusted. The adjustment of accounts in respect of the works already completed, as pointed out by Audit, may be finalised as early as possible and the Committee apprised.

[Sl. No. 20, Appendix II, Para 2.28 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

Adjustment of accounts as pointed out by Audit in respect of works already completed have since been finalised by all the Zones.

The DCs have also been impressed upon to strengthen the monitoring system so as to ensure that the financial transactions are completed within the shortest possible time and the advances settled expeditiously.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee find that a railway siding in the Kandla Zone connecting the zone and the Gandhidham Railway Station was constructed in 1969 at a cost of Rs. 10.56 lakhs to facilitate imports and exports to the Kandla Port. However, the railway siding was never used by the units in the zone right from its inception. In 1986 the Kandla Zone Administration approached the Ministry for its dismantling. Besides the original cost of construction of Rs. 10.56 lakhs, the zonal administration spent an amount of Rs. 14.98 lakhs on the maintenance of the Railway siding till March, 1986. Although the zonal administration have already deposited an amount of Rs. 36,000 with the railways for dismantling this railway siding, the railway siding has not been dismantled so far.

The Committee are unhappy over the lack of proper planning of the infrastructural requirements right from inception. It is also strange that it took the zonal administration 16 long years to realise that the railway siding was of no use to the units in the zone and an additional 5 years have passed without the railway siding having been dismantled or abandoned and maintenance expenditure continues to be incurred. The Committee desire that the railway siding may be dismantled or abandoned without any further delay so that additional expenditure on the maintenance of the siding is avoided. The Committee would like to be informed of the steps taken in this direction within a period of six months.

[Sl. No. 21, Appendix II, Para 2.35 of 10th Report of the PAC (Tenth Lok Sabha)]

Action Taken

The dismantling of the railway siding has been completed.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee note that steel costing Rs. 37.19 lakhs procured in 1985, was rendered surplus due to change in design of works in the Cochin Zone in April, 1986. Upto June 1988 this was yet to be disposed off. Besides blockage of funds, an amount of Rs. 7.60 lakhs paid to the constructing agency towards agency charges and preparation of plans etc. proved to be unfruitful. The plea of the Ministry that change in design was due to the lukewarm response from the entrepreneurs, does not appear very convincing considering the brief gap between procuring of the surplus steel and change of design of the works (1985 to April 1986). The Committee feel that actual requirements and the interests of entrepreneurs should have been properly assessed before undertaking the work. The Committee recommend that the Ministry may lay down suitable guidelines for ascertaining requirements of users while undertaking such works so that such wasteful expenditure and blockage of funds can be avoided in future.

[Sl. No. 22, Appendix II, Para 2.38 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

Pursuant to the recommendation of the Committee, Development Commissioners of EPZs have been requested to keep the following guidelines in view while formulating proposals for developing or augmenting existing infrastructure:—

(i) Details of the infrastructure created and its occupation;

(ii) Likely nature of the requirements of the entrepreneurs;

(iii) Number of applications pending for allotment of plots/built up space and the total area required;

(iv) Likely requirements of plots and built up space in the foreseeable future;

(v) The time frame within which facilities proposed to be created will be fully utilised.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee take note of the non-recovery of vegetable oil cess amounting to Rs. 11.87 lakhs pending from the 2 units in the Kandla Zone and desire to be apprised of the reasons for keeping it pending and further steps being taken in this regard.

[Sl. No. 23, Appendix II, Para 2.41 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The Central Board of Excise and Customs is processing the case for waiver of the vegetable oil cess in respect of the two units in the Kandla Free Trade Zone. For this reason, the Central Board of Excise and Customs is yet to confirm the demand.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee note that sub-standard/rejected goods including computer accessories and peripherals valued at Rs. 1.93 crores lying with the units in the Santacruz Zone, had not been disposed off. The Ministry have stated that goods worth Rs. 106.63 lakhs approx. have been disposed off by burning and sale of multilated scraps or by burial. Disposal of remaining items cleared by DOE is under process. The Ministry have added that the delay is also because of the fact that the units are trying to get prospective buyers from DTA for the multilated scraps. The Committee expect the Ministry to help the units in disposal of their rejected/sub-standard goods in conformity with the objectives of EPZ and communicate the progress made to the Committee within a period of 3 months.

[Sl. No. 24, Appendix II, Para 2.47 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

Progress made in regard to disposal of sub-standard/rejected goods by EPZ units has been communicated to Lok Sabha Secretariat, on 25.5.92 as per the direction of the PAC.

All possible assistance is being extended by the Zone administration in regard to disposal of sub-standard/rejected goods as and when requested are received from the zone units. The position in regard to disposal of rejected/sub-standard goods in respect of each of the EPZs is indicated below:—

Santacruz Electronics Export Processing Zone (SEEPZ)

The value of sub-standard goods out of the goods of Rs. 1.93 crores indicated in audit Para remaining to be disposed of is only Rs. 25 lacs. These goods belong to two units. Certain information has been called for by the Department of Electronics and one unit has since furnished the requisite information and the other unit has been asked to furnish the information urgently so that Department of Electronics could give necessary clearance for its disposal.

Kandla, Cochin, Falta and Noida Export Processing Zones

No proposal for clearance of sub-standard/rejected goods is pending with the Kandla, Madras, Cochin, Noida and Falta zones.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The committee regret to note that the objectives with which the EPZs were set up have remained largely unfulfilled especially during the 1980s. Instead of earning valuable foreign exchange there was net outflow of foreign exchange from all the Zones during the period 1981-82 to 1987-88 to the extent of Rs. 601.13 crores of which an outflow of Rs. 597.48 crores was in Kandla Zone itself. In the Santacruz Zone there was a nominal net inflow of foreign exchange amounting to Rs. 9.56 crores during the same period. The position was similar in respect of the other Zones. During 1985—88 exports from Madras, Cochin and Falta Zones were mainly directed to countries in the rupee payment areas whereas imports were mainly from countries in the general currency area. Exports to general currency areas from the Kandla Zone declined from 16% of total exports in 1981-82 to 10% in 1986-87. During the same period, there was decline of 10% in the Santacruz Zone.

[Sl. No. 3, Appendix II, Para 1.73 of Tenth Report of the PAC (Tenth Lok Sabha].

Action Taken

The achievement of the Zones, *vis-a-vis* the objectives are reflected in the table below:—

Zone	Area in Acres (Approx)	Year of Commencement	No. of Units in Operation	Net P/E Earnings from date of commencement upto 31.3.92 including RPA earnings	Domestic Investment	Employment
1	2	3	4	5	6	7
				(Figures in Rs. Crores)		
KAFTZ	700*	1965	135	1184.62	65.00	11,000
SEEPZ	100	1974	108	509.46	105.00	10,500
NEPZ	320	1986	71	85.81	86.00	4,500
MEPZ	261	1986	65	23.65	87.45	6,616

*Only about 420 acres have so far been developed. Further area is being developed according to need.

1	2	3	4	5	6	7
CEPZ	103	1986	23	25.76	37.60	2,170
FEPZ	280	1986	12	40.47	4.97	400

It will be seen from the statement that the older EPZs—at Kandla and Santacruz—have shown considerable positive net foreign exchange earnings. With the establishment of more and more units, the net foreign exchange earnings by the new Zones (Noida, Madras, Cochin & Falta) is also gradually increasing.

While referring to the net outflow of hard currency from the EPZs, RPA earnings have not been taken into account. It is undoubtedly true that ever since its inception, Kandla has been exporting mainly to RPA countries. Till very recently, there was an obvious advantage in RPA exports against which the country was able to secure supplies like petroleum, minerals, fertilizers and other products which would otherwise have had to be paid for in hard currency. If the RPA exports are to be excluded then the entire trade to Russia and other Eastern block countries amounting to about Rs. 5395.52 crores and Rs. 4350.86 crores in 1990-91 and 1991-92 year respectively would be open to the same criticism.

Nevertheless, exports from EPZs to General Currency Areas have also been on the increase and the net hard currency earnings have become positive in all Zones except Kandla where it will take some more time for existing units to diversify their markets. This will become evident from the table below:—

(Rs. in Crores)

Year	Imports			Exports			NFE without taking into account RPA earnings
	Raw materials	Capital Goods	Total	RPA	GCA	Total	
1	2	3	4	5	6	7	8
SEEPZ							
1990-91	272.56	12.86	285.42	65.30	324.60	389.90	39.19
1991-92	329.06	21.00	350.06	99.82	400.35	500.17	50.29
MEPZ							
1990-91	41.17	39.47	80.64	11.92	49.40	61.32	(−) 31.24
1991-92	70.45	14.76	85.21	13.34	109.13	122.47	23.92
NEPZ							
1990-91	12.27	11.99	24.26	10.98	33.69	44.67	9.43
1991-92	30.61	15.08	45.69	12.00	60.15	72.15	14.46

1	2	3	4	5	6	7	8
FEPZ							
1990-91	14.74	0.05	14.79	18.55	6.47	25.02	(–) 8.32
1991-92	4.96	3.73	8.69	17.45	10.45	27.90	1.76
CEPZ							
1990-91	2.70	2.55	5.25	0.66	4.80	5.46	(–) 0.45
1991-92	13.95	10.53	24.48	1.80	26.78	28.58	2.30
KAFTZ							
1990-91	223.69	10.58	234.27	414.55	42.00	456.55	(–)192.27
1991-92	236.69	2.80	239.49	341.02	86.16	427.18	(–)153.33

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated-26.10.1992]

Recommendation

The Ministry of Commerce have attributed the low percentage of working units mainly to delays in implementation of projects arising out of delays in finalisation of foreign collaboration agreements, technical and marketing tie-ups, buy-back arrangements, delay in arranging finances, etc. The high mortality rate according to the Ministry is on account of the adoption of obsolete technology, failure of marketing arrangements, withdrawal by foreign collaborators, financial and managerial problems and more importantly the units have to operate in a highly volatile and fiercely competitive international market.

[Sl. No. 8, of Appendix II, Para 1.78 of the Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

As mentioned earlier, delays in implementation of projects are usually on account of difficulties in finalisation of foreign collaboration, marketing arrangements, buy-back, and in arranging finance. In order to tackle procedural and operational difficulties, the Government have set up Regional Committees for all EPZs with the DC as the convener and representatives of the State Government, IDBI, RBI, and the EPZ Industries Association. Chairman/Convener of the state level bankers Committee is also a member. It is expected that this would help in expediting the establishment of units.

[Ministry of Commerce, O.M. No. 9/7/92-EPZ dated 26.10.1992]

Recommendation

The Committee were informed by the Ministry that a number of proposals had been framed to revamp the Export Promotion Schemes. This package was considered by the Empowered Committee of Secretaries (ECOS) in September, 1990. Some of these have already found place in the New Trade Policy announced by the Commerce Minister in the Lok Sabha on 13th August, 1991 as per details given in para 1.41A of this

Report. In respect of four other proposals relating to mining projects delegation of powers of Collector of Customs and Excise to Development Commissioner of the Zones, perpetual tax holiday, tax repatriation of dividends with which the Committee of Secretaries did not find favour the Ministry proposed to place them before the Cabinet Committee on Trade and Investment as these are also considered necessary by them. The Committee would like the Ministry to get decisions on these proposals expedited.

[Sl. No. 11 Appendix II—Para 1.81 of Tenth Report of the PAC (Tenth Lok Sabha)].

Action taken

The issue relating to mining projects is relevant mainly to the EOU scheme as it is usually not feasible to set up mining projects in the Zones. As regards delegation of powers of Collector of Customs, the Department of Revenue have recently issued a Notification delegating certain powers of the Collector of Customs to the Assistant Collector of Customs posted in the Zone. The efficacy of this arrangement is being ascertained and the matter will be taken up subsequently, if required. As regards perpetual tax holiday and tax-free repatriation of dividends, the Ministry is of the view that it may not be appropriate at this stage to pursue these only in respect of EPZ units.

[Ministry of Commerce O.M. No. 9/7/92—EPZ dated 26-10-1992]

Recommendation

The Committee note that lease agreements had not been executed in the case of a number of units in each Zone due to the absence of legal title in favour of the Zone Administration from the State Government or non-finalisation of the legal agreement format. The Committee desire that close liaison may be established by the Development Commissioners with the State Government and suitable lease agreements executed with the concerned units as early as possible. The Committee would like to be informed of the action taken in this regard within a period of six months.

[Sl. No. 18 Appendix II—Para 2.22 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

As regards execution of lease agreement, it may be mentioned that plots and sheds are offered to units in EPZs after approval of the project. On acceptance of the plot/shed offered, the units pays the advance rent for one year and on that basis Zone administration issues allotment order wherein suitable clauses for protecting Government interests are incorporated. Only after issue of allotment order is possession of shed or plot handed over to the party.

Development Commissioners have been directed to take early steps in future for expeditious execution of lease agreements. Transfer of legal title of land in favour of the Zone administration has now been effected in the case of all EPZs.

[Ministry of Commerce O.M. No. 9/7/92—EPZ dated 26-10-1992]

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee observe that the contribution of EPZs to total exports is quite insignificant ranging between two to three per cent during the period 1982-83 to 1989-90 as against the objective of 8 to 10%. Product-wise comparison shows that the percentage contribution of EPZs (excluding Santacruz Zone) to the total exports of the product during 1989-90 constitutes 10.69 in the case of electronic items, 8.17 in the case of chemicals and related products and 2.96 in the case of readymade garments. In respect of engineering products the percentage contribution is merely 2.01% and almost insignificant in the case of food products and gems and jewellery. The Committee find that the import content for the broad commodity groups during 1989-90 in respect of different Zones widely vary. The average level of import content commodity-wise varied from 39.7% in the case of chemicals to 80.33% in the case of engineering goods.

The Committee recommend that export targets to non-domestic areas and especially GCA must be fixed for each Zone and each unit by the Development Commissioners alongwith approval of incentives and facilities to them. The linkage of the units to their foreign markets should be carefully grown by the Development Commissioners.

[Sl. No. 5 Appendix II—para 1.75 of the Tenth Report of the PAC (Tenth Lok Sabha)]

Action taken

Suitable instructions have been issued to the Development Commissioners of EPZs to take necessary steps to implement the recommendation of the Public Accounts Committee. It is, also pertinent to mention that in view of the changes that are taking place in the former Soviet Union, the quantum of RPA exports have decreased substantially and this trend is likely to continue. In these circumstances, most of the exports would in due course be directed to the GCA only.

[Ministry of Commerce O.M. No. 9/7/92—EPZ dated—26-10-1992]

Recommendation

The Committee find that the study carried out by the ICRIER on Kandla and SEEPZ has also revealed that units with foreign equity participation have consistently performed better than their purely domestic counter-parts as the marketing problems are the least in the case of the former. During evidence, the Commerce Secretary confirmed that in Santacruz Zone where there has been a better infusion of foreign capital and technology the success has been a little higher as compared to the other Zones, although it is too early to arrive at any conclusion in regard to other Zones which have been set up recently. The Committee also find that the movement of foreign capital to various Zones in the world has been basically due to a virtual free trade regime, availability of excellent/efficient infrastructure and skilled labour as in countries like Singapore. In other countries, especially in the large and somewhat closed economies, foreign investment has been attracted by access to domestic market. However, the Ministry expressing their own apprehension in the context of the country's overall industrial and fiscal policies stated that "it may not be possible to meet these conditions fully." In Indian conditions on the one hand, the domestic market is not open to the foreign investors and on the other hand, the tax benefits that are available in EPZs are the same in the case of the domestic area. Therefore, the tendency for the high technology investment by multinationals in EPZ is diminishing because they think it is far better if they try to go in the domestic area. The Committee, however, find that a detailed study about the experience of the other countries has not been made so far. They desire that specific analysis on a zonal basis in terms of profit margins in exports and profit margins in trying to get into domestic area be done thereafter a suitable strategy be evolved for attracting foreign capital and technology into the EP Zones in relation to export and earning of foreign exchange. The experience of foreign countries can be dovetailed with suitable modifications to accelerate the pace of development of the various Zones.

[Sl. No. 6 Appendix II—Para 1.76 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The Indian Institute of Foreign Trade has been asked to study this aspect and evolve a strategy for attracting foreign capital and technology into Export Processing Zones to accelerate the pace of their development in relation to exports to general currency areas on 30.6.92

[Ministry of Commerce O.M. No. 9/7/92—EPZ dated-26-10-1992]

Recommendation

The Committee view with concern the prevailing high rate of mortality of units in Kandla and Santacruz Zones. They find that no independent study has been conducted to identify the reasons for the high mortality rate that is prevailing. The Committee recommend that such a study be carried out forthwith and suitable corrective action taken to improve the export performance of these Zones. The Committee need hardly emphasis that any proposal for establishing a unit in the EPZs is to be carefully evaluated in regard to its feasibility and economic viability before it is approved but thereafter all necessary steps should be taken to remove the constraints in its successful operation.

[Sl. No. 10 Appendix II—Para 1.80 of Tenth Report of the PAC (Tenth Lok Sabha)]

Action Taken

The Indian Institute of Foreign Trade has been commissioned on 30.6.1992 to undertake a study to identify the main reason for mortality of EPZ units.

[Ministry of Commerce O.M. No. 9/7/92—EPZ dated-26-10-1992]

CHAPTER V

RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

— NIL —

NEW DELHI;
February 21, 1991
Phalguna 2, 1915(S)

BHAGWAN SHANKAR RAWAT
Chairman,
Public Accounts Committee.

APPENDIX I

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Deptt. Concerned	Recommendations/Conclusions
1	2	3	4
1.	9	Ministry of Commerce	In their earlier report, the Committee had observed that the contribution of Export Processing Zones to total exports was quite insignificant ranging between two to three per cent during the period 1982-83 to 1989-90 as against the objective of 8 to 10%. Emphasising the need for improvement in export performance, the Committee had recommended that export targets to non-domestic areas and especially General Currency Area (GCA) countries must be fixed for each Zone and each unit by the Development Commissioners alongwith approval of incentives and facilities to them and that the linkage of the units to their foreign markets should be carefully nurtured by the Development Commissioners. In their action taken note the Ministry of Commerce have stated that suitable instructions have been issued to the Development Commissioners of Export Processing Zones to take necessary steps to implement the recommendation of the Public Accounts Committee. According to them, in view of the changes in the former Soviet Union, the quantum of exports to Rupee Payment Area (RPA) countries have decreased substantially and most of the exports now would in due course be directed to GCA only. From the yearwise data of contribution of EPZ exports to total exports during the five years period ending 1992-93, obtained by the Committee, It was however observed that the percentage contribution of

1	2	3	4
			EPZs to total exports had fallen during the last two years touching low percentages of 2.67 and 2.58 in 1991-92 and 1992-93 respectively. This clearly shows that the instructions issued by the Ministry of Commerce are yet to achieve the desired results. The Committee desire that in the light of the continuing poor export performance of EPZs the Ministry of Commerce should further look into the impact of their instructions issued to the Development Commissioners and take effective steps so that the Export Processing Zones generate exports as per their laid down targets to the total exports from the country.
2.	16	Ministry of Commerce	The Committee note that in pursuance of their recommendations, the Ministry of Commerce commissioned a study by the Indian Institute of Foreign Trade to identify the reasons for high mortality of EPZ units and to evolve a strategy for attracting foreign capital and technology into EPZs to accelerate the pace of their development in relation to exports to General Currency Area (GCA) countries. The IIFT in their study report has analysed the performance of the existing units in the EPZs, identified the problems and procedural bottlenecks faced by them, outlined the strategy for accelarating their exports and also undertaken an examination of the operation of Export Processing Zones in selected developing countries particularly in the Asia Pacific region like China, Mauritius, UAE, Malaysia, Indonesia, etc. to draw lessons from their experiences. The Committee are convinced that the functioning of the Export Processing Zones should be further looked into keeping in view the recommendations of the Committee and the further inputs now provided by the Indian Institute of Foreign Trade in their report so as to streamline and revamp the policies and procedures and thereby achieve the basic objectives for which EPZs had been set up.

1	2	3	4
3.	20	Ministry of Commerce	In their earlier report, the Committee had noted with regret that the return on capital invested by Government in various Export Processing Zones was low, ranging from 1.38% to 10.59% as on 31.3.1990. They had also viewed with concern that the dues from the units in respect of lease rent which are normally recovered on month to month basis had fallen into large arrears amounting to Rs.2.44 crores. Stressing the need for prompt liquidation of the arrears, the Committee had also recommended that all efforts should be made to optimally utilise the infrastructure developed to improve the rate of return on capital invested. In their action taken note the Ministry of Commerce have stated that no specific rate of return was envisaged while approving EPZs and that the rate of return for 1991-92 ranged between 2.12% and 12.60%. They have also stated that as a result of the action taken pursuant to the recommendation of the Committee, the accumulated arrears of rent has now been brought down from Rs.2.44 crores to about Rs.67 lakhs. The fact that the EPZs have been able to liquidate the arrears considerably in such a short period after being pointed out by the Committee would clearly indicate that adequate action had not been taken earlier to realise the legitimate dues of Government which is a matter of concern to the Committee. The Committee expect the Ministry to make concerted efforts to realise the Governmental dues in time and that the infrastructure developed is utilised optimally to improve the rate of return on capital invested.

PART II

MINUTES OF THE 19TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 16TH FEBRUARY, 1994

The Committee sat from 1500 hrs. to 1600 hrs. on 16 February, 1994 in Committee Room 'B', Parliament House Annexe.

PRESENT

CHAIRMAN

Shri Bhawgwan Shankar Rawat

MEMBERS

Lok Sabha

2. Shri Nirmal Kanti Chatterjee
3. Dr. K.V.R. Chowdary
4. Shri Sharad Dighe
5. Shri Srikanta Jena
6. Shri Rama Krishna Konathala
7. Shri D.K. Naikar
8. Shri Mrutyunjaya Nayak

Rajya Sabha

9. Shri Somappa R. Bommai
10. Shri Anant Ram Jaiswal
11. Miss Saroj Khaparde
12. Shri Murasoli Maran

SECRETARIAT

1. Shri S.C. Gupta	—	*Joint Secretary*
2. Shri R.K. Chatterjee	—	*Deputy Secretary*
3. Shri P. Sreedharan	—	*Under Secretary*

REPRESENTATIVES OF AUDIT

1. Shri S.H. Manghani	—	Addl. Dy. C&AG
2. Shri P.K. Bandopadhyay	—	Dirc. General of Audit (P&T)
3. Shri Vikram Chandra	—	Pr. Director, Reports (Central)
4. Shri B.C. Mahe	—	Pr. Director, E&SM
5. Shri P.K. Brahma	—	Pr. Director of Receipt Audit (INDT)
6. Smt. Ruchira Pant	—	Director (Custom)
7. Shri P.S. Dewan	—	Dy. Director of Audit (Defence Services)
8. Shri T.S. Pathania	—	Dy. Director of Audit, Central Revenue
9. Shri K.C. Gupta	—	Dy. Director, P&T Audit

2. The Committee considered the following Draft Reports and adopted the same subject to certain modifications and amendments as shown in Annexure I*, II**, III* & IV respectively:—

(i) *** *** ***
(ii) *** *** ***
(iii) *** *** ***
(iv) Export Processing Zones [Action Taken on 10th Report (10th LS)]

*** *** ***

3. The Committee authorised the Chairman to finalise these draft reports in the light of other verbal and consequential charges suggested by some Members and also those arising out of factual verification by Audit and present the same to Parliament.

The Committee then adjourned.

---

*Not appended

ANNEXURE IV

AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC ACCOUNTS COMMITTEE IN THE DRAFT REPORT ON ACTION TAKEN ON 10TH REPORT (10TH LOK SABHA) RELATING TO EXPORT PROCESSING ZONES

Page	Para	Line	Amendments/Modifications
5	9	14	*Delete* 'very'