

HUNDRED AND TWENTY NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1982-83)

(SEVENTH LOK SABHA)

WORKING OF THE OFFICE OF THE JOINT CHIEF CONTROLLER
OF IMPORTS AND EXPORTS (CIA) NEW DELHI

MINISTRY OF COMMERCE
(Department of Commerce)

[Action taken by Government on the recommendations of the Public
Accounts Committee contained in their 111th Report (7th Lok Sabha)]



Presented in Lok Sabha on
Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
NEW DELHI

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			23.	M/s. Mukherji Book House, 8B, Duff Lane, Calcutta-6	4

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	(iii)
INTRODUCTION	(v)
PART I	
CHAPTER I Report	1
CHAPTER II Recommendations and Observations that have been accepted by Government	7
CHAPTER III Recommendations and Observations which the Committee do not desire to pursue in the light of the replies received from Government	20
CHAPTER IV Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration	25
CHAPTER V Recommendations and Observations in respect of which Government have refurnished interim replies	26
PART II	
Minutes of the sitting of the Public Accounts Committee held on 25 February, 1983	27
APPENDIX Statement of Conclusions and Recommendations	29

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CORRIGENDA TO 129TH REPORT OF PAC(1982-83)

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<u>Page</u>	<u>Para</u>	<u>Line(s)</u>	<u>For</u>	<u>Read</u>
(i)	-	16	refurnished	furnished
(vi)	-	6	in the matter of by	in the matter by
3	1.5	4	further exten- sion of time as allowed by Reserve Bank of	India on the basis of the exporter or other -
10	-	17	Finance	Finance
17	-	33	to the view that there is an urgent need for strict machinery to	to the view that there is an urgent need for strict machinery
20.	-	31	OS.	CCS

PUBLIC ACCOUNTS COMMITTEE
(1982-83)

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Shri Satish Agarwal

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1. Shri T. R. Krishnamachari—*Joint Secretary*
2. Shri K. C. Rastogi—*Chief Financial Committee Officer*
3. Shri K. K. Sharma—*Senior Financial Committee Officer*

INTRODUCTION

1. I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Twenty Ninth Report on action taken by the Government on the recommendations of the Public Accounts Committee contained in their Hundred and Eleventh Report (Seventh Lok Sabha) on the Working of the Office of the Joint Chief Controller of Imports and Exports (CLA) New Delhi relating to the Ministry of Commerce (Department of Commerce).

2. In the Hundred and Eleventh Report, the Committee had expressed their dissatisfaction over the present procedure of maintaining watch over the realisation of foreign exchange against cash compensatory support paid to exporters and had emphasised the need for close coordination between Reserve Bank of India and the office of the CCI&E for effecting necessary recovery/adjustment from the concerned exporter. The Committee had also recommended that the parties should be required to give the CCI&E the details of foreign exchange realised within the stipulated time. The Committee have noted the assurance of the Ministry that suitable action was being taken to implement these recommendations.

3. Government have accepted in principle the recommendation made by the Committee in the Hundred and Eleventh Report to the effect that the set-up and functioning of the office of the Chief Controller of Imports and Exports should be got examined by a team of management experts with a view to finding out if the present set-up is adequate to discharge the multiple functions, both regulatory and developmental in nature now entrusted to it. Government have also accepted the other recommendations of the Committee for streamlining the working of the office of the Chief Controller of Imports and Exports, viz. setting up of an internal audit system, computerization of various functions, setting up of a cell to undertake cost study of export commodities as well as an analytical study of the scheme of cash compensatory support with a view to finding out to what extent the organization has been able to achieve its objectives.

4. The Report was considered and adopted by the Public Accounts Committee (1982-83) on 25 February, 1983. The Minutes of sitting of the Committee form Part II of the Report.

(vi)

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 help rendered to them in the matter of by the office of the Comptroller and Auditor General of India.

NEW DELHI;
March 1, 1983.

Phalguna 10, 1904 (S).

SATISH AGARWAL
Chairman
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with action taken by Government on the Committee's recommendations and/or observations contained in their 111th Report (7th Lok Sabha) on the Working of the Office of the Joint Chief Controller of Imports and Exports (CIA) New Delhi.

1.2 The 111th Report was presented to Lok Sabha on 30 April, 1982 and contained 19 recommendations/observations. The Action Taken Notes in respect of all the 19 recommendations/observations have been received from the Government and these have been broadly categorised as follows:

- (i) Recommendations or observations that have been accepted by Government:

S. Nos. 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 16, 17 and 19.

- (ii) Recommendations or observations which the Committee do not desire to pursue in the light of the replies received from Government:

S. Nos. 9 and 18.

- (iii) Recommendations or observations replies to which have not been accepted by the Committee and which require reiteration:

NIL

- (iv) Recommendations or observations in respect of which Government have furnished interim reply:

NIL

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

Realisation of foreign exchange against cash compensatory support (S. No. 12, Para 89)

1.4 Expressing their distress at the fact that at present there is no mechanism to ensure that foreign exchange was actually realised

in respect of exports on which cash assistance was given, the Committee in Para 89 of their 111th Report had observed as follows:

“The Committee are surprised to learn that at present there is no mechanism to ensure that foreign exchange has actually been realised in respect of exports on which cash assistance has been given. Cash assistance is paid on the basis of certificate of actual export given by the foreign exchange dealer i.e. the banks and not on foreign exchange realisation. While it is the responsibility of the foreign exchange dealer to send the statement of realisations to the Reserve Bank of India it is regrettable that in many cases this responsibility is not being discharged. Moreover, the consolidated statements furnished by the Reserve Bank of India pertain to all items of exports including these on which cash compensatory support has not been given and thus do not concern the Chief Controller of Imports and Exports. There is no foolproof system of follow-up in the office of the Chief Controller of Imports and Exports. The Committee are shocked at the admission made by the Chief Controller of Imports and Exports before the Committee that ‘they are not in a position to state categorically before the Committee the numbers and names of parties which availed of cash assistance but failed to realise foreign exchange.’ The Committee are distressed at this state of affairs where huge amounts of funds are being paid from the public exchequer as cash compensatory support without ensuring whether the objectives of the scheme viz. earning of more foreign exchange is being achieved or not.”

1.5 In their action taken reply, the Ministry of Commerce (Deptt. of Commerce) have stated as follows:

“In order to ensure foreign exchange realisation in respect of exports on which cash assistance has been paid, under the existing procedure, CCS is allowed on the basis of a certificate given by the authorised dealer of the foreign exchange to the effect that the documents have been sent for collection or negotiation without waiting for the actual realisation of foreign exchange in addition to the other prescribed documents. Exporters are liable to produce evidence of foreign exchange realisation within prescribed period of 180 days as provided by the Reserve Bank of India. The cases of defaulters, who have failed

to realise the foreign exchange against their export product within this prescribed period, in addition to the further extension of time as allowed by Reserve Bank of India by the further extension of time as allowed by Reserve Bank of India by the concerned foreign exchange dealers through whom the documents were negotiated. These statements are consolidated by Reserve Bank of India and sent to the different disbursing authorities under CCI&E for effecting necessary recovery/adjustments from the concerned exporter."

1.6 In their 111th Report, the Committee had pointed out that at present the consolidated statements furnished by the Reserve Bank of India pertain to all items of exports. The items on which cash compensatory support is given are not shown separately with the result that there is no fool proof system of follow up in the Office of Chief Controller of Imports and Exports to ensure that foreign exchange is actually realized against the exports on which cash compensatory support was given. In reply, the Ministry have only describing the present procedure of furnishing the statements by the RBI to the CCI&E for effecting necessary recovery/adjustments from the concerned exporter. As already pointed out, this situation is not at all satisfactory.

1.7 However the Committee are glad to observe that their recommendations that effective steps should be taken hereafter to ensure timely realisation of foreign exchange earnings of exporters (Sl. No. 13, para 90), that the parties should be required to give the CCI&E the details of foreign exchange realised within a stipulated time (Sl. No. 14, Para 91), and that a foolproof procedure evolved at an early date so that there is close coordination between the RBI and the CCI&E in keeping watch over foreign exchange realisation against cash assistance (Sl. No. 15, Para 92) have been noted by the Ministry stating that suitable action is being taken to implement them. The Committee would await the conclusive action taken in this regard within three months.

Streamlining the set up and functioning of the office of the Chief Controller of Imports & Exports (Sl. Nos. 2, 4, 5, 7 and 8, Paras 79, 81, 84 and 85)

1.8 Emphasizing the need for examination of the set up and functioning of the office of the Chief Controller of Imports and Exports

by a team of management experts, the Committee had in Para 79 of the 11th Report observed as under:

"The Committee note that the functions of this organisation have undergone a fundamental change, from a primarily regulatory organisation in respect of import of goods, it at present serves as the main instrument of Government in the field of export promotion also including disbursement of cash assistance. The Committee are surprised to learn that no management study of this organisation has been conducted as yet to find out how far its present set up is adequate to discharge the additional functions entrusted to it from time to time. They feel that this organisation which has to perform multiple functions both regulatory and developmental in nature, has reached a stage where its working needs to be looked into and streamlined. The Committee, therefore, recommend that Government should get the set up and functioning of the office of the Chief Controller of Imports and Exports examined by a team of management experts to suggest necessary changes to improve its working."

1.9. In the action taken reply, Government have stated:

"Recommendation is accepted in principle. Modalities are being examined."

1.10 The Committee had made the following further recommendations in this regard:

- (i) Need for having an internal audit system of the CCIE's organization for audit of cash assistance transactions (Sl. No. 4, Para 81).
- (ii) Computerization of the various functions with a view to providing more efficient and quick service (Sl. No. 5, Para 82).
- (iii) Need for setting up a cell in the CCIE's Organization to undertake cost study of export commodities to enable fixation of rates of cash compensatory support on a systematic basis (Sl. No. 7, Para 84).
- (iv) Need for making an analytical study of the scheme of cash compensatory support with a view to finding out to what

extent it has been able to achieve its objectives (Sl. No. 8, Para 85).

1.11 Government have informed the Committee as under:

- (i) The recommendation is accepted. Necessary action is being taken to implement the same.
- (ii) The programme for introducing computerization in a phased manner has been drawn up. The matter requires to be further examined in consultation with the concerned Department.
- (iii) It has been decided to set up a Cell in the Ministry for continuous review and monitoring of the rates of Cash Compensatory Support from time to time. The Cell will *inter-alia* be required to undertake cost study of selected commodities, whenever considered necessary.
- (iv) One of the functions proposed to be entrusted to this Cell would be to undertake an analytical study of the scheme of cash compensatory support.

1.12 In para 79 of the 111th Report, the Committee had pointed out that no management study of the working of the office of the Chief Controller of Imports and Exports had been undertaken so far with a view to finding out if the present set up was adequate to discharge the additional functions, entrusted to it from time to time. As the organisation was now required to perform multiple functions both regulatory and developmental in nature, the Committee had recommended that the set up and functioning of the office of the Chief Controller of Imports and Exports should be got examined by a team of management experts to suggest necessary changes to improve its working. The Committee are glad to note that this recommendation has been accepted in principle and the modalities are being examined. The Committee would like to be apprised of the findings of the expert team and the action taken in pursuance thereof as expeditiously as possible.

1.13 The Committee further note with gratification that Government have accepted the other recommendations of the Committee for streamlining the working of the Office of the Chief Controller of Imports and Exports viz. setting up of an internal audit system, computerization of various functions, setting up of a cell to undertake cost study of export commodities as well as an analytical study

of the scheme of cash compensatory support with a view to finding out to what extent it has been able to achieve its objectives. The Committee expect that concrete steps would be taken by the Ministry of Commerce without delay in pursuance of these recommendations, so that the present weaknesses and deficiencies in the working of the CCIE's organisation as also in the implementation of the scheme of cash compensatory support are removed. The Committee would like to be apprised of the measures taken and the results achieved in six months time.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The organisation of the Chief Controller of Imports and Exports under the Ministry of Commerce consists of headquarters office in Delhi and 24 other regional Offices. The functions of this organisation are wide ranging including laying down of policies relating to imports exports and export promotion, capital goods licensing; cash assistance and duty drawback, raw material and components licensing export licensing etc.

[S. N. 1, Para 78 Appendix III to 111th Report of P.A.C.
(Seventh Lok Sabha)]

Action taken

This is factual and calls for no comments.

[Ministry of Commerce (Department of Commerce) O.M. No.
9-2/CA/82-83/2743 dated 9-12-82]

Recommendation

The Committee note that the functions of this organisation have undergone a fundamental change from a primarily regulatory organisation in respect of import of goods, it at present serves as the main instrument of Government in the field of export promotion also including disbursement of cash assistance. The Committee are surprised to learn that no management study of this organisation, has been conducted as yet to find out how for its present set up is adequate to discharge the additional functions entrusted to it from time to time. They feel that this organisation which has to perform multiple functions both regulatory and developmental in nature, has reached a stage where its working needs to be looked into and streamlined. The Committee, therefore, recommend that Government should get the set up and functioning of the office of the Chief Controller of Imports and Exports examined by a team of management experts to suggest necessary changes to improve its working.

[S. No. 2, Para No. 79 of Appendix III to 111th Report of P.A.C.
(Seventh Lok Sabha)]

Action Taken

The recommendation is accepted in principle. The modalities are being examined.

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

As a result of test check undertaken by Audit during 1974-75 to 1976-77 in the office of the JCCIE, New Delhi, overpayments amounting to Rs. 82.07 lakhs in respect of cash assistance disbursed were pointed out. A further test check in audit of this office during 1977-78 to 1979-80 disclosed overpayments amounting to Rs. 29.83 lakhs. On a test check in the Office of the JCCIE, Bombay, Audit pointed out overpayments amounting to Rs. 38.39 lakhs in respect of cash assistance disbursed during 1977-78. The total cash assistance disbursed by the CCIE's Organisation was Rs. 341.66 crores, Rs. 374.50 crores and Rs. 451.00 crores (Estimated) during the years 1979-80, 1980-81 and 1981-82 respectively.

[S. No. 3, (Para No. 80) of Appendix III to 111th Report of P.A.C.
(Seventh Lok Sabha)]

Action Taken

This is factual and calls for no comments.

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

Under the present procedure, the applications for cash assistance are scrutinised by the licensing staff of the regional licensing offices. A second check is made by verification units, under the simplified payment scheme the second check by the verification units is made after the payments are made. Although huge amounts have been paid every year by way of cash assistance and a large number of cases of overpayments have been detected by the statutory audit during test check only, the Committee are surprised to find that the Government at no time considered the need for having an internal audit system in the CCIE's organisation. At the instance of the Committee, an internal audit check was carried out in the office

of the JCCIE, Madras. This single check led to detection of cases of overpayments/irregular payments amounting to Rs. 3.6 Lakhs relating to the period April-October, 1981 only. The Committee are, therefore of the view that the present system of verification in the offices of the CCIE is totally inadequate and has resulted in huge losses to the exchequer. The Committee have no doubt that the benefits accruing from an internal audit system would be several times more than the expenditure that would have to be incurred on an internal audit organisation. They, therefore, recommend that Government should take steps to set up an internal audit organisation for audit of cash assistance transactions as also other allied functions as may be assigned to it.

[S. No. 4, (Para No. 81) Appendix III to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

The recommendation is accepted. Necessary action is being taken to implement the same.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Committee note that at present the Office of the Chief Controller of Imports and Exports is not having any computerised service. However a proposal in this regard is under examination. The Committee feel that in view of the vast number of applications being received, licenses being issued and parties to be dealt with, it is desirable that the working of the organisation should be gradually computerised so as to provide more efficient and quick service.

[S. No. 5, (Para No. 82) to Appendix III of the 111th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

A programme for introducing computerization in a phased manner has been drawn up. The matter requires to be further examined in consultation with the concerned Departments.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Committee find that at present the rates of cash compensatory support on various items are fixed on the basis of data collected by the Export Promotion Councils from some of the major exporters. The data alongwith the recommendation of the Export Promotion Council concerned is scrutinised by the concerned commodity division in the Ministry of Commerce and then placed before an inter-ministerial Committee under the Chairmanship of Additional Secretary, Ministry of Commerce. The inter-ministerial Committee considers the proposals and makes recommendations regarding the rates of cash compensatory support on various items. Where the proposal is for grant of cash compensatory support for the first time, the recommendations of the Export Promotion Council are placed before the Marketing Development Assistance (Main) Committee which consists of Secretary, Ministry of Commerce, Secretary, Ministry of Finance (Department of Economic Affairs) and the Secretary, Ministry of Finance (Department of Expenditure).

[S. No. 6, (Para No. 83) to Appendix III, of the 111th Report of
P.A.C. (Seventh Lok Sabha)]

Action Taken

This is factual and calls for no comments.

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Public Accounts Committee have time and again drawn the attention of the Government to the inadequacy of the present system of decision making in regard to grant of cash compensatory support for various export commodities. In para 1.49 of their 174th Report (1975-76) the Committee had pointed out that the basic defect in the system was that there was no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisation and the impact of various kinds of assistance given for export promotion. In para 1.120 of their 10th Report (1977-78), the Committee had recommended that Government would do well to attempt a quantification, in monetary terms, of the various concessions given in the past to exporters and make an assessment of the actual impact of these concessions with a view to determining how far these export promotion measures

have actually succeeded in achieving the objectives envisaged. In para 1.123 of their 10th Report (1977-78), the Committee had further observed that an almost exclusive reliance had to be placed on the data furnished by the Export Promotion Councils which comprised of interested exporters and industrialists themselves. It was admitted that the Export Promotion Councils had no machinery to check the veracity of the cost data furnished by the exporters nor did the Ministry of Finance examine the data in all cases before agreeing to grant cash assistance. In para 1.6 of their 77th Report (1981-82), the Committee have expressed the view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or reviewing the cash assistance on any commodity and particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying this facility for a number of years.

[S. No. 7, (Para No. 84) to Appendix III, of 111th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

The question of undertaking cost study of items qualifying for CCS has been considered and it is felt that cost study may not be treated as a pre-requisite for fixation of rates of cash compensatory support since CCS is determined on the basis of approved criteria. Cost study is not one of the criteria specified. Nevertheless, it could help in making a better assessment in certain selected cases. In view of this, it has been decided to set up a Cell in this Ministry for continuous review and monitoring of the rates of CCS from time to time. The cell will be entrusted the following aspects of the Scheme of CCS:—

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

Whenever considered necessary, the cell may also be required to undertake cost study of selected commodities. It may be stated that one of the functions proposed to be entrusted to the cell referred to above would be undertaking this study.

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

Although the figures of f.o.b. values of exports of commodities and cash assistance paid in respect of these commodities have been furnished to the Committee, no study has been made to determine how far the cash assistance paid has actually contributed to an increase in exports of those commodities and what was the quantum of additional foreign exchange inflow generated thereby. In the view of the Committee, the absence of such vital data in the weakest link in the scheme of cash compensatory support. The Committee recommend that Government should make an analytical study of the scheme and the extent to which it has been able to achieve its objectives.

[S. No. 8 (Para No. 85) to Appendix III of 111th Report of
P.A.C. (Seventh Lok Sabha)]

Action Taken

The recommendation is accepted. It has been decided to set up a cell in the Ministry and one of the functions proposed to be entrusted to the cell would be undertaking this study.

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Committee are surprised to learn that in many foreign countries, Indian goods are being marketed under the brand of foreign firms, which are marketing them and not under Indian brand names. The result is that Indian goods do not become popular and the market for Indian goods is not stable. The Committee would urge upon the Government to ensure that as far as possible Indian products are marketed in foreign countries under Indian brand names and Government should enforce strict quality control on these goods so that these may not bring discredit to the country.

[S. No. 10 (Para No. 87) to Appendix III of 111th Report of
(Seventh Lok Sabha)]

Action taken

The recommendation has been noted for guidance.

[Ministry of Commerce (Department of Commerce) O.M.
No.9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Committee need hardly emphasise that ultimately it is the quality of Indian goods and their acceptance in the international market which will boost up our exports. It is, therefore, imperative that instead of excessive dependence on cash assistance, greater attention is paid to other export promotion measures like improvement in quality of products, attractive packing, better publicity and adoption of latest technology and designs.

[S. No. 11 (Para No. 88) of Appendix III to 111th Report of
P.A.C. (Seventh Lok Sabha)]

Action taken

The recommendation has been noted for guidance.

[Ministry of Commerce (Department of Commerce) O.M.
No.9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Committee are surprised to learn that at present there is no mechanism to ensure that foreign exchange has actually been realised in respect of exports on which cash assistance has been given. Cash assistance is paid on the basis of certificate of actual export given by the foreign exchange dealer i.e. the banks and not on foreign exchange realisation. While it is the responsibility of the foreign exchange dealer to send the statement of realisations to the Reserve Bank of India it is regrettable that in many cases this responsibility is not being discharged. Moreover, the consolidated statements furnished by the Reserve Bank of India pertain to all items of exports including those on which cash compensatory support has not been given and thus do not concern the Chief Controller of Imports and Exports. There is no foolproof system of follow-up in the office of the Chief Controller of Imports and Exports. The Committee are shocked at the admission made by the Chief Controller of Imports and Exports before the Committee that "they are not in a position to state categorically before the Committee the numbers and names of parties which availed of cash assistance but failed to realise foreign exchange". The Committee are distressed at this state of affairs where huge amounts

of funds are being paid from the public exchequer as cash compensatory support without ensuring whether the objectives of the scheme viz. earning of more foreign exchange is being achieved or not.

[S. No. 12 (Para No. 89) of Appendix III to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action taken

In order to ensure foreign exchange realisation in respect of exports on which cash assistance has been paid, under the existing procedure, CCS is allowed on the basis of a certificate given by the authorised dealer of the foreign exchange to the effect that the documents have been sent for collection or negotiation without waiting for the actual realisation of foreign exchange in addition to the other prescribed documents. Exporters are liable to produce evidence of foreign exchange realisation within prescribed period of 180 days as provided by the R.B.I. The cases of defaulters, who have failed to realise the foreign exchange against their exported product within this prescribed period, in addition to the further extension of time as allowed by RBI on the basis of the request of the exporter or otherwise are referred to RBI by the concerned foreign exchange dealers through whom the documents were negotiated. These statements are consolidated by RBI and sent to the different disbursing authorities under CCI&E for effecting necessary recovery/adjustments from the concerned exporter.

[Ministry of Commerce (Department of Commerce) O.M. No.9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

From the statement of foreign exchange realisations against cash compensatory support prepared by the Reserve Bank of India in respect of the year 1980 at the instance of the Committee, the Committee note that there are 1800 cases involving a sum of Rs. 10 crores where foreign exchange has not been realised within the stipulated period. Since the scheme of cash compensatory support is in operation since 1966, the Committee have no doubt that the total number of cases of defaults involving huge amounts would be sufficiently large. The Committee cannot but conclude that there has been gross negligence both on the part of the Organisation of the Chief Controller of Imports and Exports and the Reserve Bank of India in the discharge of their duties. This is highly regrettable.

The Committee expect that effective steps would be taken hereafter to enforce timely realisation of foreign exchange earnings by exporters.

[S. No. 13 (Para No. 96) of Appendix III to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action taken

Recommendation is noted and suitable action is being taken.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2/CA/82-83/2743 dated 9-12-82]

Recommendation

The Committee find that at present there is no obligation on the party receiving the cash assistance to intimate the details of foreign exchange realised. This is really surprising because it is primarily the duty of the beneficiary of the assistance to ensure the realisation of foreign exchange and intimate the same to the Office of the CCI&E. The Committee feel that this can easily be done by including in the application form for cash assistance details of foreign exchange realisation which can be retained by the party concerned and it should be the duty of the party to furnish the same giving details of foreign exchange realisation to the Office of the Chief Controller of Imports and Exports within a stipulated period. The details given may then be checked in the office of the CCI&E with the statement received from the authorised foreign exchange dealers. In case statements are not received from the concerned parties within the stipulated time, the matter should be pursued in the office of the CCI&E with the parties concerned and in case no satisfactory reply is received within a prescribed period, steps should be taken to recover the amount of cash compensatory support. Further, in any application for cash compensatory support the party should be required to indicate if any cash compensatory assistance was received by him earlier and if so, whether details of foreign exchange realisations have been furnished. In case the party fails to furnish the details of foreign exchange realisation without satisfactory reasons for not doing so, no further cash assistance should be given to such party.

[S. No. 14 (Para No. 91) of Appendix III to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action taken

Recommendation is noted and suitable action is being taken in consultation with the concerned Departments for its implementation.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2/CA/82-83/2743 dated 9-12-82]

Recommendation

The Committee note that at present there is no proper coordination between the office of the CCI&E and the Reserve Bank of India in the matter of watching foreign exchange realisations against cash compensatory support. The statements are furnished by the Reserve Bank of India in a consolidated form to the office of the CCI&E which are usually very bulky and contain information both in respect of parties which have received cash compensatory support and those which have not received such assistance. The result is that it has not been possible for the office of the CCI&E to segregate them and pursue the matter with the parties who have received the cash assistance but in respect of which foreign exchange has not been realised. The Committee feel that the present system of keeping watch over foreign exchange realisations against cash assistance is totally unsatisfactory. The Committee would like the Government to examine whether the authorised foreign exchange dealers should not be required to submit the statement of foreign exchange realisation direct to the office of the CCI&E rather than routing it through the Reserve Bank of India. The Committee recommend that a foolproof procedure should be evolved at an early date so that there is close coordination between the Reserve Bank of India and the organisation of the CCI&E in keeping watch over foreign exchange realisations against cash assistance.

[S. No. 15, (Para 92) of Appendix III, of 111th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

Recommendation is noted and effective steps are being taken for closer co-ordination between the RBI and the organisation of the CCI&E.

[Ministry of Commerce (Department of Commerce) O.M. No.9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

With regard to the statement compiled by the Reserve Bank of India which shows 1800 cases of default for the year 1980 involving Rs. 10 crores in realisation of foreign exchange, the Committee would urge upon the Government to take immediate steps to pursue these cases. The Committee also expect the Reserve Bank of India to prepare similar statements in regard to earlier years also as early as possible and submit the same to CCI&E for follow-up action. The Committee would like to be informed of the action taken in this regard.

[S. No. 16, (Para No. 93) of Appendix III, of 111th Report of
P.A.C. (Seventh Lok Sabha)]

Action Taken

Recommendation is accepted. The necessary statements for the year ending 1976, 1977, 1978 and 1979 have been prepared by R.B.I. and the same have been forwarded to the concerned authorities for taking follow up action.

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-1982]

Recommendation

The Committee have been informed that during the last five years, the organisation of the CCI&E referred to CBI. 174 cases under Section 5 of the Imports and Exports (Control) Act, 1947, Out of these 174 cases, prosecutions have been launched in 74 cases only and only in 16 cases conviction have been secured so far. In one case the party has been acquitted. 57 cases are still pending the Court. From the large number of complaints received in press as well as in Parliament, the Committee have reason to believe that the evil and malpractices in the field of violation of Imports and Exports (Control) Act, 1947 are quite widespread and the action so far taken has hardly touched the tip of the ice berg. The Committee are of the view that there is an urgent need for a strict machinery to the view that there is an urgent need for a strict machinery to to thoroughly investigate the cases of violations of the Act and for taking effective and deterrent action against the offenders. The Committee therefore recommend that the organisation of the Chief Controller of Imports and Exports should be more vigilant in checking the cases of violation of the Imports and Exports (Control)

Act, 1947, investigate these cases expeditiously and take adequate measures to ensure that the parties indulging in such malpractices, however powerful they may be, are not allowed to go scotfree.

[S. No. 17, (Para No. 94) of Appendix III, of 111th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

Recommendation is noted.

Necessary instructions to this effect has been issued to the Licensing Authorities vide this office letter No. 18|32|81|ECA. III dated 26-8-82 (A copy of the letter is enclosed).

[Ministry of Commerce (Department of Commerce) O.M.
No. 9-2/CA/82-83/2743 dated 9-12-82]

Registered

Confidential

Government of India

MINISTRY OF COMMERCE

Office of the Chief Controller of Imports & Exports
Udyog Bhawan, New Delhi-110011.

No. 18|32|81|ECA. III/
All Jt. CCI&E/Dy. CCI&Es (by name)

Dated the 26th August, 1982

Subject: Recommendation of 111th Report of PAC—Implementation thereof.

Sir,

The PAC in their 111th Report have observed that, from the large number of complaints received in the press as well as in Parliament, they believe that the evil of mal-practices of violation of Impex Act are quite widespread and the action so far taken has hardly touched the tip of the ice berg. The PAC feel that there is an urgent need for strict machinery to thoroughly investigate the cases of violation of the Act and for taking effective and deterrent action against the offenders and have recommended that the cases of violation of Impex Act should be checked more vigilantly and adequate measures should be taken to ensure that the offending parties, however powerful they may be, are not allowed to go scotfree.

2. The PAC have also recommended that in cases where cash compensatory support is obtained by tampering with export documents, e.g. change in the date of Mate's Receipt mentioned on the shipping bill, which would not have been admissible but for the tampering, apart from the action of the recovery of the CCS paid in excess, action should be taken to handover the cases to CBI for investigation. The Committee have also recommended that no leniency whatsoever should be shown to unscrupulous elements indulging in fraudulent practices.

3. Kindly take necessary action to note the above recommendations of the PAC, and to implement the same effectively, keeping in view the facts and circumstances of the individual cases.

4. This issues with the approval of Chief Controller of Imports and Exports.

Yours faithfully,
Sd/-

(J. P. SHARMA)

*Dy. Chief Controller of Imports & Exports
for Chief Controller of Imports and Exports.*

Recommendation

The Committee deplore the casual way in which this case has been dealt with in the Office of the JCCI&E, Delhi and urge that the case should immediately be handed over to the CBI for investigation. The Committee would like to be apprised of the final action taken in this behalf. The Committee would like to emphasise here that in all cases of this nature, similar action should be taken and no leniency whatsoever should be shown to unscrupulous elements indulging in fraudulent practices.

[S. No. 19, (Para 96) of Appendix No. III, to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action taken

JCCI&E (CLA) New Delhi has been advised to hand over the case of M/s. Bharat Steel Tubes Ltd., to C.B.I. for investigation.

The draft of complaint to be filed with C.B.I. has since been received from the office of the Jt. Chief Controller of Imports and Exports (CLA), New Delhi, and is being processed in this office. Further communication about action taken in this regard will follow.

[Ministry of Commerce (Department of Commerce) O.M. No. [9-2/CA/82-83]2743 dated 9-12-1982]

CHAPTER III

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

Recommendation

The Committee find that at present reversal export incentive schemes, such as, import replenishment scheme, duty drawback scheme, duty exemption scheme, duty drawback credit scheme, interest subsidy etc. are available to the Indian exporters. Over and above these, the Committee wonder whether cash compensatory support scheme, which involves a direct outgo from the consolidated fund of India, should be needed by the Indian exporters and that too on so many of the export products. While it is necessary that the handicaps faced by Indian exporters in the international market should be neutralised to an extent, the Committee also consider that Indian export products should not be heavily subsidised at the cost of exchequer and for the benefit of exporters who can afford to export goods without asking for cash assistance. Considering all aspects, the Committee are of the view that Government should examine the feasibility of replacing the cash assistance scheme by an inbuilt system of providing relief to the exporters by way of relief in taxes, duties etc.

[S. No. 9, (Para No. 85) of Appendix III, to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action taken

Cash compensatory support is granted as a compensation for the various types of taxes not refunded through duty drawback etc. and other burdens borne by the exporters so as to remove the handicaps inherent in the state of economic development of the country and thus make their goods competitive in the international market. Accordingly, COS rates have been fixed on the basis of the following criteria:—

- (i) Neutralisation of the handicaps encountered by exports in the shape of (a) indirect taxes, including sales tax on in-outs imported or domestically purchased that remain unrefunded after duty drawback (b) higher rate of interest payable in India on working capital on export pro-

duction (c) Higher cost of capital goods required in export production.

- (ii) The 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 the new markets.
- (v) Cost of development of new products.
- (vi) Freight disadvantage.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2|CA|82-83|2743 dated 9-12-1982].

It would be seen from the existing criteria that CCS is not merely allowed to neutralise the effect of unrefunded taxes but there are various other considerations like higher rates of interest payable in India on working capital, freight disadvantages, development of new markets, development of new products etc. Hence any alternative scheme for refund of indirect taxes and levies at all stages of production, would not compensate the exporters for other handicaps which they would have to face in the matter of competition in other countries.

Secondly, production of any item in this country is seldom done exclusively for export market and Indian manufacturers are primarily engaged in product for domestic market. It will, therefore, be difficult to segregate production of export as from the product for the domestic market for purposes of allowing exemption of taxes of product meant for export market. Any attempt at such segregation is likely to cause practical difficulties. Besides exports are not necessarily taking place directly from centres of production.

Taxes at various stages of production are levied by State Governments and even by local bodies. Hence exporter will have to approach a large number of agencies to seek exemption from payment of different types of taxes at different stages of production. Such a process would be quite cumbersome for the exporter, as he may have to obtain exemption from payment of taxes from several authorities.

Apart from the above, in respect of taxes which are levied by the respective state Governments and the local bodies it may become difficult to persuade the State Government and the local bodies to forge their tax revenue on production which is meant for export.

In view of the foregoing consideration the Ministry is of the view that the present system of grant of cash compensatory support is the least cumbersome so far as exporters are concerned and they

have only to approach one agency, namely, the licensing office under the Chief Controller of Imports and Exports to claim CCS on their exports.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2/CA/82-83/2743 dated 9-12-82]

Recommendation

With effect from January, 1974, Government had withdrawn cash compensatory support on export of steel tubes and pipes. In order to avail of the benefit, the dates of 'mate' receipts shown in shipping bills in respect of exports made by a firm, M/s Bharat Steel Tubes Ltd., New Delhi were erased and substituted by 4th, 5th and 8th January, 1974 although the actual dates of 'mate' receipts were after 8 January, 1974. When this fact was brought to the notice of CCI & E Audit, the CCI & E realised back the amount of cash compensatory support of Rs. 2.04 lakhs from the said firm. Certain cases of over-payments of cash compensatory support to this very firm were brought out in the earlier Audit Reports also e.g. the Audit Report 1976-77 has pointed out an over-payment of cash assistance amounting to Rs. 35.69 lakhs to this very firm and in that case also the amount was subsequently recovered. The Committee regret to note that although it was a clear case of fraud and conspiracy to defraud public exchequer, the case was not referred to the police for investigation and necessary action on the plea that certain legal issues are being sorted out.

[Sl. No. 18, (Appendix No. III) Para 95, to 111th Report of P.A.C. (Seventh Lok Sabha)]

Action taken

Jt. Chief Controller of Imports & Exports has informed that his office has passed order No. B-13(3)/78-79/ECA/CLA/795 dated 6-9-82 to debar M/s. Bharat Steel Tubes Ltd., Ganaur Distt. Sonapat (Haryana) and M/s. Bharat Steel Tubes Ltd., Allahabad Bank Building, 17, Parliament Street, New Delhi from receiving REP import licences for one licensing period viz. AM/83 upto 10 per cent of their total entitlement accruing to them from their exports made during the period from April, 1982 to March, 1983. Further more under the aforesaid order, the firm has also been debarred from receiving REP benefits against the tampered shipping bills in question and for recovery of REP entitlement already granted against the tampered shipping bills, from firm's pending and other such applications as and when filed. A copy of the order is also enclosed.

**COPY OF DEBARRING CIRCULAR NO. 24/82, 83/SLA DATED
6TH SEPT., 1982 CONTROLLER OF IMPORTS & EXPORTS
(CENTRAL LICENSING AREA): INDRAPRASHTA
BHAVAN, NEW DELHI**

Dated 6th Sept., 1982.

It has been decided to debar the undermentioned concerns from receiving Replenishment import licences, as indicated in para 2 below:

Name of the concern with address	Name & address of the branches as available	Name of the Prop./partners/ Directors e ^c .
1. M/s. Bharat Steel Tubes Ltd., Ganaur, Distt. Sonapat (Haryana).	Not applicable	Not applicable
2. M/s. Bharat Steel Tubes, Ltd., Allahabad Bank Building, 17, Parliament Street, New Delhi.		

2. (a) The debarment shall be in respect of the specified period i.e. one licensing period viz. A.M. 83 upto 10 per cent of their total entitlement accruing to them from their exports made during the period from April, 1982 to March, 1983.

(b) The debarment shall also apply from receiving REP benefits against the shipping bills which have been tampered with overwriting of the dates of Mate Receipts and dates of shipping bills in them and the recovery of their REP entitlement of Rs. 1,49,974 obtained against the tampered with shipping bills shall also be made against their pending and other such applications as and when received.

3. The concerned company is found to have obtained Release Order on the basis of date of Mate Receipts and date of Shipping Bills tampered with submitted along with their application for import licence for which they were not entitled on account of tempering with export documents. They have been informed of the above decision after complying with the provision of the Import (Control) Order, 1955. Therefore, if the party comes up for the grant of any Replenishment licence/licences, they may be informed of this decision as conveyed to them under this office letter No. B-13(3) 78. 79/ECA/CLA/795, 796 dated 6-9-82.

4. It has also been decided that provision of Clause 6(d) & (e) of the Import (Control) Order, 1955, as amended shall not apply in this case.

5. Cautionary Circular No. 7/79. 80/CLA dated 5-2-80 in respect of this firm at S. No. 1 may be treated as withdrawn to that extent.

6. The receipt of this circular may be acknowledged in the standard proforma.

Sd/-

(S. L. Chochan)

Dy. CHIEF CONTROLLER OF IMPORTS & EXPORTS.

[Ministry of Commerce (Department of Commerce) O.M. No. 9-2/CA/82-83/2743 dated 9-12-1982].

CHAPTER IV

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

NIL

CHAPTER V

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

NIL

NEW DELHI;
March, 1, 1983.

Phalguna 10, 1904 (S).

SATISH AGARWAL
Chairman
Public Accounts Committee.

PART II

MINUTES OF THE SITTING OF THE PUBLIC ACCOUNTS
COMMITTEE (1982-83) HELD ON 25 FEBRUARY, 1983

The Committee sat from 16.00 to 17.20 hrs. in Committee
Room No. 50, Parliament House, New Delhi.

PRESENT

Shri Satish Agarwal—*Chairman*

Members

2. Shri Chitta Basu
3. Shri G. L. Dogra
4. Shri Bhiku Ram Jain
5. Shri Sunil Maitra
6. Shri Jamilur Rahman
7. Shri Uttam Rathod
8. Shri Harish Rawat
9. Shri Ram Singh Yadav
10. Smt. Pratibha Singh
11. Shri Syed Rehmat Ali

REPRESENTATIVES OF THE OFFICE OF C&AG

1. Shri R. K. Chandrasekharan, ADAI (R)
2. Shri G. N. Pathak, Director of Audit, Defence Service
3. Shri S. R. Mukherjee, Director of Audit, Commerce, Works
& Miscellaneous

SECRETARIAT

1. Shri T. R. Krishnamachari—*Joint Secretary*
 2. Shri K. C. Rastogi—*Chief Financial Committee Officer*
 3. Shri Ram Kishore—*Senior Financial Committee Officer*
 4. Shri K. K. Sharma—*Senior Financial Committee Officer*
2. * * * * *
3. * * * * *

4. The Committee thereafter considered and adopted the Draft Report on action taken on 111th Report of PAC (7th Lok Sabha) on the working of Jt. CCI & E (CLA).

5. The Committee also approved certain other minor modifications arising out of factual verification of the aforesaid Reports by Audit.

6. * * * * *

The Committee then adjourned.

APPENDIX

(Vide Introduction)

Statement of Conclusions/Recommendations

Sl. No.	Para No.	Ministry/ Department	Recommendations
1	2	3	4
1	1-6	Commerce	In their 111th Report, the Committee had pointed out that at present the consolidated statements furnished by the Reserve Bank of India pertain to all items of exports. The items on which cash compensatory support is given are not shown separately with the result that there is no fool proof system of follow up in the Office of Chief Controller of Imports and Exports to ensure that foreign exchange is actually realized against the exports on which cash compensatory support was given. In reply, the Ministry have only described the present procedure of furnishing the statements by the RBI to the CCI & E for effecting necessary recovery/adjustments from the concerned exporter. As already pointed out, this situation is not at all satisfactory.
2	1-7	Do	However the Committee are glad to observe that their recommendations that effective steps should be taken hereafter to ensure

timely realisation of foreign exchange earnings of exporters (Sl. No. 13, para 90), that the parties should be required to give the CCI & E the details of foreign exchange realised within a stipulated time (Sl. No. 14, Para 91), and that a foolproof procedure evolved at an early date so that there is close co-ordination between the RBI and the CCI & E in keeping watch over foreign exchange realisation against cash assistance (Sl. No. 15, Para 92) have been noted, by the Ministry stating that suitable action is being taken to implement them. The Committee would await the conclusive action taken in this regard within three months.

In para 79 of the 111th Report, the Committee had pointed out that no management study of the working of the office of the Chief Controller of Imports and Exports had been undertaken so far with a view to finding out if the present set up was adequate to discharge the additional functions entrusted to it from time to time. As the organisation was now required to perform multiple functions both regulatory and developmental in nature, the Committee had recommended that the set up and functioning of the office of the Chief Controller of Imports and Exports should be got examined by a team of management experts to suggest necessary changes to improve its working. The Committee are glad to not that this recommendation has been accepted in

principle and the modalities are being examined. The Committee would like to be apprised of the findings of the expert team and the action taken in pursuance thereof as expeditiously as possible.

Do.

The Committee further note with gratification that Government have accepted the other recommendations of the Committee for streamlining the working of the Office of the Chief Controller of Imports and Exports viz. setting up of an internal audit system, computerization of various functions, setting up of a cell to undertake cost study of export commodities as well as an analytical study of the scheme of cash compensatory support with a view to finding out to what extent it has been able to achieve its objectives. The Committee expect that concrete steps would be taken by the Ministry of Commerce without delay in pursuance of these recommendations, so that the present weaknesses and deficiencies in the working of the CCIE's organisation as also in the implementation of the scheme of cash compensatory support are removed. The Committee would like to be apprised of the measures taken and the results achieved, in six months time.

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