10

EXPORT PROCESSING ZONES

MINISTRY OF COMMERCE

PUBLIC ACCOUNTS COMMITTEE 1991-92

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

TENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1991-92)

(TENTH LOK SABHA)

EXPORT PROCESSING ZONES

MINISTRY OF COMMERCE

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NEW DELHI

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18	1.47	1	curreny	currency
-do-	1.48	5	Athough	Although
19	1.49	4	romania	Romania
-do-	1.51	1	export	Export
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22	1.63	4	fremework	framework
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43	2.47	10	EP2	EPZ
66	1.72	1	Research for	Research on
67	1.73	5	not	net
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PART II*

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 10th Report on the Report of the Comptroller & Auditor General of India for the year ended 31 March, 1988 (No. 16 of 1989) Union Government (Civil) relating to Export Processing Zones (EPZs).

2. In this Report, the Committee have noted that the basic objectives of EPZs are to enhance foreign exchange earnings, develop export oriented industries, stimulate domestic and foreign investment and generate employment opportunities. A total expenditure of Rs. 94.85 crores was incurred on the establishment of the six zones till the end of March 1988. However, the Committee have regretted to observe that the objectives with which the Export Processing Zones were set up have remained largely unfulfilled especially during the 1980s. Instead of earning valuable foreign exchange there is 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.

3. The Committee have 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 (except SEEPZ in 1986-87) and the achievement as a percentage of target varied from 10.6% to 94.5%. The Committee have also observed that the contribution of EPZs to total exports was quite insignificant ranging between 2 to 3 per cent during the period 1982-83 to 1989-90 as against the objective of 8 to 10 per cent. The Committee have recommended that export targets to non-domestic area 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 developed by the Development Commissioners.

4. The Committee have found that the study carried out by the Indian Council for Research on International Economic Relations (ICRIER) on Kandla & SEEPZ has 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. They have 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 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 in relation to exports to general currency areas.

5. The Committee have viewed with concern the prevailing high rate of mortality of units in Kandla and Santacruz Zones. They have found that no independent study has been conducted to identify the reasons for the high mortality rate that is prevailing. The Committee have recommended that such a study be carried out forthwith and suitable corrective action taken to improve the export performance of these zones.

6. The Committee have been constrained to find the low return on capital invested by Government in various Zones which ranged from 1.38 per cent to 10.59 per cent as on 31.3.1990. They have desired that all efforts should be made to optimally utilise the infrastructure developed to improve the rate of return on capital invested.

7. The Audit Report was examined by the Public Accounts Committee (1990-91) at their sitting held on 25 October, 1990. The Committee (1991-92) considered and finalised this Report at their sitting held on 7 January, 1992. Minutes of the sittings form Part II* of the Report.

8. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix II of the Report.

9. The Committee would like to express their thanks to the Public Accounts Committee (1990-91) for taking evidence on Report of Comptroller & Auditor General of India for the year ended 31 March, 1988 (No. 16 of 1989), Union Government (Civil).

10. The Committee would also like to express their thanks to the Officers of the Ministry of Finance (Deptt. of Revenue) for the cooperation extended to them in giving information to the Committee.

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

NEW DELHI;
22 January, 1992
2 Magha, 1913 (Saka)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

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CHAPTER I

REPORT

EXPORT PROCESSING ZONES

1.1 This Report is based on observations of Audit contained in the Report* of the Comptroller and Auditor General of India for the year ended 31 March, 1988 (No. 16 of 1989), Union Government (Civil), relating to "Export Processing Zones".

Introductory

1.2. The Export Processing Zones (EPZs), 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 at low cost so that exporting firms may operate successfully in the international market. This enables the products to be internationally competitive both in terms of quality and price.

1.3. The first Free Trade Zone was established at Kandla (Gujarat), in 1965 with the objectives of export promotion, industrialisation of the under-developed area of Kutch and development of Kandla port as a future alternative to the increasingly congested port of Bombay. The other objective included provision of employment opportunities to the refugee population displaced from Sind and West Pakistan. The 2nd EPZ, the Santacruz Electronics Export Processing Zone, Bombay, was approved in 1972 to utilise the vast scope for export of electronics items from the country. A Gem & Jewellery complex was also added to the Zone in 1987. Four more zones were set up at Noida (UP), Falta (West Bengal), Cochin (Kerala) and Madras (Tamil Nadu) in 1984, on the recommendation of the Tandon Committee. Infrastructure development of these zones has now been completed and they have started production and extended the export market. The seventh EPZ has since been notified on 15.3.89 for being set up at Visakhapatnam. The creation of infrastructure for this Zone is presently in progress.

Objectives

1.4. The objectives to be achieved through the Export Processing Zones included:—

(i) increase in foreign exchange earnings;
(ii) development of export oriented industries;
(iii) stimulation of domestic and foreign investments; and
(iv) creation of employment opportunities.

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* See *Appendix I*

1.5. Evaluating the working of the EPZ, the Indian Council for Research on International Economic Relations, in their report submitted in June 1986 had *inter alia,* pointed out that:—

> "There is a continuing lack of clarity in assigning explicit objective to the EPZ." The report recommended that "the EPZ should be given an explicit three-fold objective *i.e.*to (i) expand the net foreign exchange earnings; (ii) attract direct foreign investment; and (iii) generate employment." These objectives are in line with those established internationally for EPZ; and would serve the economy's major interests, without having any internal contradiction and trade-offs.

1.6. Besides, the Report lays down a three-fold selection criteria in terms of minimum conditions which every unit in the zone would be expected to satisfy *i.e.* each unit should (i) generate aggregate net foreign exchange earnings above a stipulated minimum in five years; (ii) have a minimum share of foreign equity participation or collaboration; and (iii) demonstrate a wage component above a stipulated level in its turnover. "The actual quantification of these minimum conditions can be evolved without much difficulty once these conditions are accepted as the selection criterion."

1.7. The Committee enquired whether each of the objectives, as brought out in the ICRIER Report, had been clearly and explicitly spelt out and the extent to which these had been achieved. The Ministry have stated that there is no lack of clarity about the objectives behind setting up of the Export Processing Zones. These basically are the same as mentioned in the ICRIER Report. However, while setting up the individual Zones there were other advantages also which were taken into account. In the case of Kandla, the setting up of the Zone whould help in the development of a backward region as well as the rehabilitation of refugees from West Pakistan. At the time when the Santacruz Zone was set up, there was the additional objective of imbibing new technology in the field of electronics and to exploit the then emerging world demand in this sector.

1.8. The achievements of the Zones, *vis-a-vis* the objectives brought out by the ICRIER Report may be seen from the table below :

Table-I

	Objective-I Net foreign exchange earnings as on 31.3.1990 (Rs. crores)	*Objective-II* Foreign Investment including NRI investment as on Sept.' 90 (Rs. crores)	*Objective-III* Employment as on September'90
CEPZ	0.16	1.30	1,000
FEPZ	11.02	0.07	200
	1161.98	28.69	30,046

1.9. It has been added that the achievements of the Zones have to be considered in the light of the Government's capital investment made therein, which was Rs. 97.73 crores from inception till 31.3.1990. Another constricting factor is that the Zones have to be considered in the light of the Government's capital investment made therein, which was Rs. 97.73 crores from inception till 31.3.1990. Another constricting factor is that the Zones cannot accommodate all types of industries because of the limited area available, pollution factors and fixed location. The Ministry have further added that the main attraction for foreign capital is a liberal fiscal regime and access to domestic markets. While this has been taken note of in framing policy for the EPZs/EOUs, some countries, specially in the Asia pacific region have been able to provide foreign investors with more advantages in this respect. However, the figures given in the table below would indicate that the level of investment in SEEPZ is adequate and there are encouraging trends in Madras & NEPZ. Certain proposals in the revamping package have been mooted specifically with a view to encouraging greater foreign investments.

Zone	Govt. Capital expenditure	Indian private investment	Foreign/NRI investment
1	2	3	4
KAFTZ	9.59	58.00	2.41
SEEPZ	22.27	20.00	10.56
NEEZ	19.79	33.20	5.70
MEPZ	15.94	51.09	8.65
CEPZ	13.32	21.42	1.30
FEPZ	16.82	2.50	0.07
	—	—	—
	97.73	186.21	28.69
	—	—	—

Table-II

1.10. With regard to employment generated, the Ministry of Commerce have stated that most of the Units are small in size and operation, and in that context the extent of employment may not be discouraging. The figures given in Table-III relate to direct employment in the units and do not take into consideration the employment generated during the continuous construction operations in the Zone, and in ancilliary industries. There has been almost continuous upward trend in employment figures of the Zones as will be seen from the chart given below:

Year	KAFTZ	SEEPZ	NEPZ	MEPZ	CEPZ	FEPZ
1985-86	8510	7500	—	150	—	20
1986-87	8500	7500	500	700	4	30
1987-88	8250	8000	1500	2640	23	30
1988-89	10000	8500	2000	3353	583	100
1989-90	10000	19500	3000	3967	405	200

Setting up new units/mortality rate

1.11. The norms broadly adopted by the Board in selecting a unit to be established in the Zones are :

(1) Standing of the promoters with regard to their experience and financial background.
(2) Volume of turnover envisaged and level of manufacturing.
(3) Reasonableness of the value addition envisaged with reference to the products proposed to be manufactured.
(4) Marketing and technical arrangements envisaged.
(5) Of late, the Board seeks to achieve a 100% matching of GCA outgo through GCA exports, considering the present difficult balance of payments situation.

These norms are the same for all the Zones.

1.12. Asked whether these norms have proved helpful in achieving the expected expansion of the EPZs, and whether any changes were being contemplated, the Ministry of Commerce have stated that by and large, the norms adopted by the Board have been helpful in achieving the expected expansion of the EPZs both in terms of the number of units and turnover. At present, there is no restriction in the size of the units to be located in the Zone in terms of capital investment, export, etc. To avoid high mortality rate in case of smaller units, proposal to fix a threshold limit of Rs. 10 crores turnover over a period of five years for all the products in general and in the case of computer software service, etc. Rs. 5 crores over a period of five years, is under consideration.

1.13. The Audit para has brought out that the approval accorded and units working in the six Export Processing Zones at the end of March, 1988 were as follows:—

Table-III

Name of the Zone	Approvals accorded	Withdrawn or cancelled after approval	Units established	Units closed down	Units working
Kandla	679	81 during 1982-87	173	44	129
Santacruz	227	128	97	23	74
Falta	41	Not available	2	—	2
Madras	124	37	23	—	23
Cochin	29	2	3	—	3
Noida	73	16	15	—	15

1.14. It is seen from the above table that the number of units actually established fell far short of the number of approvals accorded. On a query from the Committee about the reasons why the approved number of units could not be established, the Ministry of Commerce have stated that the approvals are granted on the basis of details given in the project proposals submitted by the entrepreneurs. After approval of the projects the Zone Administration monitors the progress in implementation of project. The validity is extended in cases where the delay is due to valid reasons. Where-ever there is no prospect of the project being set up, the approvals are cancelled. Delays in the implementation of the project are at the level of entrepreneurs and are mainly due to delays in the finalisation of foreign collaboration agreement, delay in finalisation of technical and marketing tie ups, delay in finalisation of buy-back arrangement, change in the international market conditions, delay in arranging bank finance etc. However, efforts are made by the Zone Administration to help and persuade the entrepreneurs for early implementation of the project. The Zone Administration inspite of its efforts, is unable to ensure that the project applications once approved would also result in actual investment and production, for reasons mentioned above.

1.15. As brought out in the Audit para, 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 mortality rate was 17.4 per cent for the period upto March, 1982 which increased to 23.7 per cent upto March, 1988.

1.16. Explaining the reasons for the high mortality rate the Ministry of Commerce have stated that the high rates of mortality have been a cause of concern not only in India but in other countries as well as has been accepted in the report of ICRIER. The reasons for closure of units in Kandla and SEEPZ are obsolence of technology, failure of marketing arrangements, withdrawal of foreign collaborators, financial and managerial problems, want of export orders, stiff competition and recession in the international market etc. The mortality rate has to be viewed in this beckground as the EPZ units have to operate in a highly volatile and fiercely competitive international market.

1.17. Further, according to Ministry, such dropping of projects does not involve any loss of revenue to the Government. In fact, the entrepreneurs are more keen to ensure the early setting up of the project as they stand to benefit from the enterprise and they have already made some investments for market surveys/preparation of the project reports, licence fees, and other preliminary expenses.

1.18. During evidence, the Committee enquired whether any independent study had been conducted to identify the reasons for the high mortality rate in the various Zones. The Commerce Secretary stated that:

> "this kind of study had not been made. I would very much like to conduct this study in respect of Kandla and ZEEPZ"

Marketing efforts

1.19. One of the reasons for closure of units and slow growth of exports of units is attributed by the Ministry to difficulty in marketing the products. The Committee, therefore, enquired about the measures initiated by the Zone Administrations for assisting the units in improving their marketing efforts. The Ministry of Commerce have stated that,

> "The Zone Administration has in fact been requesting the Trade Development Authority (TDA) to help the units in marketing. As and when enquiries for products are received from foreign offices, they are circulated amongst the units. However, it may be mentioned that marketing involves competitive pricing and quality products. The Zone units are operating in a fiercely competitive international market and, therefore, the Zone Project Approval Board have been in the past few years looking into definite marketing arrangement before approving a project. The units in the Zone are allowed to seek the help of Export Houses and Trading Houses to export their products.
>
> In addition, the Zone representatives have been participating in international trade fairs, as part of the overall marketing effort.
>
> Recently a study was made by the Indian Institute of Foreign Trade to assess the marketing opportunities in South East Asia, Australia and New Zealand."

1.20. The Commerce Ministry have in a subsequent note stated that, at present, the Board of Approvals takes into account the firm marketing arrangement among other considerations, before approving a project in the EPZ. This reduces the chances of mortality to a great extent and encourages the growth of successful units. As the EPZ units are 100% export oriented, the performance of the unit depends on the international market situation which can sometimes prove to be unpredictable. Similarly difficulties with collaborator/marketing problems can also be beyond the control of the entrepreneurs. Ultimately it is the entrepreneurial skills that play a crucial role in the successful running of any unit. What the entrepreneur can take advantage of is the duty-free streamlined environment provided in the Zones for export production.

1.21. Further according to the Ministry, the problems generally faced by the units in the international markets are fall in prices, change in demand pattern and obsolescence. Steps have already been initiated to determine how best the services of TDA, TFAI, STC, MMTC or other agencies can be utilized to help EPZ/EOU units overcome these problems. Some of the revamping proposals presently under consideration aim at granting greater fiscal benefits to this sector which will improve the viability of their operations and permit them to better withstand such vicissitudes.

Export Performance

Targets and achievements:

1.22. The annual targets for exports for various zones fixed by the Ministry and their achievements during the last five years are given below:

Export Tragets and Achievements

(Rs. in Crores)

Zone	1985-86			1986-87			1987-88		
	Target	Achievement	%Achievement	Target	Achievement	%Achievement	Target	Achievement	%Achievement
MEPZ	3	0.55	18.33	30	10.04	33.4	30	16.45	54.8
NEPZ	Nil	-	-	10	7.01	70.1	20	16.05	80.2
FEPZ	5	2.30	46.0	30	3.18	10.6	10	1.86	18.6
CEPZ	Nil	-	Nil	Nil	0.94	-	5	3.94	78.8
KFTZ	300.00	236.86	78.9	250.00	236.27	94.5	300.00	185.03	61.6
SEEPZ	110.00	84.49	76.8	100.00	102.36	102.3	120.00	110.17	91.8

The position in this regard as furnished by the Ministry for the years 1988-89 & 1989-90 are as follows:—

(Rs. in Crores)

Zone	1988-89			1989-90		
	Target	Achievement	% Achievement	Target	Achievement	% Achievement
MEPZ	30	24.04	80.1	40	29.56	73.9
NEPZ	30	21.34	71.1	35	51.90	148.2
FEPZ	20	8.11	40.5	15	16.38	109.2
CEPZ	8.50	6.25	73.3	15	11.00	73.5
KFTZ	200.00	271.59	135.7	300.00	338.23	112.7
SEEPZ	140.00	187.31	133.7	200.00	290.35	145.01

1.23. It will be seen from the above table that Kandla's exports have registered ups and downs in the last 5 years. The Ministry have attributed this to the quantum of orders received. As regards non-achievement of the targets the Ministry of Commerce has clarified that, "Exports from KAFTZ are predominantly to RPA countries. In 1987-88, the exports from KAFTZ suffered a set back due to withdrawal of export of orders of certain items from USSR and also because the government was pursuing a policy of discouraging RPA exports. In the SEEPZ, majority of the exports is for GCA. The Ministry have added that exports from these zones increased substantially during 1988-89 as may be seen from the figures given above. The Cochin and Madras EPZs could not achieve the export targets during 1989-90 set for them as the latex gloves units could not effect their projected exports due to sharp fall in the international prices for gloves.

1.24. On a query from the Committee, the statistical details furnished by the Ministry relating to the contribution of EPZs to the total exports from India is reproduced below:—

(Rs. in Crores)

Year	India's total exports	Contribution of EPZs	Percentage of EPZ exports to total exports.
1980—81	6711	44.00	0.66
1981—82	7806	100.00	1.28
1982—83	8803	197.00	2.24
1983—84	9771	196.00	2.00
1984—85	11744	333.00	2.84
1985—86	10895	324.00	2.97
1986—87	12452	360.00	2.89
1987—88	15674	333.00	2.12
1988—89	20302	517.00	2.55
1989—90	27681	732.00	2.64

1.25. It has been stated during oral evidence that, "other Zones have not been as successful as Santacruz Export Processing Zone in achieving export targets." In response to the query from the Committee as to why "other Zones" are lagging behind the Santacruz EPZ in their development, the Ministry in their written reply have stated that,

> "So far as NOIDA Export Processing Zone is concerned, the growth rate is quite impressive and this Zone shows promise. Madras EPZ on the other hand had slightly slower growth rate mainly due to the types of units approved and their capacity for export production. Both the Zones now have almost entirely utilized the infrastructure created in the initial phase of development and are now poised for quicker growth. Exports in the earlier years of these two Zones may compare favourably with the initial exports from Kandla and Santacruz Zones. In Cochin too, entrepreneurial response is now encouraging and of the 53 plots/sheds developed so far, 43 have been allotted and new units are coming up satisfactorily. Falta has the problem of distance and facilities. Growth rates in this Zone is not as impressive as the others, though exports have shown an upward trend.

1.26. The contribution of EPZ to the total exports is quite insignificant ranging between two to three per cent during the period 1982-83 to 1989-90. On inclusion of 100 per cent export oriented units, the percentage contribution would be slightly higher. According to the Ministry this is on account of the zones being engaged only in manufacturing activity contribution of which to the total exports is 18-19 per cent and the units in the EPZs taking up only certain items and products for production. The product-wise comparison revealed 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 electronics 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 per cent and almost insignificant in the case of food products and gems and jewellery.

1.27. The import content for the broad commodity groups during 1989-90 in respect of the different zones as furnished by the Ministry is given below:

Product Group	NEPZ	MEPZ	CEPZ	FEPZ	Average
1. Garments	77.25%	55.95%	65.58%	—	66.26%
2. Chemicals	25.75%	25.76%	51.61%	—	39.70%
3. Electronics	56.40%	—	—	58.99%	57.70%
4. Engineering	—	80.33%	—	—	80.33%
5. Gem & Jewellery	75.66%	—	—	60.52%	68.09%

1.28. In the case of KAFTZ except for very few items, the average level of import content is between 55% to 60%.

In order to reduce the import content the Board of Approvals incorporates conditions providing for phased indigenisation of raw material inputs, wherever possible.

Performance of Units and role of foreign capital/technology

1.29. The Audit Report has brought out that in Kandla and Santacruz Zones, 9% only of the working units accounted for a major portion of the exports. In a note furnished to the Committee the Ministry have stated that in Kandla majority (73%) of the working units comprise small units with an export turnover ranging between Rs. 20 lakhs and Rs. 75 lakhs. The approval criteria of units did not bar investment by small units. The Committee enquired about the measures being taken to ensure that the extent of export obligation prescribed at the time of granting approvals are fulfilled by the units. In reply, the Ministry have stated that the Development Commissioner's Office regularly monitors the performance of the individual units for enforcement of the prescribed export obligations. The units are required to submit periodic statements in prescribed proforma pertaining to the value addition realisable on exports, made by them. On the basis of reviews of export performance the units are advised suitably to improve performance where short-fall in the exports/prescribed value addition are noticed. Action is also taken to impose penalties, etc. in cases of proven deliberate default through adjudication proceedings conducted by the CCI&E.

1.30. As to whether it is prudent to allow such units which contribute little to earning foreign exchange to invest and use up the limited facilities extended in the zones, the Ministry was of the view that, "the decision to allow these units to be established in the zone cannot be considered unjustified". Supporting this contention they added that out of 1.5 lakh registered exporters in the country, only 3500 (less than 3%) account for 80% of the total exports.

1.31. Regarding the steps taken to overcome these problems, the Commerce Ministry stated that:

> "Wherever there are marketing problems, help of organisations like STC, TDA etc. is sought to find out marketing outlet for the products. When any market queries are received from our missions abroad the same is also passed on to the units. Diversification approvals are also granted on merits to change the line of product, whenever requested. As a rule, new projects are now being approved after more careful scrutiny about the technical and marketing arrangements envisaged in the project, on the basis of experience gained in the past."

1.32. On the issue of technology, the Committee observed during evidence that,

> "The general experience outside has been that if you induct technology and also the infusion of foreign capital into the EPZs, the success rate is high. What we find is probably in Santacruz there has been some infusion of technology and foreign capital."

1.33. The Committee enquired whether any analysis had been made about the success achieved in Santacruz zone *vis-a-vis* the other zones and whether any strategy has been desired to attract foreign capital and advanced technology to these Zones. The Commerce Secretary stated that:

> "The specific analysis Zone by Zone in terms of the relatability of their achievement or lack of it in terms of capital and technology has not been done. From the experience of Santacruz we had an impression that there has been a better infusion of these two factors and therefore the success has been a little higher. In case of others really if we look at the product range also they are not high technology units in that sense. The capital invested is also low. So, the conclusion seems to be valid. But I must say that this is only an impressionistic conclusion and we have not taken it up as case by case analysis."

1.34. The Commerce Secretary added that:

> "In the case of new Zones perhaps it is too early to do that. But I think we need to do it at the earliest for the rest and in the case of Kandla it is more specifically so; we can try to attract the investments in the pre-identified areas and not go merely by micro approach of value addition and marketability of the product. We will do this."

1.35. In a subsequent not furnished to the Committee, the Ministry have stated:

> "though no specific comparative study has been carried out about the success rate of EPZ units having foreign technology/equity participation, the study by the ICRIER on Kandla and SEEPZ revealed that units with foreign equity participation have consistently performed better than their purely domestic counterparts as marketing problems are the least in case of the former."

1.36. Asked about the difficulties being faced in attracting foreign technology and capital to the EPZs, the Ministry of Commerce stated that:

> "it is seen that movement of foreign capital to various zones in the world has been basically on account of:—
>
> (i) In some countries like Singapore large foreign investment has been due to a virtual free trade regime; availability of excellent/efficient infrastructure and skilled labour.
>
> (ii) In other countries, especially large and somewhat closed economies, foreign investment has been attracted due to availability of access to the domestic market.
>
> In the context of the country's overall industrial and fiscal policies, it may not be possible to meet these conditions fully."

1.37. During oral evidence the Commerce Secretary stated that:

> "We don't have a special regime for attracting foreign capital in this area because the tax exemption that we have is true for DTA and true for EPZ also. Therefore, there is no differentiality of attraction for EPZ. The past experience and what ever contact that we have with the entrepreneurs who want to bring in new capital or technology shows that they are interested in having a better access to the domestic market."

1.38. He further added that:

> "On the one hand the inherent attraction of the domestic market is not open to them; on the other the tax benefits that you give are the same as in the case of domestic area. Therefore, the tendency for the high capital and high technology investment by multinationals is diminishing because they think it is far better if they tried to go in the domestic area. So, I doubt whether we will be able to succeed in this."

1.39. Asked whether any strategy has been worked out to attract this additional foreign capital and high technology to those Zones, the Ministry have stated that:

> "the constraints are sought to be removed through faster clearances by adopting the "Single Window" approach and provision of DTA sales facility. Adequate publicity is being given abroad through advertisements in leading journals and also through TDA, Indian Investment Centre and Indian Missions abroad. In addition, the following proposals under consideration are also likely to help in attracting foreign technology and foreign investment.
>
> (i) Relaxation of duty structure on DTA sales to allow such products to be locally competitive.
>
> (ii) Tax free repatriation of dividends on foreign investment."

1.40 During evidence the Committee asked if it would not be more practicable to study the experience of other countries who have been more successful in attracting foreign capital as well as technology to their EPZs, the Commerce Secretary stated that:

> "We have got a study made by the IIFT. It is not hat we have not made any study. But it is true that the kind of detailed study mentioned needs to be done.....on the basis of our analysis so far, it looks to me so far that two areas are very important. The first is the regime of attraction of foreign investment in terms of taxation and the second is the access to domestic market."

Export Promotion Measures

1.41. Presently exports from EPZs account for 2.7% to the total exports of the country. The Committee have been informed that in order to step up exports of EPZs/EOUs to 8-10% of the country's exports, certain proposals to revamp the scheme/structure of EPZs are under consideration of the Government. Asked to specify the steps taken/proposed to be taken to achieve these objectives and whether the targets of annual gowth rate of 40% and contribution by the EPZ/EOUs of 8 to 10% in the country's exports is achievable, the Committee were informed that the Ministry of Commerce are administering two schemes of Export Processing Zones and 100% EOUs. The annual exports generated by the two schemes is about 5% of country's total exports. As it was felt that the schemes could contribute much more to export effort, a number of proposals to revamp the scheme were framed and considered by the Empowered Committee of secretaries on 18th September, 1990. The proposals alongwith the decisions of the Empowered Committee thereon are given below.

Proposals to revamp schemes of EPZ and 100% EOUs	*Decision of COS/ECS*
(a) *Value addition:* The proposal submitted to the Committee was that while the minimum value addition norm of 20% should be retained, the effort at the approval stage should be to clear the project at as high a value addition as possible and for this purpose, different value addition norms for different product groups should be retained. However, in the event of default of value addition, the Board of Approvals may allow value addition lower than incorporated in the letter of approval for any one year as long as it is above the threshold level of the specific sectoral/ product norms. However, it would be obligatory on the party to make up the value addition prescribed in the letter of Approval over a period of 5 years.	This has been accepted by the ECS.
(b) *Currency Balancing:* In order to earn maximum foreign exchange, increase in exports to GCA countries is needed. Proposals placed before the Board of Approvals (BOA) for this purpose involves a careful examination of the foreign exchange balance sheet of the proposals. Also, the Board of Approval can prescribe balancing of outflow and inflow of free foreign exchange in individual case.	The Committee of Secretaries has agreed to this in principle.
(c) *Minimum size of the unit:* The minimum export turnover of 100% EOUs and EPZ units should be Rs. 25 and Rs. 10 crores respectively. In case of computer Software / Service Sector, this limit should be kept at Rs. 5 crores over a period of 5 years. The Board, would, however have the powers to relax these limits in deserving cases.	The Committee of Secretaries decided that the size of the units may be decided by the BOA on a case to case basis without formally prescribing a minimum level.
(d) *Transfer of imported goods:* At present one to three months are taken to clear each consignment if an order has to be executed by a 100% EOU for supply to an EPZ unit or an actual user in DTA. Due to this delay, the buyer at times prefers to import the material resulting in loss of foreign exchange. It was suggested that such supplies from 100% EOUs be treated as exports with suitable documentation prescribed for such transactions subject to maintaining the stipulated level of value addition.	This suggestion has been agreed to by the Committee of Secretaries.

II. Three of the proposals explained below related to inclusion of Service Sector units under the two schemes, Central Excise exemption on certain items and sub-contracting in DTA.

(a) *Service Sector:* To include units in the Service Sector also in the Export Processing Zones/or under the 100% EOU Scheme. Customs authorities do not favour this suggestion because of difficulty in providing bonding facilities. It was felt that service sector units like consultancy, off-shore drilling and storage facilities etc. should be allowed under the two schemes.

The Committee of Secretaries decided that there is no need to modify the existing policy but individual proposals could be considered on a case to case basis.

(b) *Central Excise Exemption:* The items which are allowed to be imported duty free but are procured locally should be exempted from Excise duty. Such items may include construction materials, petroleum products, office equipments, air-conditioners, water coolers, dehumidifiers, wire plants, furniture, tools, dies, intermediates, etc.

The Committee of Secretaries decided that such exemption should be permitted if the items are those which could be allowed to be imported under the Duty Exemption Scheme.

(c) *Subcontracting:* At present, EPZ units/100% EOUs are allowed to sub-contract a part of their production for job work in the DTA. However, in practice, most of the units have not been able to avail of this facility due to procedural problems as the Customs department stipulates that the DTA unit doing job work should also be bonded. As sub-contracting involves a job work for not more than four to five days a month, DTA units are not prepared to get their factory area bonded and to involve themselves in various customs formalities.

It was suggested that sub-contracting may be allowed after securing indemnity bonds and revolving bank guarantees from EPZ units/100% EOUs.

The Committee of Secretaries agreed to this suggestion provided the DTA units were registered with the Central Excise. The Department of Revenue has already been moved to issue necessary notifications where required.

III. *Proposals considered by COS*

(a) One of the proposals envisaged lowering the duty structure on DTA sales by Zone units/100% EOUs. The existing duties/taxes applicable on such sales make the products uncompetitive in the DTA.

As this involved further/detailed discussions with the Department of Revenue, the Committee desired that the matter be separately taken up with that Department.

(b) Another proposal sought to simplify certain identified Customs procedures for cutting down time and paper work.

The Committee decided that this matter may be separately taken up with the Revenue Secretary.

Further action in respect of (a) and (b) above have already been initiated.

(c) Delegation of certain powers to the Development Commissioner of the Zone.

Agreed to by the COS.

(d) The proposal for grant of full cash compensatory support to those units under the two schemes that use 75% or more of indigenous raw material is now being considered by the MDA Main Committee of the Ministry of Commerce, as decided by the COS.

IV. *Proposals not approved by the Committees of Secretaries*

Four proposals have not been agreed to by the Committee of Secretaries. As it is felt that approval of these proposals is also necessary, it has been considered desirable to place them before the Cabinet Committee on Trade and Investment. The brief particulars of these proposals are as follows:

(a)

Mining Projects: Because of considerable export potential of mining projects, a decision was taken to extend 100% EOU scheme to such projects. This, however, could not be implemented because of objections from Department of Revenue. The Committee of Secretaries decided that 100% EOU benefits can be allowed to such mining projects having benefication of low grade iron ore. The decision of the Committee is too restrictive and will not help in taping the full potential in this sector.

(b) *Delegation of powers of Collector of Customs & Excise to DCs:*

This was proposed with a view to quicken decision making in Customs matters. Presently, all such matters which require decision by Collector of Customs & Central Excise are forwarded to the Collector who sometimes is available at a distant place. Moreover, Development Commissioner of the Zone is in a better position to decide these matters taking into account practical difficulties coming in the way of export production.

(c) *Perpetual tax holiday:*

Presently EPZ units / 100% EOUs are allowed tax holiday for a block of five years during the first eight years of operation. In the DTA, profits from exports are exempted from tax. As the present benefit is of no special significance to these units, it was proposed to allow perpetual tax holiday for them. This suggestion was made with a view to obtaining a psychological advantage and emphasising Government's long term policy in this respect.

(d) *Tax free repatriation of dividends:*

Presently, repatriation of dividends on foreign investments is subject to payment of taxes. In order to attract more foreign investment, know-how/technology, it was proposed that repatriation of dividends thereon should be tax free.

1.41A On August 13, 1991, the Minister of Commerce made a statement in the Lok Sabha announcing a number of important changes in the new Trade Policy. Details of recent changes/concessions in the Export Processing Zones/100% Export oriented units schemes as intimated by Commerce Ministry, are given below:

(1) 'Automatic Approval Procedure' for applications under 100% EOU and EPZ Schemes has been introduced and delegation of certain powers previously with the Boards of Approvals and Administrative Ministries has been made for decentralised clearance to the Development Commissioners of EPZs and 100% EOUs.

(2) Decentralisation and delegating of powers of Ministry of Commerce and CCI&E under the IMPEX policy to the Development Commissioners of EPZs and 100% EOUs, within their jurisdiction have been effected so that the concept of 'Single Window Clearance' is made a reality at the field level.

(3) All EOUs/EPZ units have been made eligible for Eximscrips, at the basic rate of 30% of their net foreign exchange earnings.

(4) The duty applicable on DTA sales from EPZ/EOUs have been reduced to 50% of normal customs duty subject to the duty payable not being less than the Excise duty on the products and the procedure for clearing of goods from EOUs/EPZ units have been streamlined for making domestic sale more flexible.

(5) To encourage large companies to set up 100% EOUs and Units in the EPZs, "clubbing" of their earnings from these units with their export earnings from the domestic tariff area (DTA) has been provided for the purpose of according status of Export Houses/ Trading Houses/Star Trading Houses.

(6) EOUs/EPZ units are being permitted to supply/transfer finished goods among themselves, without payment of duties.

(7) To expedite Customs clearance, imported raw materials are to be cleared on 'provisional duty assessment basis'.

(8) One-time inspection of the export consignment by the Customs has been agreed to.

(9) Pre-authenticated CT-3 forms are being issued to EOUs for expediting supplies from DTA, without payment of Excise duty.

(10) The Scheme of International Price Reimbursement Scheme (IPRS) for supply of iron & steel to exporters has been extended to units in EPZs and 100% EOUs.

1.42. The growth rate in exports of the EPZs during the last three years has been —7.5% during 1987-88, 55.25% during 1988-89 and 41.58% during 1989-90. According to the Ministry, while it is evident that EPZ units have in the recent past been maintaining a reasonable growth rate, the continuance of the same might not be possible owing to liberalisation in the DTA regime which would tend to attract some of the investment into the DTA. With a view to ensuring adequate growth in exports from the zones, revamping proposals mentioned above have been framed. It is felt that after all these proposals are finalised, there is every possibility of maintaining the growth that has been experienced recently. In any case, the impact of the revamping proposals when fully implemented will be closely monitored and further correctives applied, if necessary.

Direction of Exports

1.43. Exports from zones represented 2 to 2.97 per cent of total exports from the country during 1982-83 to 1987-88. Even with this order of exports, there was net out go of hard currency in Kandla and Santacruz ones tó the extent of about Rs. 597.48 crores during 1981-82 to 1987-88 as revealed in the Audit Report. Asked whether this position justified the efforts made for establishing exclusive zones for Export Promotion for imporving Balance of payment position for which earning of hard currency is essential, the Ministry of Commerce stated that Comparison of exports from EPZs to the rest of the country is iniquitous. EPZs do not deal in manufacture and exports of all products, while exports from rest of the country are spread over a very wide range of manufactured products. If comparison is limited to products manufactured in the zone and those manufactured outside and exported, it will be noticed, for example, that electronics exports from SEEPZ accounted for 66% in the years 1983 & 1984 and even today it is 25% of the country's total exports. Exports from EPZ with rest of the country will have to be seen in their proper persnective, relating to similar products and not in generality.

1.44. On a further query about the results of the efforts made by the Ministry in balancing the outflow and inflow of foreign exchange in cases involving imports from General Currency area countries and exports to rupee payment area countries, the Commerce Ministry have stated that the exports to RPA and GCA countries from EPZs have been as per Government policy, which has been evolved with experience and in relation to various factors. Value addition has been one of the criteria. With a view to encourage the units to diversify their export market, the Ministry have been persuading the EPZ units to export a portion of their production to GCA countries also. During the last one year, while clearing proposals, the Board of Approvals has attempted to ensure balancing of the inflow of free foreign exchange with a view to conserving foreign exchange, promote domestic industry and enhance direct trade with RPA Countries. As the balancing policy has been adopted only for about the last one year or so, it will take some time before the results by way of increased GCA Exports are forthcoming.

1.45. In another note furnished to the Committee, the Ministry have stated that, keeping in view the increasing import bill from general currency areas, the Boards of Approval are carefully examining the foreign exchange balance sheet of the proposals. In individual cases, the Board can enjoin atleast the balancing of outgoes and earnings of free foreign exchange. If for example, the total export turn over of a project is Rs. 100 crores and its GCA imports of account of CG/RM/consumables is Rs. 20 crores, then a minimum of 20% exports to GCA countries can be prescribed so as to balance the GCA outgo with matching inflows.

1.46. Given below is the break up of the foreign exchange earnings from (i) General Currency Area and (ii) Rupee payment area during the last 10 years from the EPZs, as furnished by the Ministry.

(Rs. crores)

Year	GCA exports	RPA Exports	Total Exports
1980-81	27.82	17.04	44.36
1981-82	38.29	61.37	99.66
1982-83	60.16	136.65	196.81
1983-84	98.89	97.03	195.92
1984-85	113.05	219.96	333.01
1985-86	90.59	233.60	324.19
1986-87	111.18	248.61	359.79
1987-88	141.82	191.67	333.49
1988-89	186.96	329.56	516.52
1989-90	327.97	404.11	732.08

1.47. As regards steps being taken to boost exports to the hard curreny area, the Ministry of Commerce have listed some of the steps as given below:

(i) Careful scrutiny at the approval stage to see whether proper marketing tie-ups are available for exports specially when they are directed to General Currency Areas;

(ii) As marketing is a major constraint, it is proposed to consider taking concrete steps in involving the TDA, TFAI and the canalising agencies to promote the activities of EPZ units in this sphere;

(iii) It has been seen that units with foreign equity participation find it easier to market their products abroad. This is because the collaborator usually undertakes the marketing responsibility through his contacts outside. It is proposed that greater incentives be provided for foreign investment and some specific reccommendations in this respect have been made in the revamping scheme.

1.48. Asked about the problems peculiar to the hard currency area and the soft currency area for growth of exports, the Ministry stated that in the case of the GCA, problems are faced by units on account of orders being in small volumes, insistence on maintenance of high quality standards and the need for being competitive in the international market. Athough these constraints are not there in the rupee payment areas to the same extent, some difficulty is experienced on account of the lack of continuity in obtaining export orders.

1.49. The Rupee payment countries of East European Region occupy a prominent place in our foreign trade, roughly about one-seventh of our global trade is accounted for by the Rupee payment countries which are the USSR, the GDR, Czechoslovakia, Poland and romania. The present arrangement with these Rupee Payment countries provides that the imports from each of these countries are paid for in non-convertible Indian Rupees which are utilised by the partner country for purchase of Indian goods. We export a widely diversified basket of goods and import critical raw materials, commodities, engineering items from these countries.

1.50. The Committee asked whether any monitoring system has been established to ensure that the imports and exports to RPA are within the trade plan and whether the targets of the trade plan are achieved; and if not what corrective steps are being taken in this direction. The Commerce Ministry has stated that.

> "The exports and imports situation is monitored continuously in consultation with the Commercial Counsellors of these countries, canalising agencies and Exports Promotion Councils. Any shortfalls in the implementation of the Trade Plan Provisions are taken up with concerned authorities at appropriate levels. In addition meetings of the Working Groups on trade of the Bilateral Joint Commissions with these countries are held at periodic intervals to monitor trade flows and devise short term and long term strategies to boost turnover.

Value added content of Exports

1.51. Value addition achieved by an export Processing Zone is the net inflow of foreign exchange earned for the country as a result of export and import business carried out during a particular period of time.

1.52. Value addition formula under EPZ scheme is intended to measure the value added in the manufacturing process rather than simply earning of net foreign exchange by the EPZ units.

1.53. Based on the projections, the Board of approvals examines as to whether the value addition envisaged is reasonable in respect of the product proposed to be manufactured for exports. Though a minimum of 20% has been prescribed for clearing a proposal under EPZs – EOUs, the overall approval is fixed at different threshold levels for different products, such as, 60% for computer software. Computation of value addition also takes into account indigenous raw-materials.

1.54. The Audit report has revealed that the prescribed value addition could not be achieved by Santacruz Zone. The exports proved to be much more import intensive than envisaged. The Santacruz Zone was expected to ensure a value addition of 50 per cent on an average, on its exports. The performance of the Zone during the last five years, however, revealed that the value added content which was 36 per cent in 1982-83 declined to 31 percent in 1986-87.

1.55. Asked whether the Administration has scrutinised the reasons for this and taken any measures, the Ministry of Commerce have stated that the cabinet had decided in November, 1972 to establish SEEPZ. At that time, the cabinet had envisaged that the minimum VA would not be less than 20% and if possible even be 30%. The overall VA for the Zone as a whole could be around 50%. However, the electronic industry since inception of the zone has made rapid strides in technology advancements with the result that more and more automation had come in thereby reducing labour advantage. The trend has been to operate on low profit margin with a high volume turn-over. The Board also has been approving VA in individual cases ranging between 20% and 30%. This has come to be recognised as the threshold limit now for electronics units.

1.56. The units according to the Ministry, have been facing keen competition from the international market in electronics where profit margin is very low. Further, it may also be mentioned that the overall VA is calculated on the basis of inflow and outflow of foreign exchange irrespective of whether imports have been paid for or not. However, if the VA is calculated on basis of inflows and outflows without taking into account cost of goods supplied free of cost both in outflows and inflows, the VA would work out to 45% for the year ending 31st March, 1988. For the year ending 31.3.89, it would work out to 33.86% if the CG imports are excluded, VA works out to 38.82%. Considering the present trend in the international market, the VA achieved by the Zone as a whole cannot be considered as low.The Ministry have added that the Authority for SEEPZ had pointed out even as early as in March, 1975, that "the value added after such critical scrutiny is not a rigid figure which has to be adhered to at all costs but only a guideline. Rigidity in this regard was impracticable in view of the international price fluctuations which cannot be predicted".

1.57. Asked about type of monitoring mechanism with the Ministry of Commerce / Ministry of Finance for ascertaining the achievements of value addition by each of the units established in the EPZ/FTZ, the Ministry of Commerce have stated that value addition is monitored by the Development Commissioner of the concerned EPZ. The Zone Administration has issued standing orders requiring the units to submit periodical statements in a prescribed format giving the details of imported and indigenous inputs used in export production and the value addition generated in the exports. The Zone Administration regularly monitors the performance of individual units in enforcement of the prescribed value added conditions. On the basis of reviews of export performance units are advised suitably to improve performance where shortfall in the value addition were noticed. Action is also taken to stop the facility of OGL imports (By suspending the Registration Certificate issued to the Units or otherwise) in serious cases of default or in proven cases of lack of bonafides.

1.58. In the report submitted by the Indian Council for Research on International Economic Relations it has been stated that the existing selection criterian which is principally based on value added component per unit of export should be replaced. Asked whether the Ministry has since changed the value addition criteria for the establishment of the units in the Zones, the Commerce Ministry stated that, the selection criteria principally based on value addition has not been changed for the reasons that the Board of approvals, while approving project at present, not only takes into consideration value addition, but also the total foreign exchange earning, buy back arrangements, foreign collaboration, equity participation, phased indigenisation etc. envisaged in the proposal.

Incentives and concessions to the units

1.59. The units established in the Zones are given a number of fiscal and non-fiscal package of incentives and concessions. These include provision of basic infrastructural facilities, duty free import of capital goods, raw materials and consumables under OGL, grant of Deemed export benefits to supplies from DTA/facility of remittance of profits and dividends earned by foreign investors after payment of taxes, permission to repatriate foreign capital invested without capital appreciation of value of investments, reimbursement of central sales Tax and Corporate tax holiday for a period of 5 years, in a block of 8 years, facility for sale of 25% of annual production in the DTA on payment of leviable duties against valid import licences etc.

1.60. The Audit Report has brought out despite numerous incentives and concessions extended by the Central State Government and other agencies the EPZs have not come up to expectations. Asked why the Export Processing Zones had not came up to the expectations the Ministry have stated that most of the incentives and concessions given to the EPZ are now equally available to any exporter whether he is in the EPZ or outside it. Further, after the considerable liberalisation which has taken place in the licencing procedure under DTA Schemes together with the monetary incentives of CCS, the Income-Tax relief under Section 80-HHC of Income-Tax Act, 1961, which provides for exemption from payment of income tax on export profit etc., the advantages of EPZ units vis-a-vis units in the Domestic Tariff Area have narrowed down considerably.

1.61. However, the Ministry clarified that the concept of EPZ had not lost its relevance as:

(i) They offer a package of infrastructural facilities in a compact area which facilitates economy of scale for common services;

(ii) All the Zones (except Noida EPZ) are close to major ports of the country and all of them have access to international airports, both of which are critical to exports;

(iii) The scheme is an embodiment of a conscious frontal effort for stimulating production solely for exports, as opposed to the traditional pattern of exporting only marketable surpluses;

(iv) Free as the EPZs are from the restrictions of foreign investment, they offer greater openings for attracting foreign technology/capital in India;

(v) The compactness of the Zones and the streamlined administration which facilitates the duty free imports of goods for the purposes of export with value addition.

1.62. In another note furnished to the Committee the Ministry of Commerce have stated that the units in the EPZs have been making representations for more liberalisations of policy and additional incentives in the form of enhanced duration of corporate tax holiday, full CCS on par with the DTA (EPZ units are eligible for only 50% of the rate of CCS applicable to DTA units), less rigid licencing conditions relating to added value, GCA exports etc. some of which (extension of perpetual Tax Holiday) are under the consideration of the Government.

1.63. Asked whether the demand for additional incentives sought by the units in EPZs is justified, the Ministry have stated that there is all the justification of additional incentives to EPZ units as it is extremely important that the policy fremework for EPZs should be significantly more liberal than that applicable to DTA units for the following reasons:—

(i) These units export 100% of their output against the DTA units average level of exports of about 4 to 5% in the engineering, chemicals and other manufacturing sectors;

(ii) These units have to work in a highly competitive international environment;

(iii) they have to absorb the fluctuations of the international markets without recourse to the stability provided by the closed DTA market. In fact, the policy environment has to bear a relationship not only with the DTA but also with environment prevailing in other competing countries.

Organisational set-up

1.64. The Organisational set up of EPZs is as under:—

The Export Processing Zones are under the administrative control of the Ministry of Commerce, which provides funds for meeting expenses on infrastructural facilities in the Zones.

(i) For each Zone, there is a high level policy making body known as the Authority, headed by the Commerce Secretary.

(ii) A Board constituted separately for each zone headed by additional Secretary, Ministry of Commerce, accords single point clearance for setting up of new industrial units in the Zone.

(iii) The Administration of the Zone is headed by a Development Commissioner.

(iv) The Customs Department acts in close liaison with the Development Commissioner of the respective Zone for providing bond facilities and for ensuring that goods imported duty free are utilised in the production of goods for export.

1.65. On a query as to whether the present set up is working satisfactorily the Ministry have stated that "The present set up is generally working satisfactorily. However, some minor operational difficulties at the field level do arise sometimes which are resolved on a case to case basis.

1.66. In a note furnished to the Committee, the Ministry of Commerce have elaborated that the main operational difficulty experienced at the field level is in relation to customs matters. Though the customs staff are borne on the strength of the Zone Administration, for technical purposes they are under the Collector of Customs of the respective area in which the Zone is located. This sometimes leads to a duality of approach; when interpretations can be made from the point of revenue collection only, without having sufficient regard to the promotional role of the Zone. This also leads to avoidable time lags which affect prompt delivery schedules of the exporting units, which in turn adversely reflects upon the overall credibility of the party.

1.67. The proposal to delegate powers of the Collector of Customs and Central Excise to the Development Commissioners of the Zones to solve the operational problems of the Zones was placed before the Committee of Secretaries (COS) on 18-9-90. The COS however did not approve the proposal.

1.68. The Member (Customs), C.B.E.C. stated during oral evidence, that

> "there have been in the Ministry of Commerce some proposals regarding delegation within their own set up. That is quite different from co-ordination. Now, so far as the Deptt. of Revenue is concerned, we are very clear that the Officers of the Ministry of Commerce cannot become Revenue Officers. My own understanding of the observations in the C & AG Report is that you would perhaps want us to have strict control and watch over the functioning and the feeling is that probably the revenue interest should be even more strongly guarded. Therefore, I don't think it would be in the interest of the Revenue Department to set up this precedent by outside people being entrusted these functions under the Customs Act. Our

Assistant Collector is very much passing orders and as a Revenue Officer he is under the Collector of Customs, but, he is for all practical purposes, under the administrative set up of the Commissioner (Operation). Therefore, so far as coordination is concerned, they are in day-to-day touch with them. If that is not an effective coordination, I don't think anything else can be."

1.69. The Committee during evidence suggested considering an alternative of posting a high level officer instead of an Assistant Collector. The Member (Customs) agreed with this view and stated that,

"I hope the Commerce Secretary would agree that this step would perhaps make the set up more effective. I don't think we have any serious trouble in working together."

1.70. During evidence, it was observed that the authority which is a high level policy making body set up under the Commerce Secretary, had not met over the last five years though it was expected to meet twice in a year. Conceding that there was no justification for the authority not meeting as required, the Commerce Secretary assured the Committee that the review meetings to discuss policy issues will be held more regularly in the future.

1.71. 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.

1.72. 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 threefold selection criteria in terms of minimum conditions the zone would be expected to satisfy. These include generation of aggregate not 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 turn-over. All these aspects are stated to be kept in view by the Boards of Approval 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.

1.73. 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.

1.74. 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.

1.75. 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 area 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.

1.76. 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 EPZ are the same as 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 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 in relation to exports to general currency areas.

1.77. 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 benefit 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, *re-imbursement* 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 Government 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 rate was 17.4 and 23.7 per cent at the corresponding points of time.

1.78. 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 having to operate in a highly volatile and fiercely competitive international market.

1.79. 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.

1.80. The Committee view with concern the prevailing high rate of mortality of units in Kandla and Santacruz zone. 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 emphasise 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.

1.81. 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 (ECS) 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.

1.82. 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.

1.83. 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 constituted separately for each Zone accords single point clearance for setting up of new industrial units in the Zone.

1.84. The Committee note with dismay that the authority which is the highest policy-making body in respect of each EPZ which is required to monitor and review 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.

1.85. The Committee find that at present the Development Commissioners do not have the powers of Collector of Customs and Central Excise. Though the Customs staff are borne on the strength of the Zone Administration, they are under the charge of the 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.

CHAPTER II

Inadmissible Concessions

2.1. The Audit Para has revealed cases of loss of revenue of Rs. 36.81 crores due to irregular grant of duty exemption to units on import of certain materials. Though there was no manufacturing activity by them.

2.2. The Committee asked the Ministry to specify cases where some units in the EPZs did not undertake any manufacturing activity with imported materials, availed of the duty exemption under the relevant exemption notification and without any value addition, resorted to commercial activity only leading to considerable loss of revenue. The Ministry of Commerce have stated that there is no case in the EPZs where the units did not undertake any manufacturing activity with duty free imported materials and resorted to commercial activities only, without achieving any value addition. Though there is no specific requirement relating to manufacturing, approvals are given only to projects having a phased manufacturing programme, which may also initially involve assembly operation. The major emphasis of the scheme is on value addition, which is stipulated on the basis of projected performance over a period of five years and the performance of the units is monitored with a view to ascertain whether shortfalls in the initial years can be made up in the subsequent years. The concept of duty is relevant only in the context of the domestic tariff area. As all the goods imported by the EPZ units are exported there is no question of any loss of Revenue.

2.3. The details of the specific cases furnished by the Ministry of Commerce to the Committee are as under:

(i) **Menon Impex, Madras, EPZ:**
A penalty of Rs. 10 lakhs has been imposed by the Additional CCI&E for non-achievement of the prescribed value addition. The party has filed appeal.

(ii) **Fortune International, MEPZ:**
No penal action has been taken as the party achieved the value addition of 32.6% till 31.3.90 against the prescribed value addition of 33%.

(iii) **Ciba Geigy & M.J. Pharmaceuticals, KAFTZ:**
Manufacturing done as per approved projects and value addition achieved. Hence no action.

(vi) **Simao, KAFTZ:**
Addl. CCI&E already imposed a penalty of Rs. 45 lakhs after adjudication of the case for non-fulfilment of licensing conditions.

(v) **Phoenix/Shoes Divn. Noida EPZ:**
A show cause Notice for imposition of Customs duty of Rs. 25.60 lakhs was already been issued by the Noida Customs on the unit for mis-declaration of imported goods. The party had allegedly imported complete footwear declaring the same as components of footwear. The party has contested the demand and the case is being processed for adjudication.

CCI&E has also been requested to take action for non-achievement of value addition.

(vi) **Phoenix/Electronics Division:**
Import-export was in accordance with the approved project.

2.4. According to the Ministry the Finance Ministry had earlier stated that since the import/export of the unit was generally in accordance with the approved project, there was no duty liability and hence no loss of Revenue. However, Noida Customs have issued a show Cause Notice to the party for not fulfilling the CCA export condition stipulated in the Letter of Approval in full and also for alleged unauthorised importation of certain components. The party's final reply to the show-cause Notice is still awaited.

2.5. It has been brought to the notice of the Committee that some units have imported finished goods, in bulk for labelling, packing etc. for export in violation of the prohibition prescribed in Notification No. 77/80 dated 17.4.80. The Committee asked for the views of the Ministry of Finance in this regard. The Ministry of Commerce have stated that the EPZ Scheme is administered by the Commerce Ministry and the emphasis of this scheme is on value addition. The function of Customs (Ministry of Finance) is essentially concerned with clearance of imports and export of the units on the basis of the projects aproved and ensuring that the goods brought into the Zone duty free are not unauthorisedly diverted to DTA. Finance Minsitry should not be directly concerned with the manufacturing activity of the units except to the extent that it must conform to project profile as approved.

The Ministry of Finance have confirmed that the imports by the units are covered under the exemption notification. They, however, generally feel that there should be some manufacturing activity. It is pertinent to mention here that the representatives of Central Board of Excise & Customs and the Department of Economic Affairs are among others, members of the EPZ project approval Boards.

The detailed comments of the Ministry of Finance are as under:

"Notification No. 77-Cus dated 17.4.1980 (relating to Kandla Free Trade Zone) provides exemption to goods specified therein when imported into India for the production of the goods for export out of India or for being used in connection with the production or packaging of goods for export out of India or for the promotion of such exported by units within the zone. For this purpose the importer executes a bond binding himself to fulfil the export obligations and other conditions of the notification. He has also to satisfy the Development Commissioner that the goods so imported will be used in connection with the production or packaging of goods for export out of India or with the promotion of such exports of goods.

It will thus be seen that the notification stipulates the use of imported raw material/goods for the production of goods or for being used in connection with the production or packaging of goods or for the promotion of such exports. Thus, on strict legal interpretation, even the packaging of goods will qualify to be covered under the provisions of exemption notification. Thus, it will not be appropriate to deny the benefit of exemption under the above said notification to units, which are engaged only in the packaging of goods for the purpose of export and no other manufacturing activity is being undertaken by them.

Notwithstanding the above position, the Customs Department had brought out all such cases where manufacturing activity was not involved by the units to the notice of the Development Commissioner or the Ministry of Commerce from time to time viz. the cases of M/s Menon Impex Pvt. Ltd. and M/s. Fortune International Pvt. Ltd., in Madras Export Processing Zone; M/s. Ciba-Geigy of India Ltd., M/s. M.J. Pharmaceuticals, and M/s. Simac Group in Kandla Free Trade Zone and M/s. Phoenix Overseas in Noida Export Processing Zone.

The Ministry of Finance are, however, of the view that there should be some manufacturing activity by the units in the Free Trade Zones, so that the minimum value addition specified could be achieved by such units; and that mere labelling/packing of finished goods imported as such should not entitle them to the benefit of exemption."

2.6. The Committee note that some units in the Export Processing Zones did not undertake any manufacturing activity with the imported materials though they availed of the customs duty contained under the relevant exemption notification and resorted to commercial activity without any value addition, thereby leading to considerable loss of revenue. In some of the cases, the CCI&E has imposed penalties on the concerned units for non-achievement of the prescribed value addition. The parties have filed their appeals in these cases.

2.7. It is, however, observed that the Ministry of Commerce and the Ministry of Finance hold divergent views in regard to the interpretation of the relevant notification under which the different units availed of the duty exemption.

2.8. 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 EPZ. 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.

Return on capital invested by Government

2.9. Return on capital invested from 1981-82 to 1986-87 is shown in the following table:

(In lakhs of rupees)

Year	Net progressive capital expenditure		Lease rent receipt during the year		Maintenance expenditure		Net receipt		Return on capital investment (per cent)	
	Kandla	Santa-cruz	Kandla	Santa-cruz	Kandla	Santa-cruz	Kandla	Santa-cruz	Kandla	Santa-cruz
1981-82	303.86	476.00	19.40	28.79	4.99	9.12	14.41	19.67	5	4
1982-83	396.65	480.00	39.06	34.75	15.00	16.65	24.06	18.10	6	4
1983-84	421.98	480.00	21.43	47.87	13.84	20.00	7.59	27.87	2	6
1984-85	465.07	801.00	31.86	61.35	0.54	22.00	31.32	39.35	7	5
1985-86	608.27	827.00	38.58	81.54	14.70	25.00	23.88	56.54	4	7
1986-87	684.27	827.00	31.56	106.38	30.00	40.00	1.56	66.38	—	—

2.10. The return on capital invested 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.

2.11. The return on capital invested in the Kandla Zone was 5% in 1981-82 which decreased to practically nil in 1986-87. In the case of Santacruz Zone, the return on capital invested varied from 4% to 8% as compared to the envisaged return of about 12%.

2.12. The Committee asked the Ministry to explain the reasons for low return on the capital invested in Kandla and Santacruz Zones and also enquired about the position in the other four zones. The Ministry of Commerce have stated that, no specific rate of return was envisaged while approving the Export Processing Zones as the scheme envisaged the provision of facilities for creating an environment in which competitive export industries could flourish.

The rate of return on capital investments calculated on accrual basis in respect of all the EPZs are given below. It may be appropriate to view this alongwith the investment induced in the Zones and the net foreign exchange earning generated which are also brought out alongside.

	Return on capital investment percentage (As on 31.3.90)	Total Govt. expenditure (As on 31.3.90)	Level of Investment (As on Sept. 90)	Net F.E. earnings (As on 31.3.90)
				(Rs. in crores)
KAFTZ	7.9%	9.59	60.61	774.65
SEEPZ	8.8%	22.27	30.56	319.53
NOIDA EPZ	6.5%	19.79	38.90	38.88
MADRAS EPZ	10.59%	15.94	59.74	17.74
COCHIN EPZ	3.39%	13.32	22.72	0.16
FALTA EPZ	1.38%	16.82	2.57	11.02
		97.73	214.90	1161.98

It is also pertinent to mention that the Indian Council for Research on International Economic Relations (ICRIER) which conducted a rigorous Social Cost Benefit Analysis of SEEPZ and KAFTZ during 1985-86 concluded that at official exchange rates, the internal rate of return from KAFTZ is in excess of 18% and the zone has produced a positive Welfare impact for the economy despite its slow start. In the case of SEEPZ the internal rate of return is in the vicinity of 23%. Both the Zones have generated a welfare gain for the economy.

The Zones at Noida, Madras, Cochin and Falta, which were approved in 1983 and became operational in 1986 only and it is too early to assess the rate of return on the investment in their case.

Lease rent outstandings

The Audit Para has brought out that outstanding dues on account of lease rent etc. from the units in all the Zones amounted to Rs. 2.44 crores. As an incentive the rent is charged from the new units at 50% of the normal rate during the first three years of operation. In reply to a question the Ministry of Commerce have furnished the latest position regarding outstanding dues and recoveries of arrears of lease rent made and also the longest pending outstanding dues in respect of the different Zones.

Name of the Zone	Outstanding dues as indicated in Audit	Recoveries since made
	(Rs. in lakhs)	(Rs. in lakhs)
MADRAS	32.78	19.23
NOIDA	24.11	22.35
FALTA	2.89	1.61
COCHIN	1.00	—
KANDLA (as on 31:3.88)	45.02	16.05
SEEPZ	138.22	78.65

The oldest date of outstanding dues in each Zone are indicated below:

Zone	*Oldest outstanding due*
Kandla FTZ	May, 1970
SEEPZ	January, 1979
Noida EPZ	November, 1987
Madras EPZ	June, 1986
Cochin EPZ	January, 1988
Falta EPZ	October, 1986

2.14. The Committee enquired about the reasons for accumulation of arrears, as the rent has to be recovered regularly, and the action being taken for speedy recovery of these arrears. The Commerce Ministry have stated that the accumulation of arrears has been on account of non-payment of dues by the parties owing to financial problems. Apart from taking legal action, constant pressure is put on the defaulting units to clear the arrears. Further, recoveries are also effected from the Cash Assistance claims etc. of the units, wherever possible.

2.15. The Audit Para has also brought out that in the Santacruz Zone, the lease rent for sheds allotted in Standard Design buildings. I and II which became due for revision from July amd May 1985, respectively, had not been revised till March, 1988. Explaining the reasons for non-revision of rent for the sheds in Santacruz Zone, the Ministry have stated that the question of modifying the tenancy Agreement executed with the units to revise the rent even during the currency of tenancy period was being examined in consultation with the Ministry of Law. On receipt of the opinion of Law Ministry in February, 1988, suitable amendment in the tenancy agreements were incorporated. The Ministry of Commerce have added that "the rents were revised in such a way that short recoveries in respect of the period from May-July, 1985 to March 1988 were covered in the increased rent.

2.16. The Committee regret to note the Low return on capital invested by Govt. 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 infra-structure developed to improve the rate of return on capital invested.

Non-Execution of Lease Agreement

2.17. As regards lease agreements, the Audit Para has brought out that in the Kandla Zone, out of 160 plots and 236 sheds allotted, lease agreements had not been executed in respect of 62 plots and 173 sheds. In 13 cases, lease agreements had not been renewed after the expiry of the prescribed initial period.

No lease agreements had been executed with any of the 70 units in the Madras Zone and two units in the Falta Zone. In Cochin and Noida Zones, lease agreements had not been executed in respect of 7 and 25 units respectively (Jan. 1988).

2.18. Asked for reasons for non-execution of lease agreements, the Ministry of Commerce have stated that this is 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.

2.19. The Ministry have added that, licencing agreement is executed at the time of giving possession of plots to the units which is valid for a period of one year and enables them to apply for various facilities/approvals like building plan, term loan etc. Lease agreements are generally executed after taking effective steps for implementation of the approved projects.

2.20. The Committee enquired how in the absence of proper agreements the plots/sheds were handed over to the units and how the interests of the Zone Administration were protected. The Ministry of Commerce have stated that the plots/sheds are offered to the units after approval of the project by the Board of Approvals. On acceptance of the plot/sheds offered, the unit pays the advance rent for one year and on that the zone administration issues allotment order wherein suitable clauses for protecting government interest are incorporated. Only after issue of the allotment order possession of the shed or plot is handed over to the party. The allotment order contains all important conditions which form a part of the lease deed agreement.

2.21. Asked whether plots/sheds could be alloted and handed over without legal title, by entering into an agreement on provisional basis, the Ministry of Commerce have stated that normally, the lease deed agreement is executed soon after taking over the possession of the shed or plot by the party. Since the allotment order protects the interest of the Government, there appears to be no need of entering into an agreement on a provisional basis.

2.22. 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.

Non-allotment of plots and sheds

2.23. SDF sheds and plots are allotted to the entrepreneurs as and when the approved entrepreneurs come to set up the units. There is always a lead time 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 the requirements of the entrepreneurs whose applications have been approved. For meeting future requirements additional land has been acquired for Madras and Noida Export Processing Zones. The detailed position in respect of individual Zones as on August, 1990 is indicated below :

Kandla Free Trade Zone :Out of 7 vacant plots noted, 6 plots have been already allotted in Sector-1. Regarding sheds, out of 270 sheds constructed, 20 sheds are at present vacant.

Santacruz Electronics EPZ : At present there are only 3 sheds vacant which are already earmarked to the approved units. In fact, a proposal is being formulated for construction of another SDF building to cater to the expansion requirement of the existing units as well as to allot space for new projects which are likely to come up in the near future. The State Government has also been approached for additional land for expansion of the zone.

Madras Export Processing Zone : At present in NEPZ out of the total 74 plots & 64 sheds developed 59 plots and 51 sheds have already been allotted. The remaining plots and sheds are under allotment. To cater to the future requirements an additional area of 223.47 acres of land has been acquired for the expansion of the Zone.

Noida Export Processing Zone: All the available developed plots and built up space have already been allotted. Additional 213 acres of land has been acquired recently for the expansion of the zone.

Falta Export Processing Zone: At present a total area of 2265.29 sq. mtrs. in industrial shed No. 2 has been allotted to 2 zone units. For the residual area (452.19 sq. mtrs.) of the said shed, offer of allotment to intending units have already been issued. An area of 514.12 sq. mtrs. is only lying unutilised in shed No. 1.

Cochin Export Processing Zone: In Cochin Export Processing Zone, out of the 44 developed plots and 7 built up sheds provided, 23 plots and 4 shed have already been allotted. The entrepreneural response for setting up units in the Zone is now gradually picking up.

2.24. 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 plots and 13 sheds are still to be allotted. In the case of the Cochin zone out of 44 developed plots and 7 built up sheds, 21 plots and 3 sheds are yet 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.

Non-adjustment of advances paid to agencies

2.25. According to the Ministry of Commerce, the construction work is entrusted to the State Construction agencies on Deposit basis. The concept of deposit work normally pre-supposes 100% advance deposit of the cost of work accepted. However, due to budgetary constraints, and for close monitoring, funds were/are being released periodically. The value of work done normally always exceeded the cumulative total of money made available. The request of funds and frequency of release to the construction agencies is based on the quantum of work in hand. Generally, the cost of the entire work done is taken into consideration for release of funds.

2.26. Advance paid and adjustments thereof in different zones is as under:

(1) *Kandla Zone:* KAFTZ Administration had paid the Advance totalling to Rs. 600.83 lakhs to Gujarat Industries Development Corporation (GIDC) for execution of capital and maintenance work till March, 1989. GIDC submitted their monthly expenditure statement, which shows that they have incurred expenditure of Rs. 613.09 lakhs. GIDC has furnished the completion certificate of each item of work, which however is not in the prescribed format. The KAFTZ Administration has asked GIDC to furnish the same. Regarding expenditure incurred, the GIDC had booked excess expenditure of Rs. 12.28 lacs over the sanctioned amount. The Ministry stated that KAFTZ administration has called for the justification for the excess expenditure. The same would be scrutinised properly and the accounts are to be settled shortly.

(2) *Santacruz Zone:* Audit Report reveals that during July, 1984 to March, 1987 advances totalling Rs. 965.93 lakhs were paid to the Maharashtra Industrial Development Corporation for construction and

maintenance works. The corporation had not furnished completion reports and the advances remained unadjusted (March, 1988).

The Ministry stated that, the MIDC has furnished completion report. However, the accounts are still being finalised by MIDC who have been reminded to expedite the completion report. The matter is being pursued vigorously according to the Ministry.

(3) *Madras EPZ:* The Audit Report revealed that Advances totalling Rs. 1063.65 lakhs were paid to the Small Industrial Promotion Corporation of Tamil Nadu during January, 1985 to March, 1987 towards construction and development works. Completion reports of the works completed and actual expenditure were awaited from the Corporation (March 1988).

The Ministry of Commerce stated that, MEPZ (Phase I) has almost been completed. Completion report has since been received from SIPCOT. The actual expenditure was stated to be Rs. 1179.10 lakhs and SIPCOT has demanded the balance cost of Rs. 208.35 lakhs. The increase is attributed to the additional construction work done over and above what was stipulated earlier and also due to cost escalation in respect of various inputs. SIPCOT has since scaled down this claim to about Rs. 1.50 crores after discussions. The matter is under consideration.

(4) *NOIDA EPZ:* The work in respect of NOIDA EPZ Phase-I was completed in June, 1987. After completion of work accounts were compiled by NOIDA authority and final accounts were received on 30-5-90.

The balance of Rs. 55.93 lakhs is being utilised for the ongoing works.

(5) *Cochin EPZ:* The Audit Para stated that advances totalling Rs. 555.00 lakhs were paid to the Kerala Construction Corporation during March, 1985 to September, 1987 against which an expenditure of Rs. 459.64 lakhs was reported upto December, 1987. The final accounts in respect of the works completed had not been submitted by the Corporation (March, 1988).

The Ministry stated that, "The KSCC has been asked to furnish audited statements of each item of work completed comprising all construction details and drawings."

(6) *Falta EPZ*: Audit Report points out that the amounts outstanding against the National Building Construction Corporation was Rs. 84.52 lakhs (March, 1988) and against West Bengal Industrial Infrastructure Development Corporation was Rs. 8.49 lakhs (Aug. 1988).

2.27. The Ministry of Commerce stated in their written reply that balance amount has been adjusted in subsequent months in both cases

2.28. 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 emphasise 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.

Miscellaneous References

Railway siding Kandla Zone

2.29. The Audit Para has brought out that a Railway siding in the Kandla Zone (Cost Rs. 10.56 lakhs) connecting the Zone and the Gandhidham Railway Station to facilitate imports and exports through the Kandla Port was declared open in February, 1969. The siding was never used by any of the units in the Kandla Zone since its inception as the units considered it more economical and convenient to transport their import/export cargo by road. However, the Kandla Zone assessed in May, 1985 i.e. after sixteen years, that none of the units was likely to take advantage of the siding even in the distant future.

2.30. The Kandla Zone Administration, accordingly, approached the Ministry for its approval for dismantling the railway siding. This was accorded in January, 1986. The Kandla Zone Administration stated in October, 1986, that the action to get the railway siding dismantled has been taken up with the Railway authorities. The work of dismantling the railway siding had, however, not started.

2.31. The Audit Para has further revealed that the Kandla Zone incurred an expenditure of Rs. 14.98 lakhs on the maintenance of the railway siding till March, 1986.

2.32. In a note furnished to the Committee, the Ministry of Commerce have stated that though the KAFTZ Administration had invested Rs. 10.56 lakhs for railway siding at KAFTZ connecting the zone area and Gandhidham Railway Station to facilitate imports and exports through Kandla Port during the year 1969, the units have not so far availed the facilities of railway lines uptil now. However since then zone administration has regularly paying the maintenance charges without using the railway siding as per the agreement entered into with the Railway Authorities. The expenditure incurred for the maintenance and repairs of railway siding from its inception are detailed below:

Up to 1980-81		Rs. 10.56 lakhs
Upto 1983-84		Rs. 11.75 lakhs
Maintenance Expenditure		
,,	1985-86	Rs. 1.60 lakhs
,,	1986-87	Rs. 0.68 lakhs
,,	-do-	Rs. 0.16 lakhs
	Total :	Rs. 24.83 lakhs

The deposit amount of Rs. 16,000 paid for dismantling the railway siding during the month July 1986 was also included in the above figures.

2.33. The Ministry of Commerce further stated that the KAFTZ Administration is pursuing with the Railway authorities for dismantling the railway lines so that the space occupied can be utilised for some other purposes. Since the Railway siding is only a metre-gauge line and conversion to broad gauge line would involve further expense and is of uncertain utility the proposal for dismantling the railway siding seems to be the only practical alternative.

2.34. During evidence, the Member (Customs) stated that:

> "The Zone has been requesting the Railway authorities to undertake dismantling .... recently they (Railways) have asked for an increase in deposit by Rs. 20,000. So, it is Rs. 16,000 + Rs. 20,000. Now, a deposit of Rs. 36,000 has been paid to them."

2.35. 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 infrastructual 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 dalay 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.

Blocking of Funds and Unfruitful Expenditure (Cochin)

2.36. The Audit Para has brought out that the original plan of constructing a multi-storey standard Design Factory Building, as approved by the Cochin-Zone Authority in February, 1985, was revised by the

Authority in April, 1986 and it was decided to construct only factory sheds. The Kerala State Construction Corporation which was the constructing agency for the Zone, in the meantime had procured 582.28 tonnes of steel valued at Rs. 37.19 lakhs, during April to November, 1985, which become surplus to the requirements. The surplus steel which was returned to the Zone authorities by the Corporation was yet to be disposed (June 1988). The Corporation was also paid Rs. 2.60 lakhs towards agency commission and another sum of Rs. 5 lakh towards the preparation of plans, estimates etc. for Standard Design Factory Buildings which were subsequently abandoned. Thus, apart from blocking funds to the extent of Rs. 37.19 lakhs, the amount of Rs. 7.60 lakhs paid to the Corporation was rendered unfruitful.

2.37. The Commerce Ministry have explained that the surplus steel has been sold to a State Government Undertaking with the approval of the competent authority. As the decision to scale down quantum of work was taken by the CEPZ Authority which is the highest decision making body for CEPZ headed by Commerce Secretary himself, in view of the lukewarm response from the entrepreneurs, the agency commission paid to KSCC for procuring the material and the payment made for preparation of plans and estimates are not denied as these were the payments due to them for the service already rendered.

2.38. The Committee note that steel costing Rs. 37 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 disposed of. 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 betueen 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 work. The Committee recommend that the Ministry may lay down suitable guidelines for ascertaining requirements of users before while undertaking such works so that such wasteful expenditure and blockage of funds of be avoided in future.

Non-levy of Vegetable Oil Cess in the Kandla Zone

2.39. Vegetable Oil Cess amounting to Rs. 11.87 lakhs, at Rs. 5 per quintal, leviable in terms of the vegetable Oil Cess Act, 1983, was not recovered from two units in respect of the quantity manufactured by them during January, 1984 to March, 1987.

2.40. On a point of clarification the Ministry of Commerce have stated that demands for collection of oil Cess from two units manufacturing B.S.S. Grade Castor Oil were issued immediately on receipt of the clarification from CBEC that the same is chargeable from 100% EOU also. However, the same were not confirmed due to the fact that CBEC vide their letter F. NO. 262/34/88- CX. 8 dated 22.11.1988 directed that the demands raised, if any, may be kept pending.

2.41. 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.

Delay in disposal of sub-standard/rejected goods in the Santacruz Zone

2.42. The Audit Report has pointed out that, according to the Custom House Standing Orders of June 1978, rejects/sub-standard finished goods can be disposed of only after their (i) Mutilation and reduction to scrap within the zone under customs supervision and (ii) certification by the Department of Electronics that the scrap so obtained out of mutilation is for disposal.

2.43. The Audit Report has further stated that a test check of the reports revealed that 2.7 crore pieces of defective metal film resistors packed in 140 cartons, 19.86 lakh pieces of Dip Bridge Rectifiers during 1983 to 1987 and 187 items of accessories relating to computers and peripherals valued at 15,44,693 (Rs. 1.93 crores) during 1984 to 1988 had not been disposed of.

2.44. On ascertaining the latest position about disposal of these goods the Commerce Ministry have stated that as regards the disposal of defective Metal Films Resistors and Dip Bridge Rectifiers accumulated during 1983-84 the matter is still pending with the Department of Electronics for clearance. As regards accessories relating to computer and peipherals valued at Rs. 1.93 crores, goods worth Rs. 106.63 lakhs approx. have been disposed of by burning and sale of mutilated scraps or by burial. Out of the sale of scraps an amount of Rs. 2.91 lakhs was recovered as Customs Duty. Disposal of the remaining items cleared by DOE is under process. The delay is also because of the fact that the units are trying to get prospective buyers from DTA for the mutilated scraps. It is evident from the aforesaid figures that the revenue recovery on such sale of mutilated scrap reflect the value in good condition and not the actual value in present condition.

2.45. The Committee enquired whether any action has been taken for disposal of rejected/sub-standard finished goods in Santacruz and other Zones. The Committee also enquired as to whether it can be ensured that these defective goods do not get diverted to the market in a surreptitious manner. The Ministry of Commerce have stated that in SEEPZ, disposal of defective goods is effected after certification by the Technical authorities, who recommend the disposal of such substandard goods by burning, burial or by reducing the materials to scrap after mutilation. Wherever the units sell such scrap in the DTA, duty is charged. The mutilation, burning, burial etc. are carried out under the Custom supervision. Since the disposal of goods is regulated, there is little possibility of defective goods being diverted into the market. Even otherwise value addition and percentage of rejects/scrap is closely monitored to ensure that only very limited quantities are available in this category.

In other Zones also rejected/substandard goods are allowed clearance for sale after similar scrutiny and examination of goods to determine the extent of defects and marking of goods as "rejected/substandard".

2.46. The Committee enquired about the machinery established to ensure that the first rate goods do not find their way to the DTA under the garb of rejects. In response the Ministry have stated that:

> "The fact that some items are 'Rejects' has to be established to the satisfaction of the Assistant Collector of Customs and Central Excise having jurisdiction over such units. The Assistant Collector of Customs may decide that an item is a 'Reject' with reference to:

(1) the quality control yard-sticks specified by the buyer;

(2) the report of the internal quality control department of the unit; and

(3) other technical opinion which he may consider necessary."

2.47. 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 of. The Ministry have stated that goods worth Rs. 106.63 lakhs approx. have been disposed of by burning and sale of mutilated 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 mutilated scraps. The Committee expect the Ministry to help the units in disposal of their rejected/sub-standard goods in conformity with the objectives of EP2 and communicate the progress made to the Committee within a period of 3 months.

NEW DELHI;
22 January, 1992

2 Magha, 1913 (Saka)

ATAL BIHARI VAJPAYEE
Chairman,
Public Accounts Committee.

APPENDIX I

Report of the Comptroller and Auditor General of India, for the year ended 31 March 1988 (No. 16 of 1989) Union Government (Civil) Ministry of Commerce.

1. Introduction

1.1. The basic concept of setting up Export Processing Zones (Zones) 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

— increase in foreign exchange earnings;

— development of export oriented industries;

— stimulation of domestic and foreign investments; and

— creation of employment opportunities.

1.2 The first multi-product 100 per cent export processing free trade zone was established at Kandla (Gujarat) in 1965 with the three-fold objectives of export promotion, industrialisation of the underdeveloped area of Kutch and development of the Kandla port as a future alternative to the increasingly congested port of Bombay. The second export processing zone known as the Santacruz Electronics Export Processing Zone, Bombay, was approved in 1972 and commenced operation in September 1974. A building to house a gem and jewellery export complex within the premises of the Santacruz zone was added in 1987. A Committee was set up in 1981 to study the working of Santacruz and Kandla zones and to suggest, *inter-alia*, measures for export production. The Committee recommended establishing four to five more zones keeping in view proximity to a seaport and airport and availability of industrial and community infrastructures. In pursuance of these recommendations, an inter-Ministerial group identified seven locations against which four multi-product export processing zones were established in 1984 at Noida (Uttar Pradesh), Falta (West Bengal), Cochin (Kerala) and Madras (Tamil Nadu).

2. Organisational set up

The six zones are under the control of the Ministry of Commerce which provides funds for meeting the expenditure on administrative and infrastructural facilities within the zone. For each zone, there is a high level policy making body, known as the Authority for the zone, to review the working 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 other policy issues relating to the zone. The Authority for each zone is headed by the Secretary, Ministry of Commerce and comprises representatives of various Central Government departments as well as of the State Governments concerned. A Board constituted separately for each zone and headed by an Additional Secretary, Ministry of Commerce accords single point clearance for all proposals for setting up new industrial units in the zone, including projects requiring clearance from monopolies and restrictive trade practices or foreign exchange regulation angles. While approving the proposals, the Board also lays down, in each case, the target, direction and value addition to be achieved in regard to exports. The administration of the zone is headed by a Development Commissioner. The Customs Department acts in close liaison with the Development Commissioner of the respective zone for providing bond facilities and for ensuring that goods imported duty-free are utilised in the production of goods for export.

3. Scope of Audit

The records relating to various activities undertaken in the zones towards promotion of exports were test checked in the Ministry as well as in the zones.

A draft review covering the Audit findings in respect of customs revenue aspects was furnished to the Ministry of Finance in September 1988 and its comments were received in March 1989. A draft review relating to the other activities undertaken in the zones towards promotion of exports was furnished in November 1988, to the Ministry of Commerce who had not furnished any comments (June 1989).

This review covers the activities undertaken including the administration of dutyfree imports of capital goods and raw materials in the zones. A detailed analysis was done for the period 1981-82 to 1987-88. The reply of Ministry of Finance has been taken into account.

4. Incentives and concessions to the units

Apart from providing the basic infrastructural facilities, the units established in the zones are given a number of fiscal and non-fiscal package of incentives and concessions. The more important of these are dutyfree import of capital goods, raw materials and consumable spares under open general licence, exemption from central excise, grant of deemed export benefits to supplies of capital goods and raw materials made from the Domestic Tariff Area (DTA), from within the country but outside the zone, term finance at concessional rates of interest for acquiring fixed assets, reimbursement of central sales tax and corporate tax holiday for a period of five years in a block of eight years. Additionally, the State Governments of Gujarat, Maharashtra, Kerala, Tamil Nadu, Uttar Pradesh and West Bengal have extended concessions such as capital investment subsidies, exemption for local taxes, concessional power tariff etc. The non-fiscal benfits, include

(a) permission to repatriate foreign capital invested without capital appreciation in value of investments;

(b) facility for remittance of profits and dividends earned by foreign investors after payment of taxes; and

(c) facility for sale of 25 per cent of annual production in the DTA on payment of leviable duties against valid import licences.

5. Financial outlay

A total expenditure of Rs. 9485.19 lakhs was incurred on the establishment of the six export processing zones till the end of March 1988 as per details given below:—

(in lakhs of rupees)

Name of the zone	Capital expenditure	Revenue expenditure	Total expenditure upto March 1989
Kandla	1196.83	361.52	1558.35
Santacruz	1727.80	722.80	2450.60
Falta	1402.37	53.24	1455.61
Madras	1291.35	87.01	1378.36
Cochin	1210.29	47.35	1257.64
Noida	1309.99	74.64	1384.63
Total	8138.63	1346.56	9485.19

6. Establishment of units

The norms broadly adopted by the Board in selecting a unit to be established in the zones are:

— economic viability.

— value added content;

— manufacturing operation involved and volume of turnover;

— marketing arrangements; and

— experience and financial background of the promoter.

The table below gives the approvals accorded and units working in the six export processing zones at the end of March 1988:—

Name of the zone	Approvals accorded	Withdrawn or cancelled after approval	Units established	Units closed down	Units working
Kandla	679	81 during 1982-87	173	44	129
Santacruz	227	128	97	23	74
Falta	41	Not available	2	—	2
Madras	124	37	23	—	23
Cochin	29	2	3	—	3
Noida	73	16	15	—	15

The number of units actually established fell for short of the number of approvals accorded. A test check of records relating to 101 withdrawn / cancelled cases in Kandla and Santacruz revealed that in 84 cases, the entrepreneurs did not take positive steps towards establishment of the units. Further, in 17 cases, cancellation/withdrawal was due to lack of interest on the part of collaborators, non-viability of projects, foreign exchange problems etc.

The number of units established and number of units closed down in Kandla and Santacruz zones is given in the table below:—

	No. of units established	no. of units closed down	Percentage of closed units to units established
Kandla			
March 1982	96	29	30.2
March 1985	150	41	27.3
March 1988	173	44	25.4
Santacruz			
March 1982	46	8	17.4
March 1985	72	18	25.0
March 1988	97	23	23.7

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 rate was 17.4 *per cent* for the period upto March 1982 which increased to 23.7 *per cent* upto March 1988.

A test check of 21 closed units in the Sactacruz zone revealed that five units were closed within two years and the remaining 16 units between two and six years of commencement of production. The reasons for closure of these units were attributed to difficulties in marketing the products and withdrawal of support by foregin collaborators. In 11 cases in the Kandla zone, the units closed down due to one or more reasons like financial and managerial problems, want of export orders, dispute among partners, labour problems and institution of custom cases.

At the end of 1987-88, the working units represented only 19 and 33 *per cent* respectively of the units approved for establishment in Kandla and Santacruz zones since inception. Thus, despite numerous incentives and concessions, a substantial number of units for which approvals were accorded could not be set up.

The Indian Council for Research on International Economic Relations was asked by the Ministry to undertake an evaluation of the Export Processing Zones in the country and make suitable recommendations to improve their performance. The terms of reference included detailed social cost benefit analysis of the Kandla and Santacruz zones, comparison of incentives available in the zones with those available in other Asian countries, analysis of the implications extending to five year tax holiday, evaluation of value-addition and single window clearance scheme and measures for improving marketing of products. The Council submitted their report in June 1986. A gist of their recommedations is given in Annexure-I. Action taken by the Ministry on the recommendations contained in the report, submitted in June 1986, was not intimated to Audit (June 1989).

7. **Delay in setting up of approved units**

The letter of approval issued by the Ministry, after clearance by the Board, for setting up a unit is valid for one year from the date of its issue within which commercial production has to commence. The approval lapses if an application for extension is not made before the expiry of the validity period.

As on 31st December, 1987, there were 11 units in Kandla, 12 units in Santacruz and 17 units in Noida zones which had not started production within one year of the letter of approval. The delays were attributed to lack of interest on the part of entrepreneurs (six cases), alleged difficulties with collaborators and marketing arrangements (nine cases), delays in arranging finance (six cases) and power (seven cases), problems in arranging plant/equipment from foreign countries (five cases) and non-completion of factory buildings and other infrastructural facilities (seven cases).

For the four new zones, the Ministry had prepared an action plan for 1987-88 envisaging 15 units each to be established in Madras and Noida zones and seven and five units each in Falta and Cochin zones respectively. In Falta, two units and in Cochin three units were only functioning by March 1988. In Madras and Noida zones, 23 and 15 units respectively were established. The Ministry stated in April 1988 that non-achievement of targets was due to setting up of the Falta zone in a relatively backward rural area remote from the metropolis and in case of the Cochin zone, it was due to delay in obtaining loans from financial institutions.

The decision to locate the export processing zone at Falta was taken by Government, in September 1983, with a view to developing the backward area of Falta and promoting the exports from that region. The reply of the Ministry seems to belittle the basis of selection of the export processing zones as initially conceived and indicates lack of adequate planning.

8. **Export performance of units**

The export performance of the units in Kandla and Santacruz zones during 1983-84 to 1987-88 was as under:—

Value of exports	1983-84		1984-85		1985-86		1986-97		1987-88	
	Kandla	Santacruz	Kandla	Santacruz	Kandla	Santacruz	Kandla	Santacruz	Kandla	Santacruz
No. of units with exports less than Rs. 0.5 crore	48	20	43	25	37	31	30	29	37	32
No. of units with exports between Rs. 0.5 crore and Rs. one crore	10	8	8	10	9	10	17	9	10	9
No. of units with exports between Rs. one crore and Rs. 5 crore	16	7	22	8	23	8	17	13	26	14
No. of units with exports above Rs. 5 crores	4	5	16	5	15	6	17	7	11	7

In Kandla and Santacruz zones, nine per cent of the working units accounted for a major portion of exports and a large number of units in both the zones contribbuted very little towards earning foreign exchange.

In the Kandla zone, during 1986-87, 17 units accounted for 74 *per cent* of total exports and 13 units did not undertake any exports. During 1987-88, 11 units contributed 57.78 *per cent* of total exports and 37 units contributed only 3.65 *per cent.* In the case of 35 units, there was a declining trend in exports during 1985-86 to 1987-88. The prescribed increase in export earnings was not achieved by 22 units constituting 27 *per cent* of the exporting units in the zone during 1986-87.

In the Santacruz zone, during 1986-87, seven units accounted for 65 *per cent* of total exports and 10 units did not undertake any exports. During 1987-88, seven units contributed 63 *per cent* of total exports and 32 units contributed only 4.5 *per cent.* During that year, 22 units exported less than 50 *per cent* of the peak value of exports achieved by them in the earlier years. The prescribed increase in the export earnings was also not achieved by 42 units constituting 72 *per cent* of the exporting units.

In the Santacruz zone, in 13 units there was a net outflow of foreign exchange of Rs. 1.43 crores upto 1986-87. In addition, there was also a net outflow of foreign exchange for Rs. 1.88 crores in 12 other units which had closed down. Four units in the Santacruz zone were performing only sub-contract work even though they were allowed to be set up for the manufacture and export of approved products for which they were allowed to import capital goods and raw materials worth Rs. 1.28 crores.

The terms and conditions under which approval for the unit was accorded by the Board specified the export projection for a period of five years. In the Santacruz zone, out of 41 units which had completed five years, 31 units had not achieved the projected exports. In 22 units, the shortfall exceeded 50 *per cent*. In 14 units, the shortfall was over 80 *per cent*. The reasons for not achieving the projected exports, as gathered from the records of the zone, were *inter alia:*

— non-availability of raw materials at competitive prices and stiff competition;

— technical and marketing collaboration problems; and

— equity participation withdrawn by foreign collaborators.

Similar information in respect of the Kandla zone was not available.

During 1987-88, Noida and Madras zones exported goods worth Rs. 16.05 crores and Rs. 16.42 crores against the targets of Rs. 20 crores and Rs. 30 crores respectively. Exports of the other two zones viz. Cochin and Falta were Rs. 3.94 crores and Rs. 1.86 crores against the targets of Rs. 5 crores and Rs. 10 crores respectively.

9. Direction of imports and exports

Imports and exports in the zones during 1981-82 to 1987-88 is given in Annexure II.

Exports from the zones represented 2 to 2.97 per cent of total exports from the country during 1982-83 to 1987-88.

During 1981-82 to 1987-88, the total imports from the General Currency Area in respect of the Kandla zone exceeded exports by Rs. 597.48 crores resulting in a net outflow of hard currency to that extent. While imports from the General Currency Area increased from Rs. 34.02 crores to Rs. 150.22 crores during 1981-82 to 1986-87, exports to the General Currency Area increased from Rs. 11.38 crores to Rs. 23.21 crores. The exports to the Rupee Payment Area increased subtantially from Rs. 58.66 crores to Rs. 213.06 crores during the same period. In terms of percentage, the exports to the General Currency Area from the Kandla zone declined from 16 in 1981-82 to 10 in 1986-87 of total exports.

In the Santacruz zone, during 1981-82 to 1987-88, excess of exports to the General Currency Area over imports was only Rs. 9.56 crores representing a net inflow of foreign exchange in hard currency. The decline in exports was from 90 to 80 per cent during 1981-82 to 1986-87.

Exports from Madras, Cochin and Falta zones during 1985-86 to 1987-88 were also mainly to the Rupee Payment Area though the imports were mainly from countries in the General Currency Area.

10. Export targets and achievements

The annual targets for exports fixed by the Ministry and achievements in the two zones during 1982-83 to 1987-88 were as under:

(in crores or rupees)

Name of zone		1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Kandla	Target	100.00	150.00	150.00	300.00	250.00	300.00
	Achievement	142.43	107.35	237.08	236.86	236.27	185.03
Santacruz	Target	35.00	70.00	110.00	110.00	100.00	120.00
	Ahievement	54.37	88.62	95.83	84.49	102.36	110.17

There was shortfall in the achievement of annual export targets in Kandla zone during 1983-84 to 1987-88 except in 1984-85. Exports remained static during 1985-86 and 1986-87 and declined sharply during 1987-88. The Kandla zone Administration stated, in April 1988, that the withdrawal of orders for certain items from a particular country in the Rupee Payment Area was the reason for the decrease in the exports perfomance during 1983-84. Higher export earnings during 1984-85 to 1986-87, as compared to 1983-84, was stated to be artificial as a result of large scale export of various types of products of developed country origin to a particular country in the Rupee Payment Area after undertaking only minor processing operations in the zone.

In the Santacruz zone, the annual export targets were not achieved during 1984-85, 1985-86 and 1987-88.

The value of rupee, with reference to 1960 as the base year, was reported to have declined from 19.92 paise in 1982-83 to 13.28 paise in 1987-88. At current prices, though the exports from Kandla and Santacruz zones increase by 29.9 and 102.6 *per cent* respectively during 1982-83 to 1987-88, in real value terms, reckoned with reference to the value of rupee computed with 1960, the base year, the exports (Rs. 123.35 crores) declined by 13.4 *per cent* from the Kandla zone and increased (Rs. 73.45 crores) by 35 *per cent* only from the Santacruz zone during the same period.

Though it was envisaged by the Ministry that the Santacruz zone would export Rs. 50 crores of electronic items per year at the optimum level of operation-expected to be reached in 1976-77, the export level of Rs. 50 crores could be reached only in 1982-83.

The figures of exports from the Santacruz zone as well as of total exports from India of electronic items from 1981 to 1987 were as under:

Year	Total exports including Santacruz zone exports (Rs. in crores)	Exports from Santacruz zone (Rs. in crores)	Percentage of exports to total exports
1981	56.40	25.50	45
1982	83.90	48.30	58
1983	114.50	75.00	66
1984	155.00	103.50	67
1985	154.50	85.00	55
1986	240.00	100.50	42
1987	312.00	109.70	35

The contribution of the Santacruz zone to total exports increased from 45 *per cent* in 1981 to 67 *per cent* in 1984 but declined to 35 *per cent* in 1987. While the total exports almost doubled during 1984 to 1987. exports from the Santacruz zone remained more or less static. Despite the facilities and concessions extended to the units in the zone. the rate of growth of exports of units within the zone lagged far behind compared to the rate of growth of export of units outside the zone.

None of the new zones had been able to achieve the export targets fixed by the Ministry.

In the Santacruz zone, while exports to USA/Canada, during 1983-84 to 1985-86 increased from Rs. 31.02 crores to Rs. 32.11 crores, earnings in terms of US dollars decreased from 3 crores to 2.62 crores reckoned with reference to the average US dollar rate for the respective years as published in the Economic Survey of India 1988-89.

11. Value added content of exports

Value addition achieved by an export processing zone is the net inflow of foreign exchange earned for the country as a result of export and import business carried out during a particular period of time. The Santacruz zone was expected to ensure a value addition of 50 *per cent,* on an average, on its exports. The performance of the zone during the last five years, however, revealed that the value added content which was 36 *per cent* in 1982-83 declined to 31 *per cent* in 1986-87 as per details given below:—

Cumulative
(in crores of rupees)

	1982-83	1983-84	1984-85	1985-86	1986-87
Total outflow	86.42	150.21	222.83	274.35	342.71
Total inflow	132.26	223.05	324.15	399.06	501.41
Net inflow	45.84	72.84	101.32	124.71	158.70
Exports	127.93	216.56	312.39	396.88	499.24
Percentage of value added	36	34	31	31	31

The Santacruz zone Administrtion stated, in May 1987, that the achievement could be considered reasonable considering the fact that the units in the zone faced keen competition in the international market and profit margin in electronic goods was low. The reply of the Administration is indicative of inadequacy in performance and reveals failure to monitor and to take measures to counteract the situation so as to achieve the objectives of the scheme.

Information on value added in respect of the Kandla zone was not available.

12. Employment generated

The number of operating units and employment generated during 1982-83 to 1987-88 in the two zones was as under:

Year	Kandla zone		Santacruz zone	
	No. of working units	No. of employees	No. of working units	No. of employees
1982-83	84	6200	45	3500
1983-84	98	7000	51	6000
1984-85	109	7600	54	7500
1985-86	114	8510	59	7500
1986-87	122	8500	70	7500
1987-88	129	8250	74	8100

Employment figures declined in the Kandla zone during 1986-87 and 1987-88 despite the increase in the number of working units. In the Santacruz zone also, employment figures were stagnant during 1984-85 to 1986-87. The clarification by the Santacruz zone Administration was that though the number of units had increased, the employment had been low in the initial stages of setting up of operations by the new units. Further, certain units had also closed down during the same period.

13. Inadmissible concessions

13.1 Loss of revenue due to irregular grant of duty exemption to the units:-(i) A unit in the Madras zone was granted a letter of approval in May 1985 for the manufacture and export of sewing machine motors, knitting machines and sewing machine needles. The total value of imports and exports made by the unit upto 31st January 1987 amounted to Rs. 6.69 crores and Rs. 3.33 crores respectively. The unit imported finished goods in a semi-knocked down condition and exported the same with negligible value addition against the expected value addition of 54.92 *per cent*. Thus, due to non-achievement of the prescribed value addition, duty exemption amounting to Rs. 11.15 crores became inadmissible to the unit.

The Ministry of Finance stated in March 1989 that goods had not been cleared for home consumption but were exported out of India. The reply is not relevant to the issue.

(ii) Another unit in the Madras zone imported capital goods of value Rs. 9667.00. It also imported complete pharmaceutical machinery valued at Rs. 6.27 crores but declaring the same as raw materials. It also procured indigenous machinery worth Rs. 1.54 crores. Exports made between July 1986 and March 1988 were to the extent of Rs. 10.74 crores. As export consignments were despatched within a short span of time ranging from one day to two months after the dates of imports without undertaking any manufacturing activity, the duty exemption allowed on the import of finished goods to the extent of Rs. 9.04 crores was irregular.

The Ministry of Finance admitted in March 1989 that the manufacturing process was not to the extent envisaged. The matter requires further probe by the Ministry for suitable action.

(iii) Three units in the Kandla zone imported finished goods valued at Rs. 7.36 crores during 1982-83 to 1984-85 without payment of duty and re-exported the same.

The Ministry of finance stated that bulk import had been permitted by the Zone Board and goods were re-expoted after testing, labelling, packing etc..

The reply implies that no manufacturing activity had been carried out in these cases. Duty amounting to Rs. 14.73 crores was recoverable on the import of finished goods.

(iv) A unit in the Noida zone imported 20,000 pairs of footwear complete) without payment of duty from a country in the General Currency Area by treating these as components of raw materials. The same were re-exported to countries in the Rupee Payment Area, after a few days, without carrying out any manufacturing activity, involving customs duty of Rs. 25.60 lakhs which was recoverable from the unit.

In another unit of the same importer two consignments of disc-drives (870 sets) were imported, duty-free, from the General Currency Area. These were received as 'raw materials' on 18th February 1987 and 25th March 1987 and were re-exported on 19th February 1987 and 27th March 1987 respectively to a Rupee Payment Area. The duty payable on the import of 870 sets of disc-drives was Rs. 1.63 crores.

In both the cases, there was no evidence to show installation of plant and machinery in the units, before or during import/export of these goods or use of any other imported or indigenous input for carrying out any manufacturing process.

The Ministry of finance stated in March 1989 that import of footwear and disc-drives were allowed in the interest of export promotion. The Ministry's reply does concede the fact that there was no manufacturing activity and the grant of exemption from duty was inadmissible. In the light of the situation, the position needs to be reviewed by the Ministry.

13.2 Non-Recovery of duty on finished goods diverted to Domestic Tariff Area:—(i) A unit in the Kandla zone imported various consignments of acrylic scrap, toponal etc. in 1977. However, manufactured goods were permitted to be sold by the unit to the Domestic Tariff Area. A demand for Rs. 2.74 lakhs being the differential duty between imported raw material and diverted finished goods, was raised in 1979. Further, customs duty amounting to Rs. 0.67 lakhs was also payable by the unit in respect of the imported raw material not utilised within one year of their import. Neither of the amounts had been realised (June 1988). The Ministry of Finance stated that the department was unable to recover the outstanding amount from the unit.

(ii) Two units in the Kandla zone, cleared 17.15 tonnes of castor oil cakes to the Domestic Tariff Area during May 1984 to September 1986 on payment of duty of Rs. 10.23 lakhs after misclassifying them under item 68 of the erstwhile Central Excise Tariff. The duty payable on the goods under the correct heading 23 of the Custom Tariff worked out to Rs. 109.90 lakhs. The department issued a notice of demand for the differential duty of Rs. 99.67 lakhs in September 1986. The said demand was not confirmed (August 1988) by the adjudicating authorities.

13.3 Non-Recovery of duty on unutilised imports:—(i) A unit in the Kandla zone imported 5.26 lakh pieces of zip fasteners in 1983 without payment of duty. A case of shortage of 2,41,459 pieces of fasteners and non-utilisation of the balance quantity within, one year of their import, was booked against the importer, besides confiscation of the balance zip fasteners. The unit was directed in July 1985 to pay duty of Rs. 6.24 lakhs and a personal penalty of Rs. 20 lakhs. Even after a lapse of three years, neither the duty nor the personal penalty had been recovered (June 1988).

The Ministry of Finance stated, in March 1989, that the zone Administration filed a first information report in this case with the Gandhidham Police Station on 23rd April 1987, for impersonation and forgery. It added that the matter was under investigation and steps were being taken to recover the dues. The progress of the case has to be monitored by the Ministry.

(ii) Excisable goods brought from factories situated in the Domestic Tariff Area to the units in the Kandla zone in connection with production of goods intended solely for export, are exempt from excise duty. During 1982-83, 26 units were permitted to bring cement from the Domestic Tariff Area to Kandla zone. The department issued a show cause notice demanding Rs. 13 lakhs on the ground that cement had not been used in the exportable product but for construction activity.

The Ministry of Finance stated in March 1989 that demand-cum-show cause notices were issued in all the cases where the benefit of exemption of central excise duty for cement was extended. However, of the total amount, a sum of Rs. 11.74 lakhs was time barred. Action for confirmation of duty amounting to Rs. 1.42 lakhs which was not time barred, had been taken. As regards time barred dues, it was not known whether responsibility for administrative lapses had been fixed.

(iii) As per provision of notification dated 30th November 1979, as amended, the customs authorities should take action to recover duty on imported goods (capital as well as raw materials) and also on finished goods so manufactured or packed as have not been exported. A test check by Audit revealed that capital goods, raw materials and finished goods amounting to Rs. 1.30 crores were lying with ten closed units in the Santacruz zone.

The Ministry of Finance stated, in March 1989, that Rs. 21.98 lakhs had been recovered from two of the closed units and another unit had surrendered goods worth Rs. 16.23 lakhs which had been confiscated and were being put up for disposal. Further, action in respect of taking stock of inventory of unutilised goods lying in the remaining closed and sick units in Kandla and Santacruz zones was reported as having been initiated.

14. Return on capital invested by Government in Kandla and Santacruz zones.

Return on capital invested from 1981-82 to 1986-87 is shown in the following table:

(in lakhs of rupees)

Year	Net progressive capital expenditure		Lease rent receipt during the year		Maintenance expenditure		Net receipt		Return on capital investment (*per cent*)	
	Kandla	Santa-cruz	Kandla	Santa-cruz	Kandla	Santacruz	Kandla	Santacruz	Kandla	Santa-cruz
1981-82	303.86	476.00	19.40	28.79	4.99	9.12	14.41	19.67	5	4
1982-83	396.65	480.00	39.06	34.75	15.00	16.65	24.06	18.10	6	4
1983-84	421.98	480.00	21.43	47.87	13.84	20.00	7.59	27.87	2	6
1984-85	465.07	801.00	31.86	61.35	0.54	22.00	31.32	39.35	7	5
1985-86	608.27	827.00	38.58	81.54	14.70	25.00	23.88	56.54	4	7
1986-87	684.27	827.00	31.56	106.38	30.00	40.00	1.56	66.38	—	—

The return on capital invested 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. Return on capital invested in the Kandla zone which was five *per cent* in 1981-82 decreased to practically nil in 1986-87. The Kandla zone Administration stated, in April 1988, that the projected return on capital at the time of establishmet was not readily available with them. In the case of the Santacruz zone, the return on capital investment varied from four to eight *per cent* as compared to the envisaged return of about 12 *per cent.*

In the Kandla zone, the outstanding dues to be recovered from the units on account of arrears of lease rent amounted to Rs. 45.02 lakhs at the end of March 1988. In the Santacruz zone, the dues recoverable on account of lease rent, interest on lease rent, water charges etc. amounted to Rs. 138.22 lakhs at the end of March 1988. The position of overdues in respect of the four new zones was as under:

Name of the zone	Outstanding dues as in	Amount (Rs. in lakhs)
Madras	December 1987	32.78
Noida	March 1988	24.11
Falta	December 1987	2.89
Cochin	January 1988	1.00

In the Santacruz zone, the lease rent for sheds allotted in Standard Design buildings I and II, which became due for revision from July and May 1985 respectively, had not been revised (March 1988).

15. Non-execution of lease agreements

In the Kandla zone, out of 160 plots and 236 sheds allotted, lease agreements had not been executed in respect of 62 plots and 173 sheds. In 13 cases, lease agreements had not been renewed after the expiry of the prescribed initial period.

No lease agreements had been executed with any of the 70 units in the Madras zone and two units in the Falta zone. In Cochin and Noida zones, lease agreements had not been executed in respect of 7 and 25 units respectively (January 1988).

It was not clear to Audit as to why lease agreements had not been executed in all the cases. No action for fixing responsibility for such lapses seems to have been taken.

16. Non-allotment of plots and sheds

The position of allotment of plots and sheds, as prevailing in the different zones, was as under:

In the Kandla zone, out of 222 plots, seven plots could not be allotted for want of demand (March 1988).

In the Santacruz zone, 32 out of 64 sheds in Standard Design Factory (SDF) building IV and V were lying vacant since their completion in July and May 1986 respectively. In SDF buildings I and II, sheds also remained vacant for various periods ranging upto 50 months.

In the Madras zone, out of 56 sheds of SDF constructed during October and November 1987, 24 sheds were lying vacant in December 1987. 49 plots out of 87 developed upto October 1987 were also lying vacant.

In the Noida zone, out of 32 sheds and 53 plots, 11 sheds and 25 plots were in occupation till February 1988, leaving a balance of 21 sheds and 28 plots yet to be allotted.

In the Falta zone, an area of 3045.98 sq.m. out of 5000 sq.m. was lying unutilised in the two industrial sheds (December 1987).

The Cochin zone did not keep any record showing *inter alia*, the number of plots ready for allotment to entrepreneurs and details of plot-wise area, though some plots had been allotted and others were lying vacant. Construction of two factory sheds was completed in February 1987. A total area of 2170 sq.m. was unallotted.

17. Non-finalisation of accounts of advances paid to the constructing agencies

The Construction and maintenance works in the zones were being executed by public sector undertakings as deposit works. Advances paid and adjustments thereof in different zones are indicated below:

Kandla zone

During 1981-82 to 1986-87, the zone authorities paid advances totalling Rs. 516.82 lakhs to the Gujarat Industrial Development Corporation for executing construction and maintenance work against which the expenditure incurred by the Corporation was Rs. 457.91 lakhs, leaving a balance of Rs. 58.91 lakhs at the end of 1986-87. The Corporation had not furnished completion reports of the works executed till April 1988. The Kandla zone Administration stated in April 1988 that these were now being obtained from the Corporation.

Santacruz zone

During July 1984 to March 1987, advances totalling Rs. 965.93 lakhs were paid to the Maharashtra Industrial Development Corporation for construction and maintenance works. The Corporation had not furnished completion reports and the advances remained unadjusted (March 1988).

Madras zone

Advances totalling Rs. 1063.65 lakhs were paid to the Small Industrial Promotion Corporation of Tamil Nadu during January 1985 to March 1987 towards construction and development works. Completion reports of the works completed and actual expenditure were awaited from the Corporation (March 1988).

Noida zone

Advances totalling Rs. 847.70 lakhs were paid during December 1984 to March 1987 to the New Okhla Industrial Development Authority towards construction and development works without finalising the terms and conditions for execution of work. Even though the works were completed by June 1987, the final accounts and refund of unspent balance. if any, were awaited from the Authority (March 1988).

Cochin zone

Advances totalling Rs. 555.00 lakhs were paid to the Kerala State Construction Corporation during March 1985 to September 1987 against which an expenditure of Rs. 459.64 lakhs was reported upto December 1987. The final accounts in respect of the works completed had not been submitted by the corporation (March 1988).

Falta zone

The amounts outstanding against the National Building Construction Corporation was Rs. 84.52 lakhs (March 1988) and against West Bengal Industrial Infrastructure Development Corporation was Rs. 8.49 lakhs (August 1988).

18. Other points of interest

18.1 Railway siding-Kandla zone

A railway siding in the Kandla zone (cost Rs. 10.56 lakhs) connecting the zone and the Gandhidham Railway Station to facilitate imports and exports through the Kandla port was declared open in February 1969. The siding was never used by any of the units in the Kandla zone since its inception as the units considered it more economical and convenient to transport their import/export cargo by road. Strangely enough, Kandla zone assessed, in May 1985, after sixteen years, that none of the units was likely to take advantage of the siding even in the distant future mainly due to the following reasons:

(i) The siding was connected with metre-guage line which catered to only a small segment of the hinterland confined to north of Gujarat and southern western Rajasthan.

(ii) It was more convenient, dependable and economical for the units to use road transport for movement of their inward/outward cargo.

The Kandla zone Administration, accordingly, approached the Ministry for its approval for dismantling the railway siding. This was accorded in January 1986. The Kandla zone Administration stated, in October 1986, that the action to get the railway siding dismantled had been taken up with the Railway authorities. The work of dismantling the railway siding had, however, not started till may 1988.

The Kandla zone incurred an expenditure of Rs. 14.98 lakhs on the maintenance of the railway siding till March 1986.

The delay in taking a decision on dismantling of the railway siding involved avoidable recurring expenditure on its maintenance.

18.2 Blocking of funds and unfruitful expenditure in the Cochin zone

The original plan of constructing a multi-storey Standard Design Factory Building, as approved by the Cochin zone Authority in February 1985, was revised by the Authority in April 1986 and it was decided to construct only factory sheds. The Kerala State Construction Corporation, which was the constructing agency for the zone, in the meantime, had procured 582.28 tonnes of steel, valued at Rs. 37.19 lakhs, during April to November 1985, which became surplus to the requirements. The surplus steel which was returned to the zone authorities by the Corporation was yet to be disposed (June 1988).

The Corporation was also paid Rs. 2.60 lakhs towards agency commission and another sum of Rs. 5 lakhs towards the preparation of plans, estimates etc. for Standard Design Factory buildings which were subsequently abandoned. Thus, apart from blocking funds to the extent of Rs. 37.19 lakhs, the amount of Rs. 7.60 lakhs paid to the Corporation was rendered unfruitful.

18.3 Non-levy vegetable oil cess in the Kandla zone

Vegetable oil cess amounting to Rs. 11.87 lakhs, at Rs. 5 per quintal, leviable in terms of the Vegetable Oil Cess Act 1983, was not recovered from two units in respect of the quantity manufactured by them during January 1984 to March 1987. On this being pointed out in Audit, demand notices were issued in August 1987, but recovery had not so far been effected (June 1989).

18.4 Non-fixation of input-output ratio and non-fixation of percentage of scrap in the Santacruz zone

Custom House Standing Orders of June 1978 envisage furnishing of statement relating to utilisation of imported raw materials by the units as well as determination of the input-output ratio by the technical cell of the Custom House. There was, however, no indication that the prescribed statements were being furnished by the units. The Ministry of Finance stated, in March 1989, that as the technical cell was not in existence, the input-output ratio could not be determined. Thus the customs authorities had no means of satisfying themselves about the proper utilisation and accounting of the imported raw material. Despite Standing Orders specifically stipulating determination of input-output ratio, no follow-up action for implementing the same was taken nor was the position monitored.

18.5 Delay in the disposal of sub-standard/rejected goods in the Santacruz zone

According to the Custom House Standing Orders of June 1978, rejects/substandard finished goods can be disposed of only after their (i) mutilation and reduction to scrap within the zone under customs supervision and (ii) certification by the Department of Electronics that the scrap so obtained out of mutilation for disposal.

A test check of the reports revealed that 2.7 crore pieces of defective metal film resistors packed in 140 cartons, 19.86 lakh pieces of dipbridge rectifiers during 1983 to 1987 and 187 items of accessories relating to computers and peripherals valued at \$.15,44,693 (Rs. 1.93 crores) during 1984 to 1988 had not been disposed of.

The Ministry of Finance stated in March 1989 that action was now being initiated for the disposal of rejected/substandard finished goods in five units while in respect of two other units, the matter was under consideration of the Department of Electronics.

19. Summing up

The review reveals, inter alia,

Despite the numerous incentives and concessions given by the Central Government, State Governments and other agencies, the number of units actually established fell far short of the number of approvals accorded. Further, the number of working units in Kandla and Santacruz zones at the end of 1987-88 represented only 19 and 33 *per cent* respectively of the units approved for establishment in these zones since inception.

Out of the established units 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 rate was 17.4 *per cent* upto March 1982 which increased to 23.7 *per cent* upto March 1988.

During 1987-88, 11 units in Kandla and seven units in Santacruz contributed 58 and 63 *per cent* respectively of total exports made by these two zones. Further, 25 units in the Santacruz zone, had a net outflow of foreign exchange of Rs. 3.31 crores upto 1986-87.

In Kandla and Santacruz zones, 27 and 72 *per cent* respectively of exporting units did not achieve the prescribed net export earnings during 1986-87. In the santacruz zone, out of 41 units which had completed five years, 31 units had not achieved the projected exports. In 14 units the shortfall exceeded 80 *per cent*.

The prescribed value addition of 50 per cent of an average for the Santacruz zone, as a whole, was not achieved in any year.

Exports from all the zones represented 2 to 2.97 *per cent* of total exports from the country during 1982-88.

The net outflow of foreign exchange in hard currency was Rs.597.48 crores in the Kandla zone during 1981-82 to 1987-88 as imports from countries in the General Currency Area exceeded exports to these countries. During the same period, in the Santacruz zone, there was a nominal net inflow of foreign exchange in hard currency amounting to Rs. 9.56 crores. Exports to General Currency Areas from the Kandla zone declined from 16 in 1981-82 to 10 *per cent* in 1986-87 of total exports. During the same period, in the Santacruz zone, the decline was from 90

to 80 *per cent*. During 1985-88, exports from Madras, Cochin and Falta zones were mainly directed to countries in the Rupee Payment Area though imports were mainly from countries in the General Currency Area.

There was a shortfall in the achievement of annual export targets in the Kandla zone during 1983-84 and 1985-88. The targets were also not achieved in the Santacruz zone during 1984-86 and 1987-88. The envisaged target of exports of Rs. 50 crores by 1976-77 from the Santacruz zone, as a whole, could be achieved only in 1982-83. None of the new zones had been able to achieve the annual export targets fixed by the Ministry.

Though exports from Kandla and Santacruz zones increased, at current prices, by 29.9 and 102.6 *per cent* respectively during 1982-88, in real value terms, reckoned with reference to the value of the rupee computed with 1960 as the base year, exports declined by 13.4 *per cent* from the Kandla zone and increased by 35 *per cent* from the Santacruz zone.

Employment figures declined in the Kandla zone during 1986-87 and 1987-88 despite the increase in the number of working units. In the Santacruz zone also employment figures were stagnant during 1984-85 to 1986-87.

Inadmissible duty exemption on finished goods imported by units in Madras, Kandla and Noida zones resulted in loss of revenue of Rs. 36.81 crores.

Duty recoverable from three units in the Kandla zone on diversion of finished goods to the Domestic Tariff Area, non-utilisation of imported raw material and misclassification of the items amounted to Rs. 1.03 crores.

Duty recoverable from units in Kandla and Santacruz zones on unutilised imports amounted to Rs. 1.47 crores.

Outstanding dues on account of lease rent etc. from the units in all the zones amounted to Rs. 2.44 crores.

In 339 cases of plots and sheds, lease agreements had not been executed by the zone authorities.

84 plots and 77 sheds remained unallotted in Kandla, Santacruz, Madras and Noida zones. In Falta and Cochin zones, the number of unallotted plots and sheds could not be ascertained.

Advances amounting to Rs. 31.25 crores paid to the agencies for construction and maintenance works in six zones had not been adjusted even though the works had been completed.

Steel costing Rs. 37.19 lakhs procured in 1985, rendered surplus due to change in design of works in the Cochin zone in April 1986, was yet to be disposed of (June 1988). Besides blocking 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.

Vegetable oil cess amounting to Rs. 11.87 lakhs had not been recovered from two units in the Kandla zone.

Sub-standard-rejected goods including computer accessories and peripherals valued at Rs. 1.93 crores, with the units in the Santacruz zone, had not been disposed of.

Gist of the conclusions and recommendations contained in the report of the Indian Council for Research on International Economic Relations.

(i) The Export Processing Zones (EPZs) should be given an explicit three fold objective of expanding net foreign exchange earnings; attract direct foreign investment and generate employment. The concept and structure of the EPZs should be formulated with the foreign investor in view.

(ii) The minimum conditions for the selection criteria for a unit to be established in the zone should be (i) generation of aggregate net foreign exchange earnings above a stipulated minimum in five years (ii) have a minimum share of foreign equity participation or collaboration and (iii) demonstration of a wage component above stipulated level in its turn over. This should be announced as widely as possible with a comparative statement of incentives available under different export promotion schemes. The existing selection criteria which is principally based on value added component per unit of exports should be replaced.

(iii) Export Processing zone Authority (EPZA) should be formed to implment the single-window-clearance scheme and for planning, coordination and monitoring of the EPZs in the country. The functions of the 'Inspectorates' and customs operations within the zones should be taken over by the EPZA.

(iv) The incentives package as it existed, with some changes, should be put on a long term and stable footing through an adequate legislation and not changed for the next ten years.

(v) Procedures for remittance of dividends, royalties, profits should be simplified. Conditions for permitting foreign nationals of work in the zone be relaxed. They may also be permitted to transfer shares in international capital markets.

(vi) The practice of establishing percentages for scrap, wastes and rejects should be done away with an sales to the Domestic Tariff Area should be closed firmly except against valid import licences for general currency areas. Units need not seek approval from the Board for changes in product design, degree of manufacturing or processing etc. and the Transport Subsidy Scheme in Kandla should also be withdrawn.

Statement showing imports and exports in the export processing zones during 1981-82 to 1987-88.

(in crores of rupees)

(A) Imports.

Name of the zone	Direction of imports	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	Total
Kandla	GCA	34.02	91.58	67.44	141.96	141.17	150.22	103.76	730.15
	RPA	—	—	—	—	0.02	0.16	0.48	0.66
	DTA	—	—	—	—	—	—	—	—
Santacruz	GCA	22.83	48.76	84.36	70.43	54.59	68.94	138.68	488.59
	RPA	—	—	—	—	—	—	—	—
	DTA	1.22	1.00	1.57	3.19	1.33	1.49	NA	9.80
Madras	GCA	—	—	—	—	0.43	8.95	12.49	21.87
	RPA	—	—	—	—	—	—	—	—
	DTA	—	—	—	—	—	1.04	NA	1.04
Noida	GCA	—	—	—	—	—	0.84	8.51	9.35
	RPA	—	—	—	—	—	NA	—	NA
	DTA	—	—	—	—	—	—	NA	NA
Cochin	GCA	—	—	—	—	—	0.40	NA	0.40
	RPA	—	—	—	—	—	—	—	—
	DTA	—	—	—	—	—	0.36	NA	0.36
Falta	GCA	—	—	—	—	1.58	2.05	1.22	4.75
	RPA	—	—	—	—	—	—	—	—
	DTA	—	—	—	—	0.04	0.40	NA	0.49

(B) Exports

Name of the zone	Direction	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	Total
Kandla	GCA	11.38	13.89	12.98	22.57	15.50	23.21	33.14	132.67
	RPA	58.66	128.55	94.37	214.51	221.36	213.06	151.89	1082.40
	DTA		—	—	—	0.02	0.15	NA	0.17
Santacruz	GCA	26.91	46.26	85.33	89.84	73.90	81.89	94.02	498.15
	RPA	2.71	8.11	3.29	5.99	10.59	20.47	16.15	67.31
	DTA	—	—	0.01	0.06	0.14	0.38	0.38	0.97
Madras	GCA	—	—	—	—	—	0.17	5.40	5.57
	RPA	—	—	—	—	0.55	9.88	11.01	21.44
	DTA	—	—	—	—	—	—	—	—
Noida	GCA	—	—	—	—	—	5.58	8.37	13.95
	RPA	—	—	—	—	—	1.43	7.68	9.11
	DTA	—	—	—	—	—	—	—	—
Cochin	GCA	—	—	—	—	—	0.10	0.80	0.90
	RPA	—	—	—	—	—	0.84	3.14	3.98
	DTA	—	—	—	—	—	—	—	—
Falta	GCA	—	—	—	—	—	—	—	—
	RPA	—	—	—	—	2.30	3.17	1.86	7.33
	DTA	—	—	—	—	—	—	—	—

Note:—GCA General Currency Area
RPA Rupee Payment Area DTA Domestic Tarrif Area NA Not available

APPENDIX II

Statement of Observations and Recommendations

Sl. No.	Para No.	Ministry/ Deptt. Concerned	Observation and Recommendation
1	2	3	4
1.	1.71	Commerce	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. 813.63 lakhs and the balance of Rs. 1346.56 lakhs was towards revenue expenditure.
2.	1.72	Commerce	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

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			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 turn-over. All these aspects are stated to be kept in view by the Boards of Approval 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.
3.	1.73	Commerce	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 nęt outflow of foreign exchange from all the zones during the period 1981-82 to 1987-88 to the extent to 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.
4.	1.74	Commerce	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

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			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.
5.	1.75	Commerce	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 area & 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.

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6.	1.76	Commerce	The Committee find that the study carried out by the ICRIER on Kandla & SEEPZ has also revealed that units with foreign equity participation have consistantly 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 EPZ 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 other countries had 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. There after a suitable strategy be evolved for attracting foreign capital and technology into the EP

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			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 in relation to exports to general currency areas.
7	1.77	Commerce	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 benefit 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, re-imbursement 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 stand 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

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			March 1988 was 30.2 and 25.4 per cent respectively. In the Santacruz Zone the mortality rate was 17.4 and 23.7 per cent at the corresponding points of time.
8.	1.78	Commerce	The Ministry of Commerce have attribute 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 having to operate in a highly volatile and fiercely competitive international market.
9.	1.79	Commerce	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.
10.	1.80	Commerce	The Committee view with concern the prevailing high rate of mortality of units in Kandla & 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 emphasise that any proposal for establishing a unit in the EPZs is to be carefully evaluated in

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			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.
11.	1.81	Commerce Finance (Revenue)	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 (ECS) in September, 1990. Some of these have already found place in the new Trade Policy announced by the Commerce Minister in 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.
12	1.82	Commerce	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.
13.	1.83	Commerce	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 constituted separately for each zone accords single point clearance for setting up of new industrial units in the Zone.
14.	1.84	Commerce	The Committee note with dismay that the authority which is the highest policy making body in respect of each EPZ which is required

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			to monitor and review 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.
15.	1.85	**Commerce Finance** (Revenue)	The Committee find that at present the Development Commissioners do not have the powers of Collector of Customs and Central Excise. though the Customs staff are borne on the strength of the Zone Administration, they are under the charge of the 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.
16.	2.8	Commerce Finance (Revenue)	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 EPZ. 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

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			provisions contained therein which may result in avoidable loss of revenue to the Government.
17.	2.16	Commerce	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 infra-structure developed to improve the rate of return on capital invested.
18.	2.22	Commerce	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.
19.	2.24	Commerce	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 plots and 13 sheds are still to be allotted. The Committee desire that suitable guidelines may be evolved for invitation of applications and

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			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.
20.	2.28	Commerce	The Committe 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 emphasise 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.
21	2.35	Commerce Railways	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 infrastructual 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

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			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.
22	2.38	Commerce	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 of. 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 luckwarm 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 before undertaking such works so that such wasteful expenditure and blockage of funds can be avoided in future.
23	2.41	Commerce	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.
24	2.47	Commerce	The Committee note that sub-standard/ rejected goods including computer accessories and peripherals valued at Rs. 1.93 crores lying

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			with the units in the Santacruz Zone, had not been disposed of. The Ministry have stated that goods worth Rs. 106.63 lakhs approx. have been disposed of by burning and sale of mutilated 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 facts that the units are trying to get prospective buyers from DTA for the mutilated scraps. The Committee expect the Ministry to help the units in disposal of their rejected/sub-standard goods in conformity with the objective of EPZ and communicate the progress made to the Committee within a period of 3 months.