P. A. C. No. 549

PUBLIC ACCOUNTS COMMITTEE (1977-78)

(SIXTH LOK SABHA)

TENTH REPORT

EXPORT OF ENGINEERING GOODS

MINISTRY OF COMMERCE

[Paragraph 28 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil).]

सत्यमेव जयते

Presented in Lok Sabha on 15 NOV 1977
Laid in Rajya Sabha on 15 NOV 1977

LOK SABHA SECRETARIAT
NEW DELHI

September, 1977/ Asvina, 1899 (S)

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CORRIGENDA TO TENTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (1977-78)

Page	Line	For	Read
1	21	'indigenous steel was being made available to exporters of engi-'	'indigenously produced materials going into exports products), rail-
5	15	popes	pipes
7	4	about	that
7	10	strain	strip
14		Add 'Audit' in the footnote.	
20	26	of	or
21	33	state	stated
30	24	Add 'be' before 'a'	
35	20	'Rs.37,83,421 the company has been paid Rs.7,56,682'	Rs.98,08,412 and average f.o.b. realisation per tonne
38	25	fo	of
38	36	carrid	carried
42	31	1-4-1972	1-4-1973
43	21	$33\frac{1}{3}\%$	$133\frac{1}{3}\%$
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138	1	25 February	23 February
138	1	thtt	that
138	19	afer	after
138	22	1.100	1.110
144	19	imported	imposed
145 to 146	9to 26 and 1 to 2	Delete from 'Assistance... Drawback that' and add this after the words 'that the' in line 2 of page 147.	
151	2	meansures	measures

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*Ceased to be a member of the Committee on his appointment as Minister of State *w. e. f.* 14-8-1977.

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Shri B. K. Mukherjee—*Joint Secretary.*

Shri Bipin Behari—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Tenth Report on 'Export of Engineering Goods'—Paragraph 28 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil).

The Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil) was laid on the Table of the House on 30 April, 1974. The Committee (1974-75) considered Audit Paragraph 28 at their sittings on 4 July and 5 July, 1974 (FN).

On 20 August, 1974, a Sub-Committee consisting of the following Members was appointed to undertake a detailed examination of the question of cash assistance and other incentives for export performance during the years 1970-73 with reference to paragraphs 28, 29, 30 of the Report of the Comptroller and Auditor General of India for 1972-73, Union Government (Civil)—

Shri Jyotirmoy Bosu—*Chairman*

Shri T. N. Singh—*Convener*

Shri Sasankasekhar Sanyal *Members*

Shri P. Antony Reddi

The Sub-Committee examined Audit Paragraphs 28 and 29 at their sittings held on 8 and 14 January, 1975(AN). The Sub-Committee, however, did not examine paragraph 30. The Committee (1975-76) presented their report (178th) on para 29 dealing with 'Cash Assistance on Man Made Fabrics' on the 30th April, 1976. They could not however consider and finalise this Report dealing with para 28 due to paucity of time. This Report also could not be finalised by the Committee (1976-77) due to dissolution of Lok Sabha on 18 January, 1977. The Committee (1977-78) considered and finalised this Report at their sitting held on 12 September, 1977 based on the evidence taken by the Sub-Committee and further information furnished by the Ministry of Commerce. The minutes of the sittings of the Committee form Part II* of the Report.

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

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

The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1974-75) and the Sub-Committee on 'Cash Assistance' (1974-75) in taking evidence and obtaining information for the Report.

The Committee also place on record their appreciation of the assistance rendered to them in the examination of the Audit Paragraphs by the Comptroller & Auditor General of India.

The Committee would also like to express their thanks to the officers of the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

NEW DELHI;
September 30, 1977
Asvina 8, 1899 (S)

EXPORT OF ENGINEERING GOODS

Audit paragraph

1:1. In recent years our exports of engineering goods have grown impressively as follows:

	Rs. crores
1960-61	13·4
1969-70	89·5
1970-71	130·4
1971-72	118·4
April-December, 1972	96·0

1.2. For promoting exports, several measures have been undertaken, *viz.*, issue of import replenishment licence to the extent of import contents against exports of selected products, cash assistance (compensatory support to neutralise/reduce the gap in the f.o.b. realisation in order to make the products internationally competitive), export finance at concessional rate, drawback facilities (*i.e.*, refund of customs duty/central excise duty for imported/ indigenous steel was being made available to exporters of engiway freight concessions on export trade, etc. In addition, the main raw material for engineering exports, *viz.*, prime iron and steel is made available at international prices or domestic prices, whichever are lower. Upto 1971 and the early part of 1972, the world prices (United Kingdom, Japan, European Common Market countries) were generally lower than our indigenous base prices. Indigenous steel was being made available to exporters of engineering goods at the (lower) world prices. This was being done by the Joint Plant Committee (of the main producers in India) from out of its Engineering Goods Export Assistance Fund which was fed by a levy of Rs. 3 to 16 per tonne included in the Joint Plant Committee (f.o.r.) prices at which steel was being sold by the main producers in India.

1.3. The rates of cash assistance and import replenishment licence in 1972-73 for some of the important engineering goods exports were as follows:

Commodity	Rate of cash assistance 1972-73 per cent	1973-74 per cent	Import replenishment (1972-73 and 1973-74) per cent.
Steel Weld Mesh . . .	20	20	5
Transmission Line Towers:			
(a) Mild Steel Towers .	25+5	Exports upto 50 per cent	20
		of total production	10
		Between 50 and 60 per cent	15
		Between 60 and 80 per cent	20
		Exceeding 80 per cent	25
(b) High Tensile Steel Towers	On case to case basis	On case to case basis	As required
Bright Steel Bars . . .	10	10+5	40
Pipes and Tubes:			
(a) Ungalvanised . .	30	30	5
(b) Galvanised . . .	30	30	20
Bicycles complete . . .	30	30	20
Bicycle components and accessories	30	30	30

1.4. Up to 1970 prime iron and steel needed by exporters of engineering products was being supplied from indigenous sources. From 1971, however, scarcity of indigenous prime steel of some varieties (for example flat products, round bars, etc.) began to be felt and, in order that exports of engineering goods may not consequently suffer a setback, Government has been permitting import of prime steel and making it available to registered exporters of engineering goods. Thus, in 1971, 1.01 lakh tonnes of steel were imported through Hindustan Steel Limited and made available to the exporters of engineering goods.

1.5. According to Government, cash assistance (for exports) is not normally allowed beyond 25 per cent of the 'added value' which is arrived at by deducting the cost of imported material from the f.o.b. realisation due to the export product. However, because of import of steel and its allotment for engineering goods exports, the import content of these products went up. When the import content of an export product so goes up, the general policy is to reduce the quantum of cash assistance—the reduction being proportionate to the diminution of the value added indigenously (the main argument in support of reduction being that import prices are lower than indigenous prices). However, as an exception to that policy, Government decided (in April 1971) that there need be no reduction in the existing rates of cash assistance for exports of engineering goods. The principal considerations which then weighed with Government in approving this departure (in favour of engineering goods exports) from the policy were as follows:

(a) Increase in the import content in such cases was not very large and, as such, considerable reduction of production cost was unlikely.

(b) The import cost of certain steel item was not less than the domestic prices.

(c) Certain local taxes, *e.g.*, Octroi, etc. charged on the production are not taken into account for determining the rates of cash assistance.

1.6. The Engineering Export Promotion Council formulated an ambitious scheme for export target of Rs. 200 crores for 1972-73. The Council's estimate was that, for that purpose, 8.10 lakh tonnes of steel would be required, of that only 3.30 lakh tonnes would be available indigenously and the balance 4.80 lakh tonnes would have to be imported. It was decided that, to that end, steel would be imported by Hindustan Steel in 1972-73 and issued to the engineering goods exporters at the Joint Plant Committee (column 1) price plus 2 per cent charge thereon. The loss incurred by Hindustan Steel in importing the steel and selling it at the Joint Plant Committee (column 1) price plus 2 per cent is to be made good from the Marketing Development Fund which is financed from Government revenues. Government also took the decision that, as in the previous year and for the same reasons, the rate of cash assistance would not be reduced for export of engineering goods with higher import content.

1.7. Imported steel is available through direct import by actual users, registered exporters or their nominees or export houses and by the canalising agencies like Hindustan Steel. Early in 1972-73, it came to the notice of the Central Board of Excise and Customs (while dealing with a drawback claim) that, for production of exported steel weld mesh from which average f.o.b. realisation was Rs. 1,255 per tonne, a company had imported during July 1971 to February 1972, 3,592 tonnes of prime mild steel rods at an average assessable value (which is about the c.i.f. value) of Rs. 1,017 per tonne, and that—

(i) The company would, according to the existing sanctioned rates, get cash assistance of Rs. 251 per tonne, although if the principle that cash assistance should not exceed 25 per cent of the added value is to be observed cash assistance should not exceed Rs. 31 per tonne.

(ii) For earning net foreign exchange of Rs. 125 per tonne, Government would be giving cash assistance of Rs. 251 per tonne.

(iii) The assessable value of the imported mild steel rods had gone up to Rs. 1,247 per tonne in January 1972. If that value and the latest f.o.b. value of the exported steel weld mesh were taken into consideration, the net foreign exchange drain per tonne worked out to Rs. 129 and even then the company would get cash assistance of Rs. 251 per tonne.

1.8. This state of affairs had been brought about by, principally, the following:

(i) very high quantum of imported steel going into the production of the exported engineering goods.

(ii) liberal level of cash assistance (often ranging between 20 to 30 per cent of the f.o.b. value) for exports of engineering goods, and

(iii) rise in the world (London Metal Bulletin) prices of prime steel from the beginning of 1972-73.

1.9. In recent years, up to the end of 1971-72 the ex-works prices of indigenous prime mild steel were usually higher than the world prices. From the beginning of 1972-73, however, the world prices began to rise—the rise being particularly steep from November 1972 onwards. As a result, from about July-August 1972 onwards, the world (London Metal Bulletin) prices of prime mild steel sometimes exceeded the Indian ex-works prices. For example, in February 1973 the Indian ex-works prices and the European Common Market prices per tonne of the following were:

	India (standard quality plus size Extra)	Europan Comman Market
		Rs.
1. Bars and rods	753	1,222
2. Wire rods	885	1,003

1.10. A few other examples of possible anomalous consequences of the export promotion policy for engineering goods are given below:

Exporter	Export commodity	Expected f.o.b. realisation	Import material	Estimatd c.i.f. value of import content	Cash assistance admissible	Percentage of cash assistance admissible to net foreign exchange to be earned.
		Rs.		Rs.	Rs.	
'A'	Black pipes	2·39 crores	Hot rolled coils	1·78 crores	71·70 lakhs	118 per cent
'B'	Steel pipes and tubes	1·17 crores	Hot rolled strips	92·96 lakhs	35·10 lakhs	146 per cent
'C'	Galvanised black steel pipes	1·09 crores	Hot rolled strips	90·43 lakhs	32·70 lakhs	176 per cent
'D'	Galvanised steel popes	2·08 crores	Hot rolled steel strips	1·83 crores	62·40 lakhs	250 per cent
'E'	Steel bright bars and shaftings.	3·83 lakhs	Mild steel rounds	3·789 lakhs	1.149 lakhs	2875 per cent
F	Galvanised pipes and black pipes	22·02 lakhs	Hot rolled steel strips in coils	31·12 lakhs	6·60 lakhs	Net foreign exchange to be earned was negative (—) Rs. 9·10 lakhs.

1.11. Save reduction of the rates of cash assistance for exports of steel wire ropes during October 1972 to September 1974 and of transmission line towers from April 1973, during 1972-73 no action was taken by Government to avoid such anomalous consequences of its export promotion policy for engineering goods. Only in June 1973 did Government modify its policy by laying down that supply of imported steel, for export production, at the Joint Plant Committee (column 1) price plus 2 per cent would be made only for export contracts where the f.o.b. value of exports is at least 25 per cent higher than the c.i.f. value of all inputs like steel, zinc, etc., required for fabrication of export products, which are wholly or partially imported into the economy even though some part may be available indigenously, and this is to be irrespective of whether these inputs are obtained from indigenous or imported supplies. This decision of Government did not apply to export contracts for which firm letters of credit had been opened by the foreign purchasers before 5th June 1973. In a letter dated 9th January 1974, the Ministry of Commerce notified withdrawal of cash assistance for steel pipes and tubes exported on or after the date of that letter. Government has not reduced (January 1974) the rates of cash assistance for export of other engineering goods. If the net foreign exchange earning be 25 per cent at the rates prevailing the cash assistance for export of engineering goods would, in many cases, be 80 to 120 per cent of the net foreign exchange earnings. For quite some time Government has been aware that the existing rates of cash assistance for exports of some engineering goods are too high.

1.12. Beginning from 1972-73 international prices of steel (except in the United States of America) have generally increased (November 1973) by about 80 per cent while those of finished products made from mild steel have increased by about 100 to 150 per cent. In view of this and the fact that Indian labour is relatively cheap, so long as the principal raw material, *viz.*, prime steel, is supplied to the engineering goods exporters at prices substantially lower than the world prices, the need for encouraging exports of engineering goods—particularly, where the value added indigeously is not large—through liberal cash assistance, concessional bank finance, concessional railway freight, etc., is not easy to see.

1.13. Mild steel bars and rods are imported in our country, while bright steel bars are exported. It needs only machining to make bars into bright steel bars. Value added in making bright steel bars from bars is very small. And yet 10 per cent cash assistance is allowed for export of bright steel even when bars and rods are being imported in considerable quantities. During 1972-73, 21,099 tonnes of bars and rods valuing Rs. 3.49 crores (c.i.f.) were imported; of about 5,800 tonnes valuing Rs. 1.04 crores were imported during January-March 1973 when world steel prices were quite high. Value added in manufacture of pipes and tubes, galvanised as well as ungalvanised from out of prime steel is not large—it is particularly so in the case of ungalvanised pipes and tubes. For making tubes and pipes, hot rolled steel strips and coils are imported. During 1972-73, 58,960 tonnes of iron and steel hoop and strain worth Rs. 11.73 crores were imported. In that year 10,547 tonnes of ungalvanised tubes, pipes and fitting valuing Rs. 2.2. crores (f.o.b.) and 3,381 tonnes of galvanised tubes, pipes and fittings worth Rs. 1.24 crores were exported. At the prescribed rate of 30 per cent, the cash assistance admissible for these exports was Rs. 1.03 crores. The Ministry of Steel took the view that there should be a selective approach in granting cash assistance against export of engineering products using steel, and that our effort should be to encourage export of engineering products in which the 'value added' is substantial. This problem has been engaging the attention of the Ministries of Commerce and Finance for some time. The Ministry of Commerce had stated (May 1972) that a detailed study of his problem was being organised through the Indian Institute of Foreign Trade.

1.14. There are in our country eighteen export promotion councils of which the Engineering Export Promotion Council is one. For market development, etc., Government gives grants to the export promotion councils. In 1972-73 Government paid Rs. 1.04 crores as grants to the 18 exports promotion councils; of that the Engineering Export Promotion Council was sanctioned Rs. 38 lakhs. Of all the export promotion councils the share of the Engineering Export Promotion Council in the grant is the highest, it being about one-third of the total grant. For 1971-72 Government grant to it was Rs. 21.33 lakhs while its income from membership subscription was Rs. 16.70 lakhs.

[Paragraph 28 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil)]

1.15. A note, furnished at the Committee's instance, by the Ministry of Commerce on the Marketing Development Fund, the financing thereof and the utilisation of the funds placed at its disposal, is reproduced below:

"The marketing Development Fund was created in July 1963 by a resolution of the Government. The objective for which this Fund is intended to be utilised is to develop the marketing of Indian products and commodities in foreign countries. The expenditure incurred on schemes and projects for the development of markets for Indian products and commodities is reimbursable either wholly or partly on certain conditions.

The following promotional activities are covered for assistance from the Fund in terms of Government resolution:

(a) Market Research, Commodity Research, Area Surveys and Research Programmes;

(b) Export Publicity and Dissemination of Information;

(c) Participation in Trade Fairs and Exhibitions;

(d) Trade Delegations and Study Teams;

(e) Establishment of offices and branches in countries abroad;

(f) Grant-in-aid to Export Promotion Councils and other organisations for the development of export and the promotion of foreign trade;

(g) Quality Control and Pre-shipment Inspection;

(h) Export Assistance for exportable commodities including transport assistance;

(i) Export Risks Insurance;

(j) Any other scheme which is calculated generally to promote the development of markets for Indian products and commodities abroad; and

(k) The MDF will also be utilised for export assistance on local sales made against foreign credits resulting in foreign exchange accrual to the country.

The Fund is administered by a Committee under the Chairmanship of Secretary, Ministry of Commerce and two other members, Secretary, Ministry of Finance (Department of Expenditure) and Secretary, Ministry of

Finance (Department of Economic Affairs). This Committee has delegated some of powers to other two sub-Committees.

The provision of Marketing Development Fund in the Consolidated Fund of India is made on the principle of gross budgeting. The expenditure is first debited to the various sub-heads below the head, 'Assistance for export promotion and Market Development' in the Consolidated Fund of India but is ultimately recovered from the 'Marketing Development Fund', to which funds are transferred from the provision made under the head, 'Transfer to Marketing Development Fund'.

The Fund is utilised for giving:—

(i) Cash compensatory support on the exports from India of various products and commodities;

(ii) Subsidy to commercial banks for advancing loans to exporters at concessional rate of interest than available in the market, for export purposes;

(iii) Grant-in-aid to Export Development Organisations, Export Promotion Councils, other approved organisations and Export Houses etc., for the development of exports and the promotion of foreign trade; and

(iv) Cash compensatory support at a flat rate of 5 per cent on all exports of cotton textiles payable to the Indian Cotton Mills Federation.

The major portion of the Fund is expanded on schemes of compensatory support for the non-traditional and industrial products, particularly those with potential for growth, on the basis of a broad judgment as to the need for assistance due to lack of economies of scale inherent in nascent industries and factors like incidence of non-refundable taxes and levies all of which affect their competitiveness in international markets. According to the accounting procedure prescribed in consultation with the Comptroller and Auditor General of India, applications for grant of assistance for exports of approved products and commodities are sent by the exporters to the disbursing officers at the ports. Payments by those disbursing officers are made at the rates prescribed by the Government on eligible products and commodities on the basis of letters of credit opened in their favour by the local Accountants General.

The scheme of subsidy to commercial banks for advancing loans to exporters at the concessional rate of interest for export purposes is administered by the Reserve Bank of India, Bombay. The rate of subsidy from the Government for such loans and advances is 1½ per cent per annum.

Assistance to all the Export Promotion Councils is made for their administrative expenses as also for their export promotional projects and schemes. Assistance to these Councils is determined on the basis of their budgets and programmes of work approved by the MDF Committee. In this category there are also some other organisations *viz.*, Federation of Indian Export Organisations, New Delhi, Indian Institute of Foreign Trade, New Delhi, Trade Development Authority, New Delhi, Indian Council of Arbitration, New Delhi, Indian Institute of Packaging, Bombay and Indian Council of Trade Fairs and Exhibitions, Bombay.

The other approved organisations, Export Houses, etc., are given assistance from MDF for their export promotional projects and schemes only which have been approved by the MDF Committee. The assistance to these institutions is made on re-imbursement basis on receipt of statement of expenditure certified by their Chartered Accountant/Auditors for such projects and schemes.

Assistance at a flat rate of 5 per cent is given on all exports of cotton textiles payable to the Indian Cotton Mills Federation which has been operating a subsidy schemes out of voluntary levies. The amount to ICMF is paid to the Textile Commissioner, Bombay through a letter of credit opened in his favour. The scheme has not yet been extended beyond March 1974."

1.16. One of the objectives sought to be achieved by the devaluation of the Indian Rupee in June 1966 was to make Indian goods competitive in the international market and it was then felt that with the devaluation of the Rupee, there would be no necessity for incentives for export promotion. This resulted in the abolition of all Export Promotion Schemes in existence prior to devaluation. However, a scheme of cash assistance for exports had been introduced subsequently in 1966 itself. The Committee, therefore, desired to know the rationale for the introduction of the cash assistance scheme immediately after devaluation. The Additional Secretary of the Ministry of Commerce replied in evidence:

> "In 1966 we took a certain basic policy decision that in respect of certain engineering goods we could have certain cash assistance fixed so that they might be competitive. There were certain fiscal incidences and other levies which our producers were made to bear and which were not borne by their competitors in other parts of the world. Even in the European Economic Community there is such a thing called border tax adjustment or concessions. Lest our local incidences and levies should make our product uncompetitive, the exporter was given a 25 per cent cash assistance with reference to the particular type of products and they were grouped under 15, 20 and 25 per cent as the case may be."

To a question whether, in arriving at this decision, Government had not been influenced by the powerful lobbying of the engineering industry, the witness replied:

> "Previously there were certain forms of assistance available by way of subsidised raw material, etc. That was not continued. Instead a system of cash assistance related to FOB realisation with 25 per cent cut off point was introduced."

1.17. The Committee desired to know whether it could be proved on the basis of relevant cost data that Indian engineering goods were costlier by 57 per cent in the international market prior to devaluation. The witness stated in evidence:

> "From the records it appears that in 1966 the judgement of the Government was that we had to give this cash assistance in respect of certain products."

In a note* furnished subsequently in this regard, the Ministry of Commerce informed the Committee that "Engineering goods were by and large costlier by 57 per cent in foreign markets in 1966 prior to devaluation."

*Not vetted in Audit.

1:18. In reply to another question whether the devaluation of the Rupee by itself was not adequate enough to neutralise the high cost of Indian goods in the international market, the Chairman of the Engineering Export Promotion Council stated in evidence:

> "There are so many external factors that come into being. I am connected with the industry for so many years. The changes that are occurring today are so hectic. This also happened after devaluation. We did take advantage of devaluation of 57 per cent for a while. There are some other factors in our country which unfortunately add to our costs. The real thing is whether we are producing our goods competitively. What really counts is the cost of production."

1:19. Explaining, in a note* the rationale for the introduction of the cash assistance scheme immediately after devaluation, the Ministry of Commerce have stated as follows:

> "During pre-devaluation period, there were Export Promotion Schemes applicable to different product groups moving in export field. These provided for import of raw materials, components and such other requirements at twice the value of import content subject to a maximum of 75 per cent and a minimum of 40 per cent of FOB value. These import entitlements were freely saleable.
>
> Simultaneously with the devaluation of rupee in June 1966, all erstwhile Export Promotion Schemes were abolished and replaced by an import policy of replenishment by a single import content. It was expected that 57½ per cent more realisation, in terms of rupees, as a result of devaluation would off-set the disability in foreign competition. However, this did not come true. The study of typical products moving in exports undertaken (by the Committee of Secretaries) indicated that in spite of devaluation, non-traditional goods required some assistance. Further, the process of diversification and modernisation of export trade, particularly in the non-traditional sector, had just started. A number of export products entering the market needed to be assisted on the basis of infant industry argument, keeping in view the need to encourage such new exports and promote items other than in which we have a competitive advantage.

*Not vetted in Audit.

It was hence decided by Government that cash compensatory support might be provided to the selected non-traditional export products."

Since it had been stated that the Committee of Secretaries had undertaken a study of typical products moving in exports, which indicated that in spite of devaluation, non-traditional goods required some assistance, the Committee enquired into the nature of the study made by the Committee of Secretaries and whether this was based on a detailed examination of FOB realisations and cost structure. In a note, the Ministry of Commerce informed the Committee that Government considered supply of further information in this regard would be prejudicial to the 'interest of the State' and that the information was, therefore, not supplied under the Proviso to Rule 270 of the Rules of Procedure and Conduct of Business in the Lok Sabha.

1.20. The Committee desired to know the factors governing the grant of cash assistance to exporters. In a note* furnished in this regard, the Ministry of Commerce stated:

"The scheme of cash assistance is designed to neutralise or reduce the gap arising out of f.o.b. realisation compared to cost or production of export product, because of uncompetitive prices of our products for reasons as lack of economics of sale, non-refundable state and local taxes and neutralisation of disadvantages inherent in the economy and production stage. This was felt necessary in the case of products, mainly new manufactures like engineering goods, which will need cash assistance and a system which was likely to promote expansion of those exports in which the country has comparative advantage was considered suitable. Large orders will have to be dealt with on a case to case basis.

This scheme is operative since 6th June 1966."

1.21. The Audit paragraph points out that in addition to various incentives for export promotion such as issue of import replenishment licences, cash assistance, export finance at concessional rate, drawback facilities, freight concessions etc. the main raw material for engineering goods (Prime iron and steel) was made available at international prices or domestic prices, whichever were lower, and that upto 1971 and the early part of 1972 world prices were generally lower than the indigenous base prices, as a result of which

*Not vetted in Audit.

indigenous steel was being made available to exporters of engineering goods at the lower world prices by the Joint Plant Committee out of its Engineering Goods Exports Assistance Fund. The Committee desired to know the details of the Engineering Goods Export Assistance Fund and the manner in which accretions to the Fund were utilised. The Ministry of Commerce furnished to the Committee a note on the subject made available by the Ministry of Steel, the administrative Ministry concerned, according to which the Fund was constituted on 2 May 1967 with the exclusive purpose of reimbursing to the fabricators of engineering goods for export the excess of domestic prices over international prices in respect of shipments made on or after 2 May 1967. The Ministry also informed the Committee that the scheme had been withdrawn with effect from 26 October 1972. The Ministry added:

(i) The excess of domestic price over the international price on the quantity of Prime Quality Steel/Pig Iron consumed for the fabrication of goods exported is reimbursed to the fabricators.

(ii) Hindustan Steel Limited has been importing various categories of steel on account of the Engineering Export Promotion Council from 1970-71 and the excess of landed cost over domestic JPC (Joint Plant Committee) price is also reimbursed to Hindustan Steel Limited out of this fund as per instructions from Government.

A note indicating the procedure followed for the reimbursement to the fabricators of engineering goods was also furnished in this connection by the Ministry, which is reproduced in Appendix* I.

1.22. The Committee desired to know the basis on which the rates of cash assistance for the export of engineering goods were determined and whether before sanctioning the assistance as well as other concession/incentives for export promotion, Government had verified the genuineness of the accepted quotations and the f.o.b. prices quoted in the invoices. In a note* furnished in this regard, the Ministry of Commerce stated:

"Cash assistance rates are decided on a general basis for the product as a whole. In 1966, cash assistance for number of products was introduced as a matter of policy. Subsequently, detailed costing was gone into in certain cases, and the Cost Accounts Branch went into the records of the exporters for finding the shortfall in realisation, if any, in select and appropriate cases."

*Not vetted in

1.23. Clarifying this issue further during evidence a representative of the Ministry of Commerce informed the Committee that whenever the question of fixing the rate of cash assistance for a particular product or commodity was taken up, relevant data was obtained in a prescribed proforma. He stated further:

> "The procedure followed is that we ask the Engineering Export Promotion Council to get data in this proforma from a representative number of manufacturers. These data are then collected. They give the cost figures as to how the f.o.b. cost is arrived at and the price at which the contracting has been done, *i.e.* the f.o.b. price. So the difference between the two is thrown up in this statement. We send it across to the cost accounts branch. The Chief Cost Accounts Officer goes over this proforma and where, apart from mere check at the records, he finds it necessary to have the records checked up in the premises of the firm, he sends a team of officers to physically check the records in the firm. Then they give a report as to what has been the f.o.b. cost and what is the difference, if any....This is the net f.o.b. realisation according to the contract. The cost accounting people go into the contract documents with the firm to check whether the f.o.b. realisation as put down is correct or not, in the same way as they check the stock ledgers etc. to find out the cost."

Asked whether the data in the prescribed proforma was obtained in all cases, the Secretary, Export Promotion replied that the proforma was sent to the Export Promotion Council to collect data in respect of certain representative cases. In reply to another question whether the Export Promotion Council consisted of the exporters themselves who had requested for the grant of cash assistance, the witness replied that the Council consisted of the industrialists themselves. The Additional Secretary of the Ministry of Commerce added:—

> "The Export Promotion Council is a registered society. It comprises various producers and exporters, who are interested in any particular group of products. The Engineering Export Promotion Council has got members on its rolls from manufacturers and exporters."

1.24. The Committee enquired as to at what point of time the rate of cash assistance was calculated or whether it was never calculated on the basis of clearly laid down criteria. The Secretary, Export Promotion replied in evidence:

> "The difference between FOB realisation at that time and the FOB cost is the relevant factor in deciding what kind

of cash assistance is to be given. If the FOB realisation is lower than the FOB cost, then the party suffers a loss."

in reply to another question as to who verified the genuineness of the f.o.b. cost and f.o.b. realisations claimed by the exporters, the witness stated:

"There are two elements. FOB realisation is available to us from actual export data and the FOB cost is verified by the cost accounts officers."

Asked whether any checks were exercised to determine the reasonableness of the costs or any attempts made to control the cost of production, the witness replied:

"I am afraid there has been no attempt to check the cost of production or lower it."

He added:

"When we take into account the marginal cost of production, we do not take into account the overheads and certain other charges such as bonus paid to the workers etc. These are not computed in the cost of production."

The representative of the Ministry of Finance stated in this context as follows:

"For fixing the rate of cash assistance the data of some typical manufacturers is obtained through the Export Promotion Council. Since there will be variations between several firms, it is subject to scrutiny by the DGTD and sometimes by the Cost Accountants Branch. On that basis, we decide what can reasonably be considered to be the cost of production."

In a note* furnished subsequently in this regard, the Ministry of Commerce informed the Committee as follows:

"When request is made for sanction of cash assistance for an item for which there is no cash assistance, or for increasing the existing rate of cash assistance, the same after preliminary examination in the Ministry of Commerce to ascertain whether a *prima facie* case exists, is referred to the Cost Accounts Branch of the Ministry of Finance for Cost Study. Such requests come to the Ministry of Commerce through the Export Promotion Council in a pre-

*Not vetted in Audit.

scribed proforma which lists out all the relevant data required to study the marginal cost of the export product."

1.25. As regards the scrutiny exercised by the Cost Accounts Branch on the data furnished by the Export Promotion Council, the representative of the Ministry of Finance stated in evidence:

"In the case of cash assistance, it is not that the Cost Accounts Officer comes into play in all cases. It is only in those cases where we feel that a detailed study has to be made. Roughly, subject to correction, about 20 or 30 items have been examined by the Cost Accounts Officer."

The Committee, therefore, desired to know how it was determined whether there was a genuine need for cash assistance. The witness replied:

"The data is furnished by the Export Promotion Council and certified by their Chartered Accountant. It is subject to examination from the technical angle by the Technical experts of the DGTD or other experts in other organisations like the Textile Commissioner."

He added that since the data was to be furnished in a prescribed proforma, the Chartered Accountant had to satisfy himself about the correctness of the data while certifying them. To another question whether the Commerce Ministry checked the data furnished by the exporters and certified by Chartered Accountants, the Additional Secretary of the Ministry of Commerce replied:

"So far as the technical angle is concerned, it is done through the DGTD. Where the f.o.b. realisations are sizeable, they are cross-checked or compared with the data of the CCIE. Then they are furnished to the Cost Accounts Officer. They test check, whether all the data furnished are correct and then come to their own judgement. They even go into the accounts of manufacturers."

Asked in how many cases this test check was done, the witness replied that it was done 'in appropriate cases'. The representative of the Ministry of Finance added:

"Every case does not go to the Cost Accounts Branch. When we have some reasons to feel that the cost data furnished is not reliable and we have some information from the CCIE in respect of the f.o.b. realisation, and if the quantum of export is large, then we specifically ask the Chief Cost Accounts Branch to go into the question of costing thoroughly. It is not possible to undertake a review of all the items by the Cost Accounts Branch."

1.26. Since it appeared that in deciding the need for cash assistance almost exclusive reliance was placed on the data furnished by the Export Promotion Council which in turn comprised of the exporters themselves, the Committee desired to know whether it was not necessary to have a more satisfactory procedure for evaluating the need for cash assistance, so as to ensure that Government's apparent helplessness in this regard was not exploited to their advantage by the exporters. The representative of the Ministry of Finance stated in evidence:

"The data furnished by the Council is subject to scrutiny at the governmental level. It is verified by the cost accounts officer in some cases units to individual unit. In some cases, reference is made to technical authorities like DGTD. In some other cases, we verify basic data given in terms of price of raw materials with reference to the data available with STC, MMTC etc. or other price fixing authorities. There are also statistics maintained by the DG Commercial Intelligence & Statistics. This gives a broad spectrum of items giving the total foreign exchange realisation on a particular product or group of products. The weakest point in these matters will be the so-called f.o.b. realisation. FOB cost can reasonably be verified because there will be other units and we will have other figures like those based on Tariff Commission Report, the report of the Bureau of Industrial Costs or some other *ad hoc* studies made. We make use of them. For f.o.b. realisation, there is some difficulty. But we do not rely only on the statement of the Council; we examine it wherever possible data available from such sources. But it may not always be possible in all cases. It is not possible to rigidly lay down a foolproof system of verifying all the facts. But we take a total view. If there is a margin of uncertainty in certain areas, in most cases we do not give the entire difference. We devalue it and fix it at sufficiently low figure so that there may not be *prima facie* excess payment."

The witness however, added that requests for cash assistance emanated from the Council and Government did not take any initiative in this regard.

1.27. Since it had been stated by the witness that Government did not rely entirely on the Export Promotion Council, the Committee desired to know the machinery or agency on which reliance was placed. He stated:

"There is more than one agency. It is a collective examination. Then an overall decision is taken. To the extent an authority is able to verify, he will indicate it if there are limitations which arise out of his scrutiny, he makes it clear. Then only a collective judgement has to be taken based on examination by the various authorities."

The witness added:

"The primary data is given by the Export Promotion Council, which gathers it from the various manufacturers and exporters. That is cross-checked. That roughly indicates what is the f.o.b. cost, what is the import content. From that we deduct what is the cost of import of raw material. Then we will know what is the net foreign exchange. If there is loss between f.o.b. cost and f.o.b. realisation, we give a certain cash assistance. There should not be any loss on the basis of marginal cost. If on the basis of marginal cost he incurs no loss, and he is able to cover the direct cost, then we normally do not give any cash assistance. The quantum of cash assistance is again related to the maximum of the 25 per cent of the net f.o.b. realisation. Therefore, there is a ceiling fixed."

The Secretary, Export Production stated in this context as follows:

"There is an impression that it is done party-wise. It is not. It is done as a matter of policy for the entire industry. If an industry is exporting diesel engines, diesel engines is a subject on which certain incentives are granted. There is a formula which says that so much per cent of the f.o.b. realisation will be the cash assistance given. Now, in arriving at this formula of percentage, the initiative comes from the Export Promotion Council, which provides some data on which we always ask for further information in the particular proforma. Then we get it checked up. This is the procedure. But there is no party to party checking up. This is done on a formula basis. There are a large number of exporters in the whole of India and if you multiply that with the number of contracts, the number becomes very large indeed."

Asked whether this procedure was followed in all cases, the representative of the Ministry of Finance replied:

> "This is the general drill."

1.28. In view of the fact that the cost of production of a commodity might vary from time to time, the Committee asked how the Ministry made sure that the incentive given for export promotion in the form of cash compensatory support was justified in the circumstances and correct. The Secretary, Export Production replied in evidence:

> "You are right. We are not sure of what is the cost of production. It may change after six months. It goes on changing. But we take a broad view. On that broad view, we think a party is entitled to certain cash assistance benefit on a percentage basis. They are valid for a certain final date. Before that, we again review it."

1.29. The Committee desired to know whether there was any machinery available in Government for monitoring and checking the behaviour of international prices and the consequent fluctuations in f.o.b. realisations. The Additional Secretary of the Ministry of Commerce stated in evidence:

> "Normally, whenever any such cash assistance claims are received, they are subjected to check by the Regional Officers of the CCI&E who are authorised to pass the bill. In certain cases where there is any check on the global basis required, we are getting advice from sources available with the Government, CCI&E's office of Directorate General of Technical Development.
>
> We have now constituted a Standing Committee comprising the Additional Secretary, Ministry of Commerce, Additional Secretary, Finance Expenditure, Additional Secretary, Department of Economic Affairs and also co-opting whenever required other representatives such as the DGTD and CCI&E. They are to meet every quarter to check the behaviour of international price and the f.o.b. realisation so that necessary corrective steps may be taken after their check."

Asked how many times the Standing Committee had actually met and how often it was expected to meet, the Secretary, Export Production, informed the Committee that the committee was constituted only in June 1974 and that it was scheduled to meet every three months. Subsequently, in a note,* the Ministry of Commerce informed the Committee that the Standing Committee, with the following composition, had been constituted to review cash compensatory allowances and that in the course of its review of cash assistance, this committee would also go into the behaviour of international prices and f.o.b. realisations:

1. Additional Secretary, Ministry of Commerce—*Chairman*

Members

2. Additional Secretary, Ministry of Finance (Department of Expenditure).
3. Additional Secretary, Department of Economic Affairs.
4. Chief Controller of Imports & Exports.
5. Economic Adviser, Ministry of Commerce.
6. Director (EA), Ministry of Commerce.
7. Development Officer (EPE), Directorate General of Technical Development.
8. Development Officer (EP Chem.), Directorate General of Technical Development.

1.30. In view of the fact that the Standing Committee had only been recently constituted, the Committee asked whether any arrangements existed earlier to monitor the behaviour of international prices on a weekly or monthly basis so as to take steps, whenever found necessary, to revise the rates of cash assistance appropriately. In a note,* the Ministry of Commerce replied:

> "Though there was no arrangement to check international prices on weekly or monthly basis, such prices used to be collected by the Engineering Export Promotion Council and in some cases information would also be available with DGTD. In appropriate cases, DGTD pointed out the need for revision of cash assistance because of improvement in f.o.b. realisation."

In another note furnished in this regard, the Ministry have state:

> "Periodical reports received through Commercial Councillors indicate at intervals prices of various commodities studied by them. The Export Promotional bodies such as Trade Development Authority and Engineering Export Promotion

*Not vetted in Audit.

Council collect market information about prevailing international prices, competitive positions *vis-a-vis* f.o.b. realisation in respect of various items through their representatives stationed abroad.

This information is further supplemented (a) by market study reports of Indian Institute of Foreign Trade, as and when undertaken; (b) by reports of trade delegations and study teams and such information as available with DGTD or CCI&E in cases where contracts are registered or f.o.b. realisation are reflected while allowing imports of raw materials."

1.31. Asked whether this implied that the Ministry kept the cash assistance rates under review periodically, the Additional Secretary of the Ministry of Commerce replied in the affirmative and added:

"The Government have already stated that this cash assistance regime should be reviewed from time to time and the need for the Standing Committee was felt some time back and that has been instituted recently."

To another question regarding the arrangements, if any, that existed for the purpose prior to the constitution of the Standing Committee, the Secretary, Export Production, replied in evidence:

"Before that it is true there was no standing arrangement. But when something was brought to notice, there was an *ad hoc* arrangement to go into it."

Asked whether, in view of the fact that international prices were subject to wide fluctuations, there should not be an arrangement for a more frequent review of prices and f.o.b. realisations so that corrective measures could be taken more promptly, the witness replied:

"In the case of quite a number of items, the cash assistance lapses after the year and the matter has to be reviewed for continuance of the cash assistance. So, once a year a review does take place by itself."

The Committee, therefore, desired to know details of the machinery, if any, in the Commerce Ministry for the examination, from time to time, of the need and justification for cash assistance with reference to the prevailing market trends and how exactly this machinery functioned in the case of engineering goods. In a note,* the Ministry replied:

"In the Commerce Ministry, the Export Division looking after export of particular commodities have the responsibility of reviewing the need for cash assistance from time to time. In cases where cash assistance on an export product is available upto a particular date, the Commodity Division takes up cost examination of the commodity sufficiently ahead of time to decide about continuance or otherwise of the cash assistance from that date.

In the case of engineering goods, the Export Promotion (Engineering) Section looks after the review of cash assistance relating to engineering items. The Section collects cost data through the Engineering Export Promotion Council from time to time and sends the same to the Cost Accounts Branch of the Ministry of Finance for detailed cost study. While undertaking cost study, the Cost Accounts Branch goes into the cost of production as well as f.o.b. realisation and reports whether there is any loss to the exporters. On the basis of their report, a decision is taken about the rate of cash assistance."

1.32. The Audit paragraph points out that cash assistance for exports is not normally allowed beyond 25 per cent of the 'added value' which is arrived at by deducting the cost of imported material from the f.o.b. realisation due to the export product. The Committee desired to know how 'added value' was calculated and its relationship with the quantum of cash assistance. The Additional Secretary of the Ministry of Commerce stated in evidence:

"Added value is on the total imported content to see that there is sufficient amount of input so far as production factors are concerned and at a minimum level—at least 25 per cent so that foreign exchange earning is at least on the basis of net 25 per cent. Cash assistance is on the basis of different calculations altogether. We take into account not only f.o.b. realisation but cost of production. Costing is based on the marginal costing principle—that is to say, if a particular producer has got certain portion for his product for domestic market and certain portion for export market, we do not calculate on the basis of exportable portion of the product alone but we calculate on the totality of the product cost, setting off certain items and the marginal cost on that basis."

In a note* furnished subsequently in this regard, the Ministry of Commerce informed the Committee as follows:

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*Not vetted in Audit.

"The term 'value added' represents f.o.b. value of the export product after deducting the value of import content. Thus value added—f.o.b. value—gross CIF value of all imported inputs. (Example: If the f.o.b. value of export product in terms of Rupees, is Rs. 200 and the import content is worth Rs. 80, the value added is Rs. 120, *i.e.*, 60 per cent of f.o.b. value). This 'value added' portion represents indigenous inputs, labour and other services.

Normally the rate of cash assistance on exports is determined on the basis of the extent of difference between f.o.b. realisation prevailing and f.o.b. cost worked out on marginal costing principle, subject to a ceilling of 25 per cent of the value added.

Cash assistance is a concept different from 'value added'. Cash assistance is the quantum of assistance found necessary as support for our exports with reference to f.o.b. cost and the f.o.b. realisation. 'Value added' is the criterian to determine at what cut off point the foreign exchange earning through export is worth-while. It is also an index of the domestic inputs *vis-a-vis* the import content of a product."

1.33. The Committee desired to know the number of steel-based items which were receiving cash assistance, the number of items on which cash assistance was withdrawn in recent items and the reasons therefor. In a note,* the Ministry of Commerce stated:

"Barring a few, almost all engineering products consume steel in smaller or larger quantities. It is presumed that by steel-based items, it is meant to cover such engineering items where the international CIF cost of the steel in such items constitutes 50 per cent or more of f.o.b. price of the end product. On this premises, the total number of steel based items (steel intensive) which were once receiving cash assistance is 39 (For the purposes of calculation of the number of items, classification in Section II of Red Book, Volume II has been adopted and secondly the selection of the items is based on assessment of value with reference to CIF international value presently prevailing.

In recent times, cash assistance was withdrawn in respect of six item.

*Not vetted in Audit.

The reasons for withdrawal of cash assistance was the change in the export economies as a result of better f.o.b. realisation and comparative strengthening of the competitive position due to better price realisations *vis-a-vis* the cost of production, thus reducing the need for cash compensatory support."

1.34. The Audit paragraph highlights a few examples of possible anamolous consequences of the export promotion policy for engineering goods (vide paragraph 1.10). Drawing attention to these instances, the Committee desired to know the basis on which it was decided that cash assistance for the export of these commodities was necessary and how the quantum of cash assistance was determined in each case. The Committee also enquired into the nature of the data available with Government to enable a decision being taken in this regard and whether the cost structure of the industry and data in respect of f.o.b. realisations were examined for determining the need for cash assistance and its quantum in respect of each of the export commodities. In a note* furnished to the Committee in this regard, the Ministry of Commerce stated:

"The statement at page 43 of the Audit Report mentions two export items, viz. steel tubes and bright bars and shaftings. The cash assistance on these two items was sanctioned immediately after the devaluation in June 1966. With the devaluation of rupee in June 1966 all erstwhile export promotion schemes were abolished and replaced by an Import Policy of replenishment by a single import content. In spite of higher realisation in terms of rupees as a result of devaluation, it was found that export of non-traditional goods required some assistance. The process of diversification and modernisation of export trade, particularly in the non-traditional sector had just started at that time. Keeping in view the need to encourage export of new items and to promote items other than those in which we had a competitive advantage, it was decided to provide cash compensatory support. Export of steel tubes and bright bars and shaftings was allowed cash assistance on the basis of this decision. The cost structure and data about f.o.b. realisation had not been gone into while fixing the cash assistance."

1.35. Though the general policy is to reduce the quantum of cash assistance when the import content of an export product goes up—

*Not vetted in Audit.

the reduction being proportionate to the dimunition of the value added indigenously—, an exception to the policy had been made in April 1971 in favour of engineering goods, when it had been decided that there need be no reduction in the existing rates of cash assistance. The Committee desired to know the reasons for the departure from the accepted policy in the case of engineering goods. The Additional Secretary of the Ministry of Commerce stated in evidence:

"This requires a resume' of the history of the case and also certain factors that govern supply of steel for production, for export purposes. This also requires recapitulation of the principles and decisions of Government that apply to the supply of such steel. I may be permitted to recount very briefly these factors.

So far as the export is concerned we have been generally having supply of steel both from indigenous as well as from import sources. In the year 1971 when we found that it was not possible to supply steel for export production purposes and import was necessarily entailed, it was found that we had to import large quantities of steel for this purpose—the exporter from India should not be placed at a disadvantage compared to the exporter elsewhere, it was found necessary that certain correctives had to be applied. Cash assistance is normally given on the basis of the differential between the f.o.b. realisation minus imported content and there was also a notional cut off point of 25 per cent. When we got into difficulty in regard to supply of steel and when imports were allowed, in 1971, we got a specific decision made that for purposes of export we can import steel and the value of such steel imported need not be taken into account for purposes of working out the cash assistance. This is based on the reasoning which has already been set out in the Audit paragraph."

He stated further:

"In 1971, the position was reviewed and we found it was not possible for us to maintain the value of exports or the exports of products for engineering goods because of the lack of availability of steel and we were obliged to import a great deal of steel. On the one hand, there was a kind of distress condition when steel had to be imported to make the exports possible. On the other hand, the exports should not be made to suffer. This state of affairs continued during 1972-73 and so we had to continue it."

1.36. In view of the fact that the policy of Government was to make available prime iron and steel at international prices or domestic prices, whichever were lower and the prices of imported steel and indigenous steel were, therefore, not dissimilar, the Committee desired to know the rationale for the grant of cash assistance in such circumstances. The witness replied:

"The steel varieties which have got to be imported are already listed out in the order in which this was allowed. Import of steel was allowed where it was found necessary and where it was found that we could not meet the demand from indigenous production. Later on we also specified certain categories of steel (mild ones) for import. Government felt that because of the distress conditions under which we have to necessarily import steel particularly during 1970-71, 1971-72 and 1972-73, the exporter concerned cannot be made to subject himself to certain disadvantages inherent in the import of such steel as compared to others who are also able to export the same product from other sources. It is for this reason that special concession had been given and this concession had been on cash assistance. Cash assistance is ordinarily based on f.o.b. realisation minus imported content."

Clarifying the position further, the Secretary, Export Production stated in evidence:

"For purposes of export we have to import certain classes of steel, which were otherwise or could have been otherwise available indigenously also. It was only because there was shortfall in production within the country that it had to be imported. It might have been also possible that the imported steel might go to the home market, while the indigenous production could have as well gone for the export market. It was due to this reason that the Government decided that whether it is indigenous steel or whether it is imported steel, both should be available to the exporter at the same price, as if, let us say, it was indigenous steel and for that purpose, therefore, it was not taken into consideration in the calculation of cash assistance. This dispensation was given by the Government in the case of steel only. It was considered that the supply of steel to the exporter at indigenous price was one of the duties that we must perform. Whether it was indigenous or imported steel, we must charge the exporter at the same price."

1.37. A note* furnished subsequently in this regard, explaining the rationale for the grant of cash assistance, during 1970-71, 1971-72 and 1972-73 for such commodities as black pipes, steel pipes and tubes, galvanised steel pipes, bright bars and shaftings, in spite of the higher import content of such exports, is reproduced below:

"Indigenous steel supply position for export production was adequate prior to 1970-71. In view of this, import content in steel based items like pipes and tubes, bars and shaftings etc. was within the prescribed Import Replenishment rates. Subsequently, in 1971-72 the steel supply position from domestic sources became increasingly difficult. In view of the inadequate availability of steel in the country, import of steel items on A.U. account as well as for export production were allowed. These imports were in the nature of distress imports to augment domestic supplies and not of exporters' own choice or volition. The desirability of reducing the C.A. rates as a result of increase in rate of import content was examined in detail and it was decided by Government that the increase in import content due to imported steel going, into the product need not disturb the existing cash assistance rates in view of the following reasons:

(i) In certain cases increases in the import replenishment percentages had been necessitated due to the shortages or non-availability of the essential raw material inputs required for export production due to decline in domestic production or rise in domestic demands. To maintain the export trend—built up after vigorous efforts—it was essential that the basic raw materials, whether indigenous or imported, were provided to the manufacturers. Since some were not indigenously available or in short supply and since the shortages though temporary were likely to continue for sometime, there was no alternative left but to provide for such imports. These provisions were the main require-

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*Not vetted in Audit.

ments to ensure the stability in our export policy, without which exporters could not have been persuaded to continue their export efforts. To put briefly, the additional imports in such cases could be termed as 'distress imports' to augment domestic supplies and not of exporters' own volition.

(ii) The cash compensatory support was provided to neutralise/reduce the gap in the f.o.b. cost and f.o.b. realisation and to make the products competitive in the international market. The main argument in support of the corresponding reduction in the cash assistance rates consequent on the increases in the import replenishment levels can be that the f.o.b. cost did not remain the same after such additional imports. The following points deserved consideration in this context:

(a) Increase in the Import Replenishment in such cases were not of very high quantum and as such its impact in terms of reducing cost of production was not likely to be considerable.

(b) In respect of certain items the cost of imported materials was not less than the domestic prices. As such additional imports did not necessarily place the exporters in any advantageous position. In fact there were instances where imported materials had been costlier than the indigenous materials specially in some steel categories. The delays in getting imported materials into the production stream also added to the costs. The cost of production out of imported materials had in such cases increased to the disadvantage of the exporters.

(c) From a number of requests received from exporters entering into high value contracts it was noticed that the normal compensatory support was not enough to neutralise the inherent disadvantages and to make the products competitive in global tenders. This situation had been taken note of and additional compensatory support had been allowed in certain cases.

(d) Certain local taxes, e.g., octroi etc. though charged on the production were not taken into account for determining compensatory support. To this extent the exporters had to meet losses on their own.

(iii) Grant of compensatory support was not directly linked with the import content. It has wider connotation and takes into account the overall economies.

The difficulty in getting steel indigenously for export production was first felt during the year 1970-71. In September 1970, a Public Notice was issued, permitting import of steel for export production. As per this Public Notice, 7 categories of steel were allowed for import by actual users and exporters.

The difficulty position of availability of steel indigenously continued during the years 1971-72, 1972-73 also. The policy of allowing cash assistance without taking imported steel within the import replenishment was also continued for the same reason."

1.38. One of the considerations which weighed with Government in approving, in the case of engineering goods, a departure from the approved policy was that the import cost of certain steel items was not less than the domestic prices. Asked how this could a valid reason for not reducing cash assistance, the Secretary, Export Production replied:

"The decision was that steel has to be made available to the exporter, whether it is indigenous price or international price, because of our need for being competitive in the foreign market. Whether it was imported or indigenous, there was no question of cash assistance being reduced on that score."

The Additional Secretary of the Ministry of Commerce added:

"I am dividing the steel into two parts: imported steel and domestic steel. About imported steel, in 1971 increase in the import replenishment in such cases is not of a very high quantum and the price is not likely to be very materially affected. The cost of imported material in certain items is not less than the domestic price. Therefore, the additional imports do not necessarily place the exporter in any advantageous position. For these two reasons, among others, even when imported steel is allowed, cash assistance had to be given."

To another question whether this implied that in so far as cash assistance was concerned, the fact whether the imported price was lower or not did not make any difference, the witness replied:

"It does not make a material difference."

Clarifying the position in a note* furnished subsequently, the Ministry of Commerce stated:

"At that time the prices of various categories of steel in India were generally higher than those prevalent in the international market for corresponding categories. However, there were certain categories of steel for which international prices were not lower than the Indian prices. It would be seen that where an export manufacturer had to import from abroad a steel category, the price of which was not lower than the Indian price, his cost of production was not lower than that resulting from the use of indigenous steel. It may be mentioned that during the year 1971-72 there was no procedure for supplying imported steel at indigenous prices and such a measure was adopted only from April 1972. The importer thus had to pay the international price even if the price was higher than the indigenous price. Cash assistance seeks to meet the difference between f.o.b. cost and f.o.b. realisation. To the extent that f.o.b. cost increases on account of the comparative higher price of imported steel, the need for cash assistance gets strengthened and does not disappear."

In another note* furnished in this context, the Committee have been informed that the policy of reimbursement of the difference between domestic price and international price of steel and pig iron to exporters of engineering goods was introduced in May 1967 and that according to this policy, exporters were to be reimbursed the price difference in respect of ten categories of steel.

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*Not vetted in Audit.

1.39. The Committee desired to know which varieties of steel were imported as well as produced indigenously. The representative of the Ministry of Steel stated:

> "By and large, the items that we import are produced in the country. There are shortages in certain categories where there is need to supplement through import."

The witness added that the main items imported were plates, hot rolled sheets, cold rolled sheets, electrical sheets, tin plates, wire rods, structurals, and to some extent bars and rods. Asked about the steps, if any, taken to restrict consumption in the non-priority sectors, the witness replied:

> "At the stage of allocation by the Steel Priority Committee we take into account the total availability of various categories of steel and the competing demands. In that way we regulate supply of steel to the priority sectors."

1.40. The Audit paragraph points out that according to the assessment of the Engineering Export Promotion Council, out of the total requirement of 8.10 lakh tonnes of steel for 1972-73, 4.80 lakh tonnes (59 per cent) were to be imported. Asked whether any such assessment of the requirements of imported steel was made before the decision was taken in April 1971 not to reduce the rates of cash assistance in spite of the increase in import content, the Additional Secretary of the Ministry of Commerce replied:

> "The steel for 1972-73 was relatable to the specific dispensation granted for import for export production purposes and therefore a particular quantification was possible for that import. So far as 1970-71 was concerned there was at that time merely an assessment of the total volume to be imported. It was done by the HSL and the total quantity of imports through the HSL as furnished by the concerned importing parties is about 27,964 tonnes."

1.41. The Committee desired to know which agency was responsible for calculating the requirements of raw material, both from indigenous and imported sources. The Secretary, Export Production stated that in each case, the Directorate General of Technical Development made a check and recommended the requirements. Asked who checked the actual utilisation of the imported raw material and whether any physical verification was carried out in this regard, so as to prevent black marketing of imported steel, the

Additional Secretary of the Ministry of Commerce replied:

> "That is done by the DGTD on a broad basis, the check of specifications."

The Secretary, Export Production stated in this context that in all cases where imported steel was used, there was an actual user condition and that a bond was also taken to ensure compliance with the condition.

1.42. An instance of grant of disproportionate grant of cash assistance to an exporter of steel, weld mesh, that had no relevance to the value added by the export has been highlighted in the Audit paragraph (*vide* paragraph 1.7). The Committee understand that the exporter in this case was M/s. Multiweld Wire Company Private Limited and that with reference to the observation contained in the Audit Report that this state of affairs had been brought about, *inter alia,* by a very high quantum of imported steel going into the production of the exported engineering goods, the Ministry of Commerce had stated (February 1974) as follows:

> "......all engineering products are not steel intensive. It is only a segment of total exports which consists of items carrying a very high quantum of steel—whether imported or indigenous or both...... Since the supply was made (through Release Orders) out of the product-mix of indigenous as well as imported material it would be incorrect to generalise that all engineering products contained only imported steel."

Another factor, according to Audit, responsible for the disproportionate grant of cash assistance in this particular case was the liberal level of cash assistance (often ranging between 20 to 30 per cent of the F.O.B. value) for exports of engineering goods. In this connection, the Committee learnt from Audit that the Ministry had, in February, 1974, stated:

> "The cash assistance scales cannot be said to be liberal from any standard of costing. . . the basic concept of grant of cash compensatory support is to impart strength to the Indian exporters who find themselves unable to stand international competition due to strong organisation and availability of inbuilt facilities which are absent so far as Indian exporters are concerned."

The Committee further learnt that with reference to the observations of Audit that the rise in the world (London Metal Bulletin) prices of prime steel from the beginning of 1972-73 had also contributed to this state of affairs, the Ministry had replied (February 1974) as follows:

"It is a fact that international prices of steel started rising in the year 1972-73. Full details about comparative prices, however, would need to be consulted, and this can be done on receipt of material from the Steel Ministry."

1.43. On the attention of the Ministry being drawn to this case during evidence, the Additional Secretary of the Ministry stated:

"Actually this was an import licence granted under the original dispensation of PN-140 for this particular company. There, the imports were also made from the period July 1971 to July 1972. A total quantity of 5265 metric tonnes of M.S. wire rods—a total c.i.f. value of Rs. 55, 75, 645|- was imported. The average c.i.f. value per tonne of wire rods works out to Rs. 1059|- per tonne. But the realisation given in the report is 1255 per tonne. This requires revision in the light of certain facts which have subsequently occurred. The party has re-negotiated the contract. He had earlier exported 2971 metric tonnes of weld mesh with the total f.o.b. value of Rs. 37,83,412. The party had yet to make another export of 1767 metric tonnes of weld mesh. In respect of this, he has got a higher realisation and that is expected to be of the order of Rs. 49,47,600. Thus the total f.o.b. value of exports will be Rs. 87,37,011 and therefore the average f.o.b. realisation per tonne would work out to Rs. 1843. It will be seen that this is a re-negotiated contract and therefore the f.o.b. realisation also appreciates."

Asked why the re-negotiation was necessary, the witness replied:

"It is because....we have taken several measures in regard to supply of mild steel and mild steel products to meet at least the 25 per cent added value criterion and it was stipulated that the supply of steel will be made only if the 25 per cent value is met and the party is obliged to re-negotiate the supply."

In a note* furnished subsequently in this regard, the Ministry of Commerce, however, informed the Committee that "the exporter

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*Not vetted in Audit.

re-negotiated the contract presumably to obtain higher contract due to rise in the international prices."

1.44. Clarifying the position in regard to this case further, the Ministry of Commerce, in a subsequent note have stated:

"The facts as stated in the Audit Report have since undergone significant changes. According to the latest information available the company imported, during July 1971 to July 1972, a total of 5265 tonnes of M. S. wire rods valued at Rs. 55,75,645 against 3 Import Licences granted under the provisions of P.N. 140. The average c.i.f. value worked out at Rs. 1059 per tonne.

The f.o.b. value of export obligation, on export of 4738.450 M.T. (after allowing 10 per cent wastage) was fixed at Rs. 64,20,200 *i.e.* average of Rs. 1355 per tonne.

The party have already exported 2971 tonnes of weld mesh of the total value of Rs. 37,83,412 for the balance quantity of material, *viz.* 1,767.450 tonnes yet to be exported, the Company expects f.o.b. realisation of Rs. 60,25,000. Thus the total expected f.o.b. realisation would be Rs. 37,83,412 the company has been paid Rs. 7,56,682 would work out to Rs. 2070, the net foreign exchange earning is expected to be Rs. 42,32,767.

Against their actual exports so far of the value of Rs. 37,83,421 the company has been paid Rs. 7,56,682 as Cash Assistance.

Cash Assistance has been withdrawn on exports of this item w.e.f. 1st April, 1974. In case their contract is registered with bank, they would be entitled to receive Cash Assistance of about Rs. 12,05,000 on the balance of their exports."

1.45. The Committee desired to know the foreign exchange realisation in this particular case. The Additional Secretary of the Ministry of Commerce stated in evidence:

"The total foreign exchange realisation is Rs. 87,37,011. The total foreign exchange spent is about Rs. 55,75,000."

He stated further:

"The added value is on the basis of the imported material and, therefore, for having spent foreign exchange to the tune of Rs. 55.75 lakhs, we are getting a net foreign exchange inflow of Rs. 31.62 lakhs."

Asked how much cash assistance was given in this case, the witness replied:

"Rs. 17.5 lakhs is the total cash assistance which has to be given and this has to be given, which they will be eligible for."

1.46. Drawing attention, in this connection, to the position emerging from the Ministry's reply, referred to in paragraph 1.43 above, that the company had already exported 2971 tonnes of the total value of Rs. 37,83,412 and imported 3301 tonnes of imported steel (after allowing 10 per cent wastage where necessary) costing Rs. 34,95,759, resulting in a net foreign exchange realisation of Rs. 2,87,653 for which a cash assistance of Rs. 7,56,682 had been paid, the Committee asked how this could be considered justifiable. In a note,* the Ministry of Commerce have replied:

"As already explained earlier in Government replies and also in evidence before various sittings of the PAC, the Government had decided at the highest level that imported steel going into the finished export production would be kept out of the purview of computation of export benefits......

In view of the above, the grant of Cash Assistance at prescribed rate on the f.o.b. value of exports should not be linked to c.i.f. value of import content and the resultant net foreign exchange earning in this particular export deal.

The latest position, however, has changed. The firm is understood to have made further exports of 315.708 tonnes valued at Rs. 10,63,245 bringing the total to 3287.157 tonnes valued at Rs. 48,86,657. There is still a balance of about 1451 tonnes to be exported against which the firm hopes to realise about Rs. 39 lakhs at re-negotiated prices. As Cash Assistance has been withdrawn w.e.f. 1st April, 1974, the firm is not entitled to any Cash Assistance on exports made on or after 31st March, 1974. After the firm made all the exports in discharge of their

*Not vetted in Audit.

export obligations against the Release Orders in question, the total Cash Assistance payable in relation to net foreign exchange is not expected to be much."

1.47. The Committee desired to know whether it was a fact that in 1973-74, steel imported for the manufacture of weld mesh was costlier than the steel indigenously available and, if so, why imports of steel for this purpose was allowed. The Additional Secretary of the Ministry of Commerce stated:

"It is quite possible that for a particular order, either in point of time or quality or specification, a particular type of steel is not locally available. In all such cases, since it is felt that the export order should not suffer for lack of production facilities, import also is sometimes allowed."

To another question whether the party in this particular case had necessarily to import steel for the purpose, the witness replied:

"The import licences were issued in 1971, in this case it was done on 8th February, 1971 and on two more occasions, *i.e.* in all, three licences were issued. Imports were made partially in July 1971 and again during July 1972, spread over two years. So far as the entitlement to cash assistance is concerned, there are two points. Firstly, we grant cash assistance only to those who are registered for the purpose. That is why I had submitted that we will have to verify whether this particular party had again registered himself for the purpose of this benefit or not, particularly in view of his re-negotiation in December 1973."

Clarifying the position, the Secretary, Export Production added:

"Currently, the prices in India are not higher than those in international field. In this matter, they have to decide keeping the totality of the production of steel in mind, as to what things to produce. The priorities for the various requirements in India having been taken into account, they always allocated these various priorities and the programmes along with it. The total would still fall short of the requirements of steel, both for domestic and export purposes. As such, it is always necessary to import. The question as to what things are to be imported out of various kinds of steel that are available in foreign countries, is decided on the basis of the recommendations that are sent, in the Steel Priority Committee. It is true that this very party could have indented for his steel requirements on the Iron and Steel Controller in Calcutta, instead of asking for it through the HSL; in that case, if the Steel Priority Committee had so decided, he could probably have got the indigenous steel as well. That is why I had said in the beginning that we must forget the distinction between indigenous and imported steel for the purpose of export. For him, the price would be the same, whether it is indigenous or imported steel. The quality also is the same."

Asked whether the amount of Rs. 55,75,000 mentioned earlier as the import cost of materials represented in the actual c.i.f. value or had been computed on the basis of the JPC prices, the Additional Secretary of the Ministry of Commerce clarified that this represented the total c.i.f. value. He added:

"This is actually a direct import. It is related to the import of the raw material and export of the product. This is not one of the items where we get something and charge it to the JPC price. There was a special dispensation allowed in 1970 by which the inadequate availability of steel in the country had demanded the import of some fo these raw materials for export purposes. As such, this is a direct import for direct export purposes.

1.48. Though it had been stated that for the purposes of grant of cash assistance, no distinction was made between indigenous and imported steel, the Committee pointed out that the fact remained that there was difference between the two prices and asked whether this factor should not have been taken into account in computing the quantum of assistance. The Secretary, Export Production replied that the difference between the f.o.b. realisation at that time and the f.o.b. cost was the relevant factor in deciding upon the cash assistance to be given and that for this purpose representative costing was worked out. Asked whether this exercise had been carrid out in this particular instance, the witness replied that in this particular case it was not done separately and added:

"In a representative number of cases, it is done and this particular item was not done because there is a cash assistance rate fixed for this item."

The Additional Secretary of the Ministry of Commerce stated further:

"So far as cash assistance verification is concerned, there are different items of products which are grouped together. Steel weld mesh is one item, classified as A 24. Cash assistance is fixed on certain broad considerations. Whenever there is any need for revision, we take care by collecting representative sample of cost from two or more producers from small scale, medium or large scale."

1.49. The Committee desired to know what specific action was taken by the Ministry when this case was brought to its notice, in 1972, by the Central Board of Excise and Customs. The witness stated:

"Two steps were taken. One was to commission a study through IIFT in respect of mild steel intensive items. Another committee was constituted with the CCIE."

He added:

"In 1972 we found that a few categories of cases required to be gone into in detail from the point of view of f.o.b. costing to find out the cash assistance to which they are eligible. For this purpose we commissioned a study by IIFT in respect of four or five items of mild steel intensive items which were using imported steel. Their reports were received. In addition, a committee was set up to go into the question in the context of the annual revision of the import policy, with the CCIE."

The witness as well as the Secretary, Export Poduction, however, subsequently clarified that the committee constituted under the chairmanship of the Chief Controller of Imports & Exports was not in the context of the particular case commented upon by Audit, though the case cropped up during that period, but was constituted in connection with the annual revision of the import policy. As regards the action taken in pursuance of the anomalies in the operation of the cash assistance scheme noticed by the Customs authorities the Secretary, Export Produtcion stated:

"I have before me a file in which there is the reply sent to the director, Drawback, by the Ministry in which it has been stated:

.the cash assistance of 20 per cent of the f.o.b. is allowed against the export value. The rate of cash assistance announced in August 1966 immediately after the devaluation of the Indian rupee is admissible since 6th June, 1966. The rate of cash assistance along with cash assistance on a number of other products was decided by a Working Group consisting of the representatives of the concerned Ministries and had the approval of the Cabinet'.

The details of the basis on which the rate of cash assistance on steel and other products was fixed are on record."

1.50. While the ex-works prices of indigenous prime steel were usually higher than the world prices upto the end of 1971-72, from the beginning of 1972-73, however, the world prices began to rise, the rise being particularly steep from November 1972 onwards. The Audit paragraph points out that as a result of this phenomenon, the world (London Metal Bulletin) prices of prime steel sometimes exceeded the Indian ex-works prices. The Committee, therefore, asked what action was taken to regulate cash assistance when international prices began to rise in the beginnig of 1972. The Additional Secretary of the Ministry of Commerce replied in evidence:

"I would like to submit that a temporary phenomenon of increase cannot obviously be considered to carry weight in immediately bringing down the cash assistance, but if it is over a period, it is a relevant factor to be taken into account. Based on that, a certain amount of marginal costing will have to be revised. In this case, there were two spells of increase in the steel price. The first one was a smaller one in the earlier part of 1972. The second one commenced towards the end of 1972 and continued thereafter. As soon as this was brought to our notice, we took certain corrective action. First of all, the 25 per cent added value was applied at the minimum for supply of imported steel for export products; secondly, 25 per cent added value was not only applied to the imported steel but also to the indigenous steel; and thirdly, the 25 per cent added value was reckoned not on the basis of the indigenous price; which was lower, but on the c.i.f. price of the international market......Lastly, we also went into the detail costing of the different products. The products which were singled out initially to be requiring attention *prima facie* were those which were using a large amount of mild steel. Out of a total of Rs. 170 crores, about Rs. 30 crores worth were engineering products for which mild steel was imported. And these were mainly relating to pipes, tubes, bicycle parts and other items. A cost study was commissioned through IIFT and their report was received and their recommendations were again examined by both the Finance Ministry and the Cost Accounts Branch and based on this we took a decision that wherever it was warranted, the cash assistance should be withdrawn and wherever it was found necessary and justified, the cash assistance should be reduced."

1.51. Asked why immediate action to reduce or withdraw cash assistance was not taken as soon as it was noticed that the world prices of steel were rising, the witness replied:

"We noticed it in the early months of 1973. Thereafter we applied the 25 per cent Added Value criterion. This is the reason why people had, in some cases, to re-negotiate."

The Committee learnt from Audit in this connection that cash assistance on some of the items (*viz.* steel tubes, transmission line towers, steel weld mesh, bright bars and shafting and complete bicycles) was withdrawn after January 1974 while cash assistance on bicycle components and accessories was reduced. They, therefore, desired to know why these changes in the cash assistance scheme were introduced only after January 1974, when international prices had started rising in early 1972 itself and whether this was done only after the anomalies in the scheme had been high-lighted by Audit. The Additional Secretary of the Commerce Ministry stated:

"So far as the cash assistance is concerned, this had to be verified with the f.o.b. realisation and also the net value that we were able to get. This verification had been done; and we singled out those products where the mild steel was predominant."

He added:

"There were certain secular trends in the international prices. We had to take the long term trends also into account."

In this context, the witness also stated that the process of review had begun in 1972 itself when certain specific cases (*i.e.* those which, according to the Ministry, merited re-consideration) were referred to the Indian Institute of Foreign Trade.

1.52. Since it had been stated earlier the question of revision of the scales of cash assistance were subject to periodical review, the Committee desired to know on how many occasions and to what extent the rates of cash assistance for engineering goods were revised since 1969-70 and details of the commodities in respect of which such revisions had been effected. In a note, the Ministry of Commerce stated:

> "Cash compensatory support is allowed to neutralise or reduce the gap created by lower f.o.b. realisation compared to cost of production of export product. Over the years cost of production has been rising. It is only where significant unit value realisation for the export product is achieved that there arises a downward adjustment of rates of cash support. Recent appreciable increase in steel prices in the world necessitated review of rates on steel based items."

The Ministry also furnished to the Committee a chronological summary of the revisions introduced periodically in the cash assistance rates for engineering goods which is reproduced in. *Appendix II. The position that emerges in respect of some major engineering goods is indicated below:

Item	Red Book Entry No.	Rate of Assistance as on 1-4-1969	Rates of subsequent periods
Steel Pipes & Tubes, ungalvanised . .	A.23.1	30%	1-4-1970—30% 1-4-1971—30% 1-4-72 30% 1-4-1972—30% 9-1-1974 Nil 1-4-1974 Nil
Steel pipes & Tubes, galvanised . .	A.23.2	30%	1-4-1970 30% 1-4-1971 30% 1-4-1972 30% 1-4-1973 30% 9-1-1974 Nil 1-4-1974 Nil
Steel weld mesh	A.24	20%	1-4-1970 20% 1-4-1971 20% 1-4-1972 20% 1-4-1973 20% 1-4-1974 Nil

*Not vetted in Audit.

Item	Red Book Entry No.	Rate of Assistance as on 1-4-1969	Rates of subsequent periods
Transmission line Towers, galvanised	A.27	20%	1-4-70 25%+5% Additional C.A. 1-4-1971—do— 1-4-1972—do— 1-10-1972—Same as above plus a percentage on a sliding scale depending on the percentage of production. 1-4-1973— Do. 23-2-1974—Nil 1-4-1974—Nil
Steel Bright Bars & Shaftings . . . Additional 5% was allowed in such cases where the f.o.b. value of exports was 33⅓% or more of all inputs *i.e.* both imported and indigenous	A.45	10%+5%	1-4-1970—10%+5% 1-4-1971—10%+5% 1-4-1972—10%+5% 1-4-1973—10%+5% 1-4-1974—Nil
Bicycles complete (other than sports light road star type)	A.152.1	30%	1-4-1970—30% 1-4-1971—30% 1-4-1972—30% 1-4-1973—30% 22-2-1974—Nil 1-4-1974—Nil
Bicycle components & Accessories . .	A.152.2	30%	1-4-1970—30% 1-4-1971—30% 1-4-1972—30% 1-4-1973—30% 14-3-1974—20% 1-4-1974—20%
Special model bicycles with 3-speed hubs .	A.152.3	—	1-8-1969—20% 1-4-1970—20% 1-9-1970—25% 1-4-1971—25% 1-4-1972—25% 1-4-1973—25% 23-4-1974—10%

1.53. With reference to the information furnished by the Ministry of Commerce, in paragraph 1.33 of the Report, that cash assistance had been withdrawn in recent times on six items, the Committee desired to know the reasons for the withdrawal of the assistance in these cases and when the concession was withdrawn. The information* furnished in this regard by the Ministry of Commerce is indicated below:

"*Steel Tubes*:

Towards the later part of 1973, it came to the notice of Government that f.o.b. realisation on export of steel

*Not vetted in Audit.

tubes had gone up consequent on the increase in international price of steel. Comparison of the latest f.o.b. cost and f.o.b. realisation showed that there was no loss in export of steel tubes. The cash compensatory support which was 30 per cent was therefore withdrawn w.e.f. 1st January, 1974.

2. *Belt links for Machine Guns*:

Cash assistance on export of this item at 15 per cent was available upto 31st March, 1974. Since the Engineering Export Promotion Council did not furnish detailed cost data, cash assistance was not continued. The cash assistance therefore stood withdrawn from 1st April, 1974.

3. *Transmission line towers*:

Towards the later part of 1973, it was noticed that f.o.b. realisation on export of transmission line towers had increased and that there was no loss in exports. The cash assistance on transmission line towers was, therefore, withdrawn w.e.f. 23rd February, 1974.

4. *Steel Weld Mesh*:

Early in 1974, a study was conducted to find out the value addition in export of this item, after taking into account all imports going into the product. When it was found that the net value addition was only 11 per cent it was decided to withdraw the cash assistance, which was 20 per cent, with effect from 1st April, 1974.

5. *Bright Bars and Shaftings*:

Early in 1974, a study was conducted to find out the value addition in export of this item, after taking into account all imports going into the product. When it was found that the net value addition was only 11 per cent, it was decided to withdraw the cash assistance, which was 10 per cent, with effect from 1st April, 1974.

6. *Complete Bicycles*:

In February 1974, DGTD informed the Ministry that f.o.b. realisation of ordinary roadstar bicycles had gone up, which necessitated a close second look on the level of cash compensatory support. On examination it was found that the f.o.b. realisation was more than the cost of production, and so there was no loss in exports. The cash compensatory support which was 30 per cent, was, therefore, withdrawn w.e.f. 22nd February, 1974."

Asked when the draft Audit paragraph was received by the Ministry of Commerce, the Ministry replied that this was received on 15th November, 1973.

1.54. A few examples of anomalous consequences of the export promotion policy for engineering have also been cited in the Audit paragraph, after an analysis of the cash assistance admissible to six exporters of Pipes & Tubes and Bright bars and shaftings. The Committee learnt in this connection that these cases related to the following exporters (indicated in the Audit paragraph by means of alphabets 'A' to 'F'):

'A' : Bharat Steel Tubes Limited, New Delhi.

'B' : Khandelwal Tubes, Bombay.

'C' : Gujarat Steel Tubes Limited, Ahmedabad.

'D' : Zenith Steel Pipes Limited, Bombay.

'E' : Indian Tube Mills and Metal Industries, Bombay.

'F' : Jain Tube Company Limited, New Delhi.

The Committee were also informed by Audit that according to Release Orders No. F/L/R-485602/D dated 11 October, 1972 (issued to M/s. Bharat Steel Tubes Limited, P. O. Ganaur, District Rohtak) and No. P/L/R-485611/D dated 12th March 1973 (issued to M/s. Jain Tube Company Limited, Ghaziabad), hot rolled coils (11,667 tonnes) and hot rolled steel strips (2,324 tonnes) were to be released out of the imported stocks of Hindustan Steel Limited, Calcutta. They further learnt from Audit that the Ministry of Commerce had, in February 1974, stated in this regard as follows:

> "......The specific cases mentioned in the statement as examples of 'anomalous consequences of the Export Promotion Policy for engineering goods' relate to the latter part of the year 1972-73 (October 1972-January 1973) as is seen from the dates of issue of Release Orders. Figures relating to f.o.b. realisation and value of steel content shown in the statement are only anticipatory, perhaps taken from the firms' application/Release Orders...."

1.55. On the Committee drawing attention to these instances and asking how such liberal cash assistance could be considered justifiable, the Secretary, Export Production stated in evidence:

"The figures quoted in the chart may need some revision after a little checking by us because on a cursory examination again, I find that these figures may not stand true today....I have started an enquiry into all this, because some of these contracts belong to Bombay and I have not yet received the figures from Bombay. So, I have not been able to do all of them, but on 'A', I have a correction which I have noticed. That is, on black pipes, the estimated c.i.f. value for which release orders were issued, was Rs. 1.17 crores and that brings the percentage of cash assistance admissible to 59. In the case of 'F', the contract, I find, was renegotiated by the party. The expected f.o.b. realisation was Rs. 56.47 lakhs, and to the expected c.i.f. value of the import content, we should add zinc also because it was galvanised and it has not been taken into account here. Therefore, I find that it comes to Rs. 42.57 lakhs. That is, the total of Rs. 31.12 and Rs. 11.29 comes to about Rs. 42.57 lakhs. The cash assistance becomes higher in that case, because the f.o.b. realisation will go up to 16.94 lakhs. The percentage of cash assistance would be 122. But there is no negative outgo of foreign exchange. The new negotiated price shows that it is an addition to foreign exchange."

1.56. In view of the fact that the draft Audit paragraph, before publication in the Audit Report, was always sent to the Ministry for verification, of facts and comments, if any, the Committee desired to know whether this was not done in this case and why the correctness of the figures was being disputed after the publication of the Report. The Secretary, Export Production replied:

"When the draft para came, we were given six weeks' time in order to verify it. The amount of material in this was not capable of being verified within that period. This was explained."

He added:

"We brought it to the notice of the Auditor General that we required a little more time for the verification of all these facts and also to send our comments."

On the Committee pointing out in this context that even after the publication of the final Audit Report, Ministries could still send their comments and request correction of factual inaccuracies and place the Government's views on the Audit observations in perspective, the witness replied:

> "When the paragraph appeared here, there has been a little delay no doubt obviously. Otherwise, we could have sent our comments later."

In a note* furnished subsequently in this connection, the Ministry of Commerce stated:

> "The Audit were informed of the anticipatory nature of the figures in question in reply to draft Audit para. It could not be settled with the Audit before publication of the Report because actuals were not then known and even now in respect of some cases obligations are not completed and the position has not been finalised."

1.57. The Ministry also furnished to the Committee following revised statement* showing the relevant details in respect of these cases and added that these figures were also likely to undergo further changes in view of the fact that exports to the extent contracted had not yet been made in the case of four of the six exporters:

*Not vetted in Audit.

Exporter	Export Commodity	Expected f.o.b. realisation	Import material (Steel)	Estimated c.i.f. value of import content	Cash Assistance admissible	Percentage of cash assistance admissible to net foreign exchange to be earned
		Rs.		Rs.	Rs.	
'A'	Black Pipes	2·39 crores	H.R. strips in coils	1·62 crores (Steel) 0·12 crores (Other items)	71·70 lakhs@	110%
'B'	Steel pipes and tubes	1·02 crores*	H.R. Strips	0·50 crores (Steel) 0·19 crores (Other items)	30·60 lakhs@	93%
'C'	Galvanised (black steel pipes)	Release Order cancelled in December 1973 at the request of the party.				
'D'	Galvanised Steel Pipes	4·27 crores*	H.R. Steel Strips in coils	2·57 crores (Steel) 0·85 crore (Other items)	128·25 lakhs@	151%
'E'	Steel bright bars & shaftings	3·83 lakhs	Mild Steel rounds	6·97 lakhs (Steel) 1·54 lakhs (Other items)**	0·37 lakhs@	Negative

'F'	Galvanised pipes and blackpipes	56·47 lakhs	H.R. Strips in coils	32·28 lakhs (Steel) 11·29 lakhs (Other items)	16·94 lakhs@	131%

NOTE: *The export contracts were renegotiated.

**In this case, Bright bars of mild steel were exported. The party could not therefore, claim separately 40% IR which includes steel requirements for bright bars of free cutting and EN series steel. This may be adjusted against future entitlements. It may also be mentioned here that in this case Mild Steel was allowed as replenishment after the exports had been made. The party utilised steel from its own stocks. The steel utilised by them could be indigenous steel or steel imported at a lesser price.

@As cash assistance on galvanised and black pipes was abolished w.e.f. 9-1-1974 exports made after this date against contracts not registered with the Bank will not qualify for cash assistance. The figures in Col. 6 and the percentages shown in Col. 7 are, therefore, subject to change.

1.58. Summing up, at the Committee's instance, the circumstances leading to the revision in the figures, the Ministry have stated:

"(i) In the case of exporters 'B', 'D' and 'F' export contracts were renegotiated in view of the rise in international prices of the goods.

(ii) In the case of exporter 'C' release order was cancelled at party's request.

(iii) In the case of exporters 'A', 'B', 'D' and 'F' only a part of exports contracted have been made. In case of contracts not registered with the banks, cash assistance will not be admissible on exports made on or after 9-1-1974 when the cash assistance on pipes, tubes and fittings was withdrawn.

(iv) In the case of exporter 'E' (who has completed exports) mild steel was allocated on Replenishment basis. Steel utilised by them from their own stock could be indigenous steel or steel imported at a lesser price.

Since bright bars exported were of mild steel, the exporter could not claim 40 per cent of the Import Replenishment separately which includes steel requirements for bright bars against their future entitlements."

The Ministry also added that the reasons for the re-negotiation of the contracts was on account of rise in international prices of the goods in question.

1.59. Asked, in this context whether individual cases of disproportionate grant of cash assistance, as a result of the export promotion policy announced commodity-wise, were not looked into with a view to taking timely corrective action, a representative of the Ministry of Commerce replied in evidence:

"It is not possible to have rate of cash assistance which will depend upon performance and requirement of individual firm. We have to take into account industry as a whole, that means, the product. So we have been fixing for product and not individual firm and about 1972-73 I will give the background. Till 1970-71 India had adequate steel production. Need for import was not there. The normal mild steels which go into galvanised steel pipes and so on were available in the country. Raw material could be supplied and there was no difficulty. After 1970-71 it was inadequate. Even for mild steel items imports had to be arranged. Two alternatives presented themselves. (1) One is to take total requirement of export manufacturers as also indigenous suppliers together and arrange imports to go into common pool and from that common pool supply to export manufacturers. (2) To give this steel specifically for export effort. The second thing's advantage would have been, these people would have been able to contract for those sizes for those categories as per time schedule. That would have suited them. This was what was done. Till 1971-72 the international prices were lower than indigenous prices. Therefore, there was a system by which a small levy, a surcharge was taken from each and every indigenous consumer of steel and from this surcharge for those people who had to be given steel for export production, the difference between international price and indigenous price was being met. The position changed when international prices became higher. When that happened policy decision was taken. That was in April, 1972. For specified mild steel categories this facility was given to the export manufacturers that can be given at JPC price prevailing in indigenous production plus 2 per cent as service charge and so on. This facility was given in April, 1972. Contracting began on this basis. Now while international price was higher whereas indigenous price was lower, having obtained steel at indigenous prices, obviously, manufacturers quoted lower prices for resultant products while the raw material prices were high. In 1972-73 it was found that for quite a number of products the value of the steel imports was itself almost equal or in a few cases even higher than f.o.b. value realised by export for products manufactured by him. In June, 1973 the concept of value-addition requirement, a minimum value addition, was brought in. On 5th June, 1973 public notice was issued stipulating that certain steel will not be supplied to any export manufacturer unless he gives 25 per cent value addition over value of raw material imported by us. Various factors were taken into account including normal wastage and all these together with the total value of the raw material imported for him, and after that, he has to give 25 per cent value addition, as I had already mentioned. The Contracts which drew the attention of Audit are relating to 1972-73. We took this action in June, 1973. After this value-addition requirement was stipulated there is no case of a net outflow of foreign exchange."

In reply to another question as to when it was realised by Government that net f.o.b. realisation in some cases were not commensurate with the cash assistance granted in these cases, the witness replied:

"That came to the notice of the licensing authorities in the CCIE's office and the Committee headed by the CCIE, the special committee on steel, looked into this matter, and it was then that they took the decision that there should be a value addition requirement. This was cleared by the Department of Economic Affairs and the Ministry and a public notice was issued on 5th June, 1973. Latar on this recommendation about value addition was equally extended to even wholly indigenous supply of steel and this was done in February, 1974."

Asked when the Ministry had first noticed this phenomenon, the witness replied:

"The exact date I am afraid I cannot tell you. As I have told the public notice giving this facility for supplying imported steel at indigenous prices had been issued in April, 1972. The actual contracting and the physical arrival of goods did not take place till November, 1972, and it was in early 1973 that it came to notice that contracts had been entered into in which the f.o.b. realisation of the finished product was in some cases not even on a par with the money that had to be spent for the import of steel."

He added subsequently:

"International prices of steel started rising only in th later part of 1972 and the earlier part of 1973. The case of one of the firms referred to by Audit in the statement of six cases came to notice in March, 1973. It is on the basis of this case that the Special Committee on Steel looked into the matter and ultimately the public notice imposing the value addition requirement was issued on 5th June, 1A73."

On the Committee pointing out, in this connection, that the Ministry ought to have reacted to the changed situation more quickly and taken rectificatory action, the witness replied:

> "In these six cases no advance licence had been asked for. If advance licence is asked for, then the moment the export contract is entered into, the licensing authority comes to know about the price at which the contracting has been done, and for the item that is to be imported the value of the import will also be known. But these firms had made use of the material already with them, either imported in the past or obtained indigenously."

He added that he could "only plead that the action was not delayed" and that "it was taken as soon as the matter came to our notice."

1.60. Explaining, in a note* furnished at the Committee's instance, the background to the imposition of the value added condition in June, 1973, the Ministry have stated:

> "Under Public Notice No. 56 issued on the 18th April, 1972 export manufacturers of engineering goods had been given the facility of importing certain categories of mild steel items through the canalising agency, Hindustan Steel Ltd. Supplies of such imported steel were to be made to the export manufacturers at indigenous JPC prices plus a surcharge of 2 per cent. The Public Notice did not contain any stipulation regarding value addition to be secured by the export manufacturers on the price of the steel supplied to them.
>
> Towards the close of 1972, the prices of steel items in the international markets had begun to rise quite appreciably. It came to notice in March, 1973, when the application of M/s. Jain Tube Co., one of the firms referred to in the Audit Report, for import of steel under Public Notice No. 56 was being considered, that the f.o.b. price secured by the firm was lower than the price payable for the steel to be imported on behalf of the firm. Based on the findings in that case. Public Notice No. 86 dated 5th June, 1973 was issued prescribing a minimum of 25 per cent value addition, over the price of all steel matarials required for the fabrication of the relevant export product, if any import of steel was sought by the export manufacturer."

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*Not Vetted in Audit.

A copy of the Public Notice issued in this regard (No. 86 dated 5th June, 1973) also furnished by the Ministry reproduced in Appendix III.*

1.61. Asked whether the Engineering Export Promotion Council also took upon themselves the responsibility of informing Government, from time to time, of the changing situation, the Chairman of the Council replied in the affirmative and added:

> "It was the working committe of the Export Council which recommended value addition and its application to local materials also."

1.62. Since it had been stated by the Ministry that after the withdrawal of cash assistance on pipes, tubes and fittings with effect from 9 January, 1974, exports made after ths date against contracts not registered with a bank would not qualify for cash assistance, the Committee asked whether it was Government's intention that cash assistance would be admissible if such contracts were registered with banks. The Secretary, Export Production replied in evidence:

> "If contract is registered with bank, it gets benefits of cash assistance if registration was prior....That is to say those contracts which were registered before this date."

Asked the reasons therefor, the witness replied:

> "This flows from the provision in the Red Book. This is given in the Red Book itself. This is standard practice."

To another question whether it was Government's intention that this concession should be extended in some cases even after the abolition of the cash assistance, the witness replied:

> "I submit, this Red Book provision is very well known. This is a public document and it is well-known."

1.63. Drawing attention to the fact that exporter 'F' (Jain Tube Co. Ltd.) had renegotiated the export contract in view of rise in international prices of the goods, the Committee asked whether this factor was duly taken cognisance of and the question of revision of cash assistance considered at the time of renegotiation of the contract. The representative of the Commerce Ministry replied:

> "Revision of rate of cash assistance does not follow from contract....it is fixed for a product and that is available for every exporter. The rate of cash assistance is fixed and

*Not vetted in Audit.

is well known. It does not depend upon individual contract by individual exporter."

The Secretary, Export Production added:

"It (cash assistance) is reviewed not on the basis of any particular contract but reviewed in general for the commodity."

Asked whether Government could not have taken action to revise the rate of cash assistance after it came to notice that the contract was being renegotiated with a view to obtaining higher prices, the witness replied:

"It is the parties which negotiate or renegotiate. We do not come to know of it at that stage when it is going on."

He added that Government was not a party to these negotiations and that they were done between the parties themselves, the buyer and the seller. Clarifying the position further the witness stated:

"In this particular case we came to know of this renegotiated price because we were checking up on the figures after Audit gave us the figures and since we came to know that the price had been renegotiated, we have put down the correct figure now."

The Ministry, in a note*, had also informed the Committee that consequent on the imposition, with effect from 5 June, 1973, of the value added condition, a number of exporters who did not fulfil the minimum value added condition had to renegotiate their contracts and that many of them were successful in getting higher f.o.b. realisation.

1.64. The Committee desired to know when it first came to the notice of the Ministry that import prices of steel were higher than indigenous prices and what action was taken in the changed situation. In a note*, the Ministry of Commerce stated:

"It came to the notice of Government in October 1972 that the international prices were higher than the indigenous prices. Earlier, when domestic prices of steel were higher than international prices, there was a scheme to reimburse to exporters the difference in steel price when indigenous steel was used in the export product. From 26th

*Not vetted in Audit.

October, 1972, this scheme was withdrawn as international prices of steel had become higher than domestic prices.

Perhaps, the information sought relates to international prices of steel *vis-a-vis* f.o.b. realisation of export goods, manufactured out of imported steel. In reply to point* No. 3 (*vide* paragraph 1.60), it has been explained how minimum value addition of 25 per cent was imposed when the case of M/s. Jain Tube Co. came to the notice of Government in March 1973."

1.65. In their revised statement furnished to the Committee in respect of the six cases of disproportionate grant of cash assistance commented upon by Audit (*vide* paragraph 1.57), the Ministry had stated, *inter alia,* in respect of Exporter 'E' (Indian Tube Mills and Metal Industries, Bombay), that as Bright bars of mild steel were exported in this case the exporter could not claim separately 40 per cent IR (Import Replenishment) which includes steel requirements for Bright bars of free cutting and EN series steel. The Committee therefore, enquired whether exporter had already received 40 per cent Import Replenishment and whether there was any failure on the part of the Department in checking the exporter's claim. In a note*, the Ministry of Commerce replied:

"It is a fact that the party was allowed I.R. at 40 per cent of the f.o.b. value of export against export of M.S. rounds and bars which according to the policy was not admissible. The mistake occurred due to erroneous interpretation of the policy in the licensing office. The licensing office was advised to adjust this excess allotment. It issued the Alert Notice to the firm on 14-5-1973. The adjustment could not take place earlier as the file was requisitioned by the CCI&E Headquarters office in some other connection. The file in question has since been returned to the licensing office which will take necessary steps to adjust the excess licensing."

1.66. While, according to the Audit paragraph, the per centage of cash assistance admissible to the net foreign exchange to be earned in the case of Exporter 'E' (Indian Tube Mills and Metal Industries, Bombay) was 2875 per cent, according to the Ministry's own revised computation, the net foreign exchange to be earned in this case was negative. The Committee, therefore, desired to know the justification

*Not vetted in Audit.

for the payment of cash assistance for the exports of Steel Bright bars and shaftings where the net foreign exchange to be earned was negative. The Secretary; Export Production stated in evidence:

"About the fixation of cash incentive on Bright bars, this dates back to a period which is post devaluation; I understand; and I do not have access to those papers."

He added:

"In fact, the system of cash assistance was introduced only after the devaluation and probably, as far as I am told, the argument which weighed at that time was that the devaluation by itself was not found adequate enough to cover the losses. But, as I said, it requires looking into the papers."

Pointing out that the processing involved in the manufacture of Bright bars from imported mild Steel bars and rods was not very sophisticated as only machining of the bars had to be done, and that the Ministry ought to have taken these factors into consideration before granting cash assistance for the export of this commodity, particularly so immediately after devaluation, the Committee asked whether the Directorate General of Technical Development had been consulted in this regard. The Secretary, Technical Development (DGTD) replied in evidence:

"As far as the Bright bars case is concerned, I will have to preface my observations by saying in what way the DGTD comes in. The DGTD is entirely a technical organisation. So as far as the cash assistance is concerned, we do not go into the matters of costing or f.o.b. prices and how they operate or things like that. The technical content of the DGTD comes into play when a reference is made by the Ministry of Commerce on the material norms or the import of the material or the processes involved. In the case of Bright bars, to my knowledge, no such reference has been received by us. It is also there that during the processing of certain application or in a dialogue with the associations of industries, certain cases have come to our notice where *prima facie* there was a case for reconsideration of the cash assistance. In such cases we have taken the initiative and brought it to the attention of the Ministry of Commerce."

The Committee, therefore, asked on what basis the decision to grant cash assistance for this commodity had been taken without a proper determination and appreciation of the actual manufacturing processes involved. The Secretary, Export Production replied:

> "I do not have the papers right at hand. Subject to check again, I am told that after devaluation there was a meeting of the Committee of Secretaries and in that meeting a decision of this nature was taken. Instead of probably going into details of the costing and other factors that we have just now stated, at that time a kind of a general view was, it seems, taken to allow certain percentages of cash assistance on various kinds of exports and it is in that context probably that Bright bars also got cash assistance. I do not know whether in that Committee of Secretaries DGTD was also represented. All this is subject to checks."

1.66A. Asked whether the Steel Ministry had ever considered this question, the representative of the Department of Steel replied:

> "I have been dealing with export for a year and a half. During this period we were not consulted about cash assistance on any specific item."

To another question whether the Committee of Secretaries which considered this question included representatives of the Steel Ministry also, the Secretary, Export Production replied:

> "Naturally, the Secretaries of what I would call, Economic Ministries might have been consulted. I presume Secretary, Steel must have been there."

1.67. The Committee desired to know what study was made by the Committee of Secretaries on this question and whether any detailed examination of the cost structure, processing etc. had been undertaken. The representative of the Commerce Ministry stated:

> "Cash assistance for Bright bars was completely withdrawn from 1st April, 1974. Prior to that there was 10 per cent and an extra 5 per cent. When it was realised that the f.o.b. realisation *vis-a-vis* f.o.b. cost did not justify in continuing the cash assistance, it was withdrawn."

The Secretary, Export Production stated in this context:

> "I will have to look into the deliberations of the Secretaries Committee to come to somewhat more definite answer on this. What I presume is that this Committee of Secretaries took a decision. It is a matter of 8 years ago."

1.68. The Committee called for a note indicating when cash assistance in respect of Steel Bright bars was fixed, the justification there-

for, the checks, if any, exercised by Government before sanctioning the assistance and whether the DGTD and the Ministry of Steel had been consulted, alongwith a copy of the relevant minutes of the meeting of the Committee of Secretaries at which this question had been considered. The Secretary, Export Production assured the Committee during evidence that this would be done "immediatetly as soon as possible." However, in a note* furnished subsequently in this regard, the Ministry of Commerce informed the Committee as follows:

> "Cash assistance on Bright bars and shaftings was fixed in 1966-67 immeditely after devaluation and was approved by the Secretaries Committee. As regards supply of minutes of the Secretaries Committee, the Government consider that it would be prejudicial to the interest of the State. The information, therefore, is not supplied under Proviso to Rule 270 of the Rules of Procedure and Conduct of Business in the Lok Sabha."

1.69. The Committee desired to know (i) the amount of cash assistance paid to each of these six exporters, (ii) the total f.o.b. realisations and (iii) the total value of import content in the materials exported by them during the period 1970-71 to 1973-74. The following table*, furnished by the Ministry of Commerce, indicates the details of the cash assistance paid to each of the six exporters during this period:

Sl. No.	Name of the firm	Payments made during			
		1970-71	1971-72	1972-73	1973-74
		Rs.	Rs.	Rs.	Rs.
A.	M/s Bharat Steel Tubes Ltd., New Delhi	35,78,522	21,72,763	37,04,801	9,39,232
B.	M/s. Khandelwal Tubes, Bombay	18,27,050	11,47,465	29,83,302	21,85,074
C.	M/s. Gujarat Steel Tubes Ltd. Ahmedabad	16,51,962	21,19,035	32,07,392	32,01,612
D.	M/s. Zenith Steel Pipes Ltd. Bombay	51,96,775	25,66,939	39,22,258	80,73,086
E.	M/s. Indian Tube Mills and Metals Industries, Bombay	1,32,242	1,38,380	1,39,357	2,57,185
F.	M/s. Jain Tube Co. Ltd., New Delhi	13,98,074	78,127	10,41,663	24,88,938

The corresponding f.o.b. value of exports as admitted by the Licensing officers in the cases of these six exporters are indiacted in the following table:

*Not vetted in Audit.

Sl. No.	Name of the firm	F.O.B. value admitted			
		1970-71	1971-72	1972-73	1973-74
A.	M/s. Bharat Steel Tubes Ltd., New Delhi . .	1,19,16,906	72,47,351	1,24,92,850	32,04,912
B.	M/s. Khandelwal Tubes, Bombay . . .	Not available	70,02,909	73,60,271	70,44,769
C.	M/s. Gujarat Steel Tubes Ltd. Ahmedabad . .	61,08,452	63,76,028	1,14,00,289	82,75,683
D.	M/s. Zenith Steel Pipes Ltd., Bombay . .	Not available .	73,56,890	1,94,56,539	2,53,30,778
E.	M/s. India Tube Mills & Metal Industries, Bombay	Do.	12,76,979	22,21,368	47,31,284
F.	M/s. Jain Tube Co. Ltd., New Delhi . . .	45,75,091	2,60,425	36,44,468	81,54,382

The Ministry informed the Committee in this context that the claims of cash assistance preferred by the exporters were admitted by he Licensing offices on the basis of the f.o.b. value of exports for which documents were negotiated by the banks and that the actual realisation in foreign exchange was watched by the Reserve Bank of India.

1.70. As regards the value of the import content of the materials exported by these exporters, the Ministry, in a note*, informed the Committee as follows:

> "The actual import content contained in the products exported by these firms is not known to the Licensing Offices as this information is not required to be supplied by the exporters. However, import replenishment licences were allowed to these parties at the percentages of the f.o.b. value as announced in the policies for the relevant years on the products exported by these firms."

Information furnished in this regard by the Ministry in respect of only the particular exports included in the Audit paragraph have been tabulated below:

***Not vetted in Audit.**

Sl. No.	Name of the firm	Release Order No.	Date	Amount of C.A. paid	F.O.B. value admitted
				Rs.	Rs.
A.	M/s. Bharat Steel Tubes Ltd., New Delhi.	PLR/ 485602	11-10-72	Nil	Nil
B.	M/s. Khandelwal Tubes, Bombay	119954	23-11-72	Since the party did not get the material upto the end of March 1974, no C.A. was claimed. The supplies were started to them from April 1974.	
C.	M/s. Gujarat Steel Tubes Ltd., Ahmedabad.	781959	23-9-73	This R.O. was subsequently cancelled as it was surrendered by the firm.	
D.	M/s. Zenith Pipes Ltd., Bombay	119964	23-12-72	12,21,454	53,27,289
E.	M/s. Indian Tube Mills & Metal Industries, Bombay	119953	23-11-72	1,46,000	13,53,573
		119957	28-11-72	36,777	3,83,097
F.	M/s. Jain Tube Co. Ltd., New Delhi	485611	12-3-73	4,77,744*,	15,92,485*

*For exports made upto December 1973, claims in respect of exports made afte December 1973 not yet settled as C.A. was withdrawn from 9-1-1974. The company has claimed that these exports are covered by contracts registered with the bank on dates prior to the date of withdrawal of cash assistance. The matter is under examination and C.A. will be paid in case the registration of contract is established. The claims in respect of the exports, if any, made from August 1974 onwards have not so far been preferred.

1.71. In view of the fact that only the expected f.o.b. realisation in respect of these six exporters had earlier been furnished by the Ministry and it had been stated subsequently that the actual realisations in foreign exchange were watched by the Reserve Bank of India, the Committee asked, with reference to exporter 'A' (Bharat Steel Tubes Limited), whether the expected f.o.b. realisation actually materialised. The representative of the Ministry of Commerce replied in evidence:

> "In the case of exporter 'A' all the shipments relating to the contract have not yet been concluded."

Asked how the Ministry kept a watch on the actual performance of the exporters, the witness replied:

> "The licence issuing authority gets a bond or a bank guarantee. Watch on the performance is kept by the licensing authority."

To another question whether the Ministry did not monitor performance in view of the fact that the necessity for cash assistance was determined on the basis of f.o.b. realisations, the witness replied:

> **"The whole thing works on a system of delegation.....It is our own officers who have to watch. They do not belong to any other department."**

The Chief Controller of Imports & Exports added:

> **"Where we issue an advance licence of raw material, we take legal undertaking from the firm that the export contract against which raw material is being provided will be exported and the legal undertaking can be redeemed only after the export contracts have been completed and shipments completed. The regional offices watch the shipments and the legal undertaking is discharged only after the shipment is completed."**

Elaborating this issue further, the Secretary Export Production stated in evidence:

> "The information is available at the port office. Actually the port office keeps the watch as it is going on. There is a headquarter office there which also keeps the record and periodically they call for reports and chek up with the performance. But the bond is not discharge, it is still on, until the performance is over. That is one check on the party always."

1.72. The Committee desired to know whether before sanctioning cash assistance and other concessions Government verified the genuineness of the accepted quotations and the f.o.b. prices quoted in the invoices, so as to prevent under-invoicing. The Secretary, Export Production stated:

> "I think we need not presume that there was under-invoicing."

He, however, added on his attention being drawn to the findings of the Kaul Committee that in respect of certain items of engineering goods, floor prices were fixed by Government in consultation with the Engineering Export Promotion Council. Asked, in this context, whether any action was taken independently by Government to have the veracity of of the prices checked through the Commercial Counsellors or the embassies, the witness replied:

> "We certainly referred to our embassies and commercial counsellors abroad for checking this up. I think we have done so."

In a note furnished subsequently in this regard, at the Committees instance, the Ministry of Commerce stated:

"Floor prices are fixed by the Engineering Export Promotion Council and not by the Government. The Engineering Export Promotion Council maintains a network of Foreign Offices with defined jurisdiction, to collect market information and transmit it to the Head Office in India. These offices of the Council keep themselves in touch with and consult Commercial Counsellors in Indian Embassies abroad. The Council's Head Office in India also consults Indian Embassies, whenever necessary."

1.73. Since the floor prices for engineering goods were admittedly fixed by the Engineering Export Promotion Council and reliance, almost exclusively, was also placed on the data furnished by the Council for determining the need for cash assistance, and in view of the fact that the Council consisted of the industrialists and the registered exporters themselves, the Committet desired to know who was the Chairman of the Export Promotion Council. The Secretary, Export Production infromed the Committee that Dr. Bhoota was the present Chairman of he Council and that Shri Raunak Singh was his predecessor. Asked whether the former Chairman was associated with any of the companies mentioned in the Audit paragraph, the witness replied:

"I think he was the Managing Director or Chairman of the Bharat Steel Tubes."

1.74. The Committee desired to know the composition of constitution of the Engineering Export Promotion Council, the details of the members of the Managing Committee of the Council and how many of them were connected with the production and export of engineering goods. In a note*, the Ministry of Commerce stated:

"The Engineering Export Promotion Council is a company registered under the Companies Act and is a non-profit making body established in 1955 with the sole object of promoting export of 'Engineering Goods'. The Council is aided by the Government by way of matching grants in aid from the Marketing Development Fund.

*Not vetted in Audit.

The Council has the following categories of members:

(i) Ordinary	Paying Rs. 1000/- p.a. as membership subscription.
(ii) Associate	Paying Rs. 250/- p.a. as membership subscription.
(iii) Nominated	Nominated by Government or Trade Associations as required in the Constitution.

The ordinary and associate members are grouped in 34 panels representing particular sub-groups of items dealt with by the respective constituent members. They elect their respective Panel Chairman who ultimately become members of the Working Committee.

The affairs of the Council are managed by a Working Committee comprised of the following:—

1.	Elected members (Chairmen of various panels) . . .	34
2.	Nominees of various Trade Associations . . .	6
3.	Nominees of the Government	3
4.	Top Exporters of Engineering goods	3
5.	Chairman of Regional Committees	4

The Working Committee elects a 'Committee of Administration' consisting of 10 members and delegates for such functions as it deems fit for the administration and management of the affairs of the Council."

The Ministry also furnished, in respect of the period 1972—74, a list of members of the Working Committee and the Committee of Administration of the Council, alongwith other relevant details of the industry panel represented by the member and the items* manufactured/exported by each of them, which is reproduced in Appendix IV.

1.75. Asked what machinery was available with the Export Promotion Council to check f.o.b. realisations, c.i.f. price of imported materials, cost of production, etc. a representative of the Council replied in evidence:

"There is a form presribed for fixation of import replenishment cash assistance. There is a central office in Delhi where I

*Not vetted in Audit.

am operating. Under me, there are two or three officers. They scrutinise the details received from the member firms.

There are two sides. One is the cost of raw material and other costs. I must concede that there is no machinery at my disposal to check the cost of production as given by the firms."

He added:

"In fact, after the details are given, they are forwarded to the Ministry. Then the cost accounts department of the Ministry of Finance do the detailed checking. It is at that stage that they are examined individually. I know instances where the cost accounts officer has spent 35—40 days in one unit to check details of the cost."

The representative of the Ministry of Commerce stated in this context:

"The cost accounts branch sends a team to the factory and the records kept there are looked into in detail After that they make a recommendation and it is on that basis that a final decision is taken."

Asked whether all cases were referred to the Cost Accounts Officer as a matter of routine, the representative of the Council replied:

"This exercise is being done on a continuous basis during the last two years roughly. About 24-25 items have been selected where detailed study has been made or is being made. Data is being furnished. We are of course dealing with a large number of items; more than 400 items are being exported, industrial plant and machinery labour intensive items, steel-based items etc."

On the Committee pointnig out in this context that the Council apparenly had the responsibility of exercising necessary checks in every individual case so as to ensure that there was no unnecessary outflow from the exchequer, the witness replied:

"So far the practice has been to select representatives units in the sense of units which have been contributing the bulk of the exports."

The Chairman of the Export Promotion Council added:

"Basically, cash assistance is given in order to make the sale of our equipment competitive. There is a definite procedure there—the difference between the f.o.b. cost and the cost of the production excluding the overheads and all that. For this, there is a mechanism by which the costs as given are checked and the f.o.b. prices as the exporter gives to our Council are also checked by various means. There is an in-built mechanism for checking this and I would also like to add that our Council is very particular—at least my instructions as the Chairman have been clear—that no cash assistance request should be passed on to the Government unless it has been scrutinised by us and we are satisfied. For example, we have turned down 21 cases in the last two years. When we felt that there was no case, it did not even go from our office to the Government."

He stated further:

"Basically decision is taken that on this item, on that item we shall do this, we shall do that. After devaluation certain steps were taken regarding cash assistance, replenishment licence and all that. It is done itemwise and that holds the field for a period and at the end of the period those are again looked into and when these are renewed they come back to us. In some cases we have said, there is no need, so we want this 25 per cent added value. Our Council has always been saying that we must get that in the net foreign exchange earning. We have got both private and public sector and Government representatives. This has stipulated all of us to this thinking that we must get this 25 per cent added value. But now again we have found that in this competitive market the prices began to fall and we have had to revise our ideas.

In December 24, on certain items from 25 per cent we went down to 10 per cent. But as I was saying, we keep a watch. Our council through our foreign offices and our office here try to keep as close watch of the situation as possible item-wise."

1.76. On the Committee pointing out that the general impression was the Councils, comprising as they were mostly of representatives of the manufacturers and exporters themselves tendered interested advice, the Chairman of the Council stated:

"I can only tell you of my own experience originally in Bombay and then as Chairman of the All India Council. I think that as much attention as can practically be given is being given to seeing that no undue practices are

> indulged in any of the offices. As I mentioned earlier, after reviewing the applications for cash assistance in the Council, we have rejected twenty-one cases in the last two years."

1.77. Asked in how many cases, Government had found that the data suppliel by the Export Promotion Council were at variance with the information available with Government, the representative of the Finance Ministry replied:

> "We found in many cases that this assistance which was being granted was no longer necessary."

The Committee desired to know the details of the differences noticed as a result of the scrutiny by the Cost Accounts Branch of the data furnished by the Export Promotion Council/individual exporters in support of their claim for cash assistance. Details furnished by the Ministry of Commerce, in respect of some of the items where the costing was gone into by the Indian Institute of Foreign Trade are indicated in the following statement:

Cost data from EEPC/IIFT	Remarks etc. of Finance/C.A.O.	Action Taken by Government
Bicycles and bicycle parts:		
I.I.F.T's Report indicated that there was still a loss of 2% to 30% after taking into account the then Cash Assistance of 30% and other benefits admissible.	On the basis of marginal costing *i.e.* not taking into account the overheads etc. the loss worked out to between 17·69 to 24·65 %, without taking into account the benefit of Cash Assistance.	1. The M. D.F. Committee decided to reduce Cash Assistance as follows : Bicycles . . . . 20% Bicycle components . . . 20% S.L.R. . . . . 22-1/2% These rates were not notified due to further developments. 2. Later, it was reported that f.o.b. realisation had improved. Government decided C.A. at following rates: Bicycles . . . . . . Nil. (from 22-2-74) Components . . . . 20% (from 14-3-74) SLR Cycles . . . . 10% (from 23-4-74)
Transmission Line Towers:		
IIFT reported loss on exports taking into account the current Cash Assistance @25% to be Rs. 86·13 per MT *i.e.* 4·73%	Finance Ministry calculated loss as percentage of net f. o. b. realisation at about 6·1%, but recommedned sliding scales of Assistance from 10% to 25% on the basis of exports as related to production, taking into consideration the wider context of promoting exports of this item.	1. MDF Committee decided the following scales of Cash Assistance from 1-4-1973 : (i) Exports upto 50% of production 10% (ii) Exports between 50% to 60% 15% (iii) Exorts 60% to 80% of production 20% (iv) Exports above 80% of production 25% 2. Later it was reported that f. o. b. realisation of export of Transmssion Towers had substantially increased. The Government decided to withdraw Cash Assistance w. e. f. 23-2-1974.

3. *Steel Pipes and Tubes* :

IIFT reported that there was still a gap of 9.6% after taking into account the current subsidy Recommended existing rates.	(Not referred to CAB)	It was reported that f.o.b. realisation had substantially increased. Cash Assistance was withdrawn w.e.f. 9-2-1974.

4. *Electric Transformers* :

According to IIFT even after taking into account the existing scale of Cash Assistance at 25% there was still a gap of 11·7% between the marginal cost net f.o.b. realisation.	Ministry of Finance who examined the Report stated that there was no case for reduction of Cash Assistance. The Cost Accounts Officer also agreed with the Finance (Expenditure).	The Government decided to retain the present level of Cash Assistance at 25% with the approval of the MDF Committee.

5. *Steel Wire Ropes* :

(i) According to data furnished by EEPC, as on 1-9-1970. FOB cost was Rs. 4180 and FOB realisation Rs. 2436 per MT on average, leaving a gap of Rs. 1644 (Without taking into account benefits C.A. and Drawback. The net gap works out to about Rs. 800 *i.e.* about 32%).	On the basis of marginal costing, the loss was worked out by Cost Account Branch as follows : Marginal FOB Cost - Rs. 3909·18 FOB realisation Drawback- Rs. 3512·20 Shortfall Rs. (—)396·98 *i.e.* 13-13% (Without taking into account the benefit of C.A.)	Government decided to reduce C.A. from 20% to 13% for the period 1-10-1972 to 30-9-1974. It was also decided that 5% freight subsidy would be available on exports to USA only for the same period. Orders issued on 19-12-1973.

(ii) According to IIFT, the loss worked out as follows :

	Rs.
FOB Cost . . .	4127·07
Net FOB realisation . . .	2873·00
	1254·07
C.A. and drawback . .	1062·60
Uncovered loss . . .	191·47

i.e. ·6·6 %

Cost data from EEPC/IIFT	Remarks etc. of Finance/CAO	Action taken by Government
6. Electric Motors :		
Representation was received from one firm recommended by EEPC & Indian Electrical Manufacturers Association for enhancement of Cash Assistance from 15% to 25%. According to their data the loss after taking into account the current rate of Cash Assistance and drawback, worked out to from 31% to 36% on export of electric motors of different H.P.	The Government of Cost Accountsant conducted cost study of major companies. According to their findings, there was a loss of about 15% in the case of 3, of about 0% in the case of 4th and a small profit of 0·63% in the case of 5th company.	After detailed examination Government decided that there was no case either for enhancement or for reduction of the current rate of 15% of Cash Assistance.
7. High Tensile Steel Transmission Line Towers (Turn-Key Project) :		
According to the data furnished by the company, the loss was Rs. 805 per tonne (Cost Rs. 2038; FOB realisation—Rs. 1282), *i.e.* approx—62%.	The Government Cost Accountant conducted on the basis of marginal costing, loss at Rs. 449/- (Marginal Cost—1731, FOB realisation Rs. 1282) *i.e.* approximately—35%.	The case is under consideration of the Government.

1.78. The Committee desired to know whether the Ministry examined the balance sheets of the companies|firms like Bharat Steel Tubes, Khandelwal Tubes, Gujarat Steel Tubes Ltd., etc. and studied their earnings and profits with a view to determining whether such companies really needed to be sustained with the liberal payments of cash assistance for their exports. The Secretary, Export Production, stated in evidence:

> "We see their export performance and not the other things.... What purpose would be served by studying the balance sheets? We are not concerned whether they make profit or loss. We are concerned with their exports."

Asked why an obligation for the export of a certain percentage of production, even if it results in a loss, could not be imposed, as in the case of textiles, on those exporters of engineering goods who were known to be making considerable profits otherwise, the witness replied:

> "There is, industry-wise, an export obligation placed on several industries in the manner you have suggested. If they do not fulfil that, there are penalties."

The representative of the Finance Ministry stated in this context:

> "I agree that the present system is non-discriminatory. The incidence on various exporters may be varied. Some firms might incur losses on their exports and some may not; still they get the same assistance and this is inherent in the system. We go by the average for the industry as a whole. Certainly the question of withdrawal of assistance in respect of industries which can stand on their own should be considered."

To another question whether this was not done as a matter of routine, the witness replied:

> "That has not been done so far, because the number is large."

1.79. Since it had been stated by the Secretary, Technical Development, that certain cases had come to the notice of the Directorate General of Technical Development where there was a *prima facie* case for reconsideration of the cash assistance and that in these cases, the Directorate had taken the initiative to bring them to the notice of the Commerce Ministry, the Committee desired to know the details of these cases. In a note,* the Ministry of Commerce furnished the following particulars in this regard:

"In October 1973, DGTD had written to the Ministry of Commerce that the international prices of steel tubes had firmed up very considerably and that the cash assistance on export of steel tubes would bear a second look by the Commerce Ministry.

In February 1974, DGTD had intimated to the Commerce Ministry that the unit value realisation on export of complete ordinary Roadester bicycles had gone up which would necessitate a close second look at the level of cash compensatory support for the item.

In November 1973, on a reference from the Commerce Ministry, DGTD had intimated that there was no loss on export of transmission line towers and had added that in the circumstances, the case for cash subsidy in this case was not clear."

1.80. The Ministry also furnished, at the Committee's instance, copies of the reports of the Indian Institute of Foreign Trade on the cost studies undertaken by them in respect of steel pipes and tubes, bicycles and bicycle parts, steel wire ropes, transmission towers and electric transformers. In respect of bicycles, the Committee found that the Institute had compared the manufacturing operation cost for 1971-72 in respect of two units 'U' and 'V', details of which are indicated in the following table:

Elements of Cost	U 1971-72 Rs. per cycle	V 1971-72 Rs. per cycle
1. Direct material		
(a) Raw material	18·27	47·16
(b) Semifinished components	31·08	12·36
(c) Finished components	54·67	33·35
(d) Processed material	4·75	11·75
(e) Total	108·77	104·62
(f) Less credit for scrap	..	10·10
(g) Net material cost	108·77	94·52

*Not vetted in Audit.

Elements of Cost	U 1971-72 Rs. per cycle	V 1971-72 Rs. per cycle
2. Primary packing expenses	1·65	1·46
3. Direct wages	5·00	25·02
4. Manufacturing overheads	17·97	29·98
5. Administrative overheads	2·29	5·42
6. Depreciation	1·79	1·57
7. Selling & Distribution Esp. on Export		
(a) Packing charges	9·00	10·00
(b) Selling and dist. exp. advertising	..	..
(c) Other expenses	5·80	4·00
(d) Inland freight and forward exp.	31·84	7·47
8. Financing cost	2·27	..
9. Total F.O.B. cost	185·38	179.44

1.81. Explaining, at the Committee's instance, what was meant by semi-finished components, finished components and processed material, a representative of the Indian Institute of Foreign Trade stated in evidence:

"As regards semi-finished components, some of the cycle manufacturers get some parts of the cycle manufactured by other units. These parts are not in final shape, but they are in semi-finished state. Some of the bicycle manufacturers get finished state some parts of bicycle like free wheels, hubs, cycle chains, etc. manufactured by other units. These parts come in the category of finished components.

In certain cases some of the components like spokes, hubs etc., may not be in the final shape to be used as they are. The bicycle manufacturers finished them in their units according to requirement of individual types of bicycles. Thus, these items come in the category of semi-finished components. Some of the processed materials which they use either for finishing the components or the bicycles are obtained from other units, as the bicycle manufacturers not in a position to manufacture them. These items have been kept separately under three categories, i.e., semi-finished components, finished components and processed materials.

Raw materials used are steel and other materials which are required for the manufacture of various parts of the bicycle. Details regarding this type of categorisation, we have not been able to get from all the units. The units, U & V stand for two separate manufacturers and indicate the representative character of manufacturing operation in these two types."

Asked what percentage of these bought-out components were supplied by the small scale sector, the witness replied:

"Some of the units, medium scale or small scale are specialising in production of components. But it is not exactly the case that most of the items used by bicycle manufacturers come from them. We have not been able to calculate in percentage terms as to what proportion of bicycle components used in the manufacture of complete bicycles comes from the small scale industry."

He added:

"In certain cases the same manufacturer has got two or three units under his control. One or more units may be controlling production of parts."

He added that about 15 to 20 per cent would be coming from both the cottage and the small scale sectors.

To another question whether this was resorted to obtain concessions in taxes and excise duties, the witness replied:

"In order to get advantage of labour costs in certain cases, they do it."

1.82. The Committee found from a study of the IIFT Report that while the total f.o.b. cost in respect of the two units 'U' and 'V' was nearly equal (Rs. 185.38 and Rs. 179.44 respectively), the expenditure incurred by the two units on Direct wages, Manufacturing overheads and administrative overheads varied widely. While in the case of unit 'U', these totalled Rs. 25.26, in the case of unit

'V' these amounted Rs. 60.42. The Committee, therefore, asked whether these figures were comparable and reliable and desired to know the reasons for the wide variation. The witness stated:

"It depends upon the scale of operation and also the extent of automation."

Asked whether any effort had been made to verify these figures since they obviously appeared to be uncomparable, the witness replied:

"The type of manufacturing operation which is followed by individual units varies so widely depending upon the extent of automation etc."

He added:

"The proportion of raw material used is also relevant. In one case you will find, it is Rs. 18.27, while in the other it is Rs. 47.16. In the first category, as you see, the finished components and semi-finished components used are in much greater proportion, so there would not be any wages incurred in the manufacturing of these components. This high proportion of semi-finished and finished components in the first case as compared to the second one explains the differenec in direct wages incurred by the two units."

1.83. The Committee desired to know the basis for the selection of the two units whose operations were obviously not comparable and drew attention in this context to the fact that while the Inland Freight and Forwarding expenses under 'Selling & Distribution Expenses on Export' were also respectively Rs. 31.84 and Rs. 7.47. The Committee also asked whether the wide variations under some of the items were examined in depth to determine the reasons therefor. The representative of the Indian Institute of Foreign Trade stated in evidence:

"The first unit, 'U' in respect of which the cost is Rs. 31.84 is an upcountry unit, where the railway freight has to be paid from the place of production to the port of exportation. The second one is in a port town, where naturally no such freight incidence will be there."

Pointing out, in this context, that one of the units ('U') was only processing largely goods manufactured by others, the Committee enquired into the reasons for selecting 'U' and 'V' for study. The witness replied:

"According to the terms of reference given to us we were expected to ascertain where the continuance of cash assistance at the rate prevailing at that time was justified. We had to go by representative units decided after taking into consideration all types of manufacturing units and the leading exporting units in the country, both in the port town and in the up-country, in order to arrive at comparable figures. This had been the main reason for selecting these two units so that we might arrive at workable figures."

1.84. The Committee desired to know how the inland freight and forwarding expenses in India compared with those prevalent in other countries which were competing with India in exports. The Secretary, Export Production stated:

"We would not know that. They would not reveal that to us. The freight charges etc. would depend on the distance from the port and so many other factors."

1.85. Referring to the sub-head 'Other Expenses' under 'Selling & Distribution Expenses on Export', which amounted to Rs. 5.80 in the case of unit 'U' and Rs. 4.00 in the case of unit 'V', the Committee asked what these expenses were. The representative of the Indian Institute of Foreign Trade replied:

"Other expenses are incurred on getting the cargo move from the factory to the port."

Asked whether these were not included under 'Forwarding Expenses', he replied:

"Forwarding expenses are different from the expenses incurred in connection with the movement of cargo from the factory godown to the port."

1.86. While no credit had been given by the Institute in respect of unit 'U' for sale of scrap, unit 'V' had been given a credit of Rs. 10.10 on this account. The Committee desired to know the percentage allowed by Government as product wastage. The Secretary, Export Production stated:

"This is not a uniform wastage, but in the production process there is a slight difference as computed by the DGTD.

It comes to something like 10 or 11 per cent."

He added:

> "I understand that the DGTD has even allowed upto 25 per cent in certain cases."

A representative of the Directorate General of Technical Development stated in this context:

> "The scrap arising would vary from company to company depending upon the process, product parameters and the categories, types, sizes, profiles, dimensions, gauges etc. of the steel used."

In view of the fact that the steel claimed to have been wasted in production or processing could find its way into the black market, the Committee asked whether the wastages claimed by different units were ever verified. The witness replied:

> "As to how the scrap is disposed of, it is for the Steel Ministry to take care of."

The representative of the Steel Ministry stated in this connection:

> "Apart from the process losses that have been mentioned, some quantity of steel may be coming into the open market through the actual users when they do not use it and pass it on to others. For that purpose we have got the Iron & Steel Control Order. There are regional offices to check the misutilisation of steel."

1.87. The Committee desired to know whether while computing the f.o.b. cost, the scrap value of steel used in production|processing was also taken into account. The Secretary, Export Production stated in evidence:

> "When the costing is done, only the actual consumption is taken into account and not the scrap."

The Chief Cost Accounts Officer, however, stated that in addition to the actual consumption of materials booked to the export orders, the scrap value was also taken into account. On the Committee drawing attention to the fact that this had not been done by the Indian Institute of Foreign Trade in the case of unit 'V', the witness replied:

> "The particular case under consideration has not been studied by the Cost Accounts Branch. Wherever we do investi-

gations. We do take into account the consumption of materials only which could be verified from the records. If there is any realisation of scrap arising, then credit is taken for that in arriving at a cost. This is our normal standard procedure."

In a written note* furnished subsequently in this regard, the Ministry of Commerce informed the Committee as follows:

"There are innumerable types of engineering products using hundreds of specifications, profiles, gauges, dimensions, sizes etc. of steel and employing numerous processes of manufacture in the fields of casting, forging, forming machining etc. There is no uniform process wastage. Normal allowances on account of wastage average 10 per cent of net weight of finished products using steel. There are also normal wastages upto 25 per cent in some cases.

The cost accounts officer, in cases where costing examination is done takes into account the saleable scrap wastage."

1.88. In view of the fact that cash assistance was intended to neutralise the difference between f.o.b. costs and f.o.b. realisations and to make Indian products more competitive in the international market, the Committee desired to know whether the wide disparity between the basic wage structure in the countries competing with India and the low wages paid by the Indian manufacturer/exporter was also taken into consideration. The Additional Secretary of the Ministry of Commerce stated in evidence:

"The differential advantages and disadvantages of different components of production costs are reflected in the ultimate cost."

He added:

"I would only add one more explanation. There cannot be a differential analysis of each element of costing that goes into the cost of the total product. But when we take the totality of the cost, we naturally get all these differentials reflected but what is material is the difference between the cost at which we are able to produce a product and also the price at which it is being sold

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*No: ve'red in Audit.

elsewhere. But there is no ingredient to ingredient analysis."

Asked whether any comparison of the wages paid to a worker in India and those paid in a foreign country like Japan had been attempted with a view to ascertaining, what really made goods produced by India's competitors cheaper in the international market, the witness replied:

> "We take into consideration the wage element paid for the production of a bicycle in India in the total costing of the ingredients. So far as costing of other competing countries is concerned, we cannot obviously get their full data because they are not revealing the cost. The only point is that we take into consideration the price at which it is to be sold."

The Secretary, Export Production added:

> "...the final international price reflects all the elements that go into the cost of the product and that is the only true index with which we can compare."

He stated further:

> "We are presuming many things in this argument...that the steel is available to him at the same price. It may not be available to him at the same price. It may be available to him at a cheaper price. We do not know. It might have been available to him at a cheaper price than we are giving him, even though we are giving him, say, at the JPC price. The economies of scale that probably exist in other countries may enable them to produce a given product with much less cost of production."

Asked what factor contributed to the lower cost of production in a country like Japan, the witness replied:

> "The scales of operation. They have got automatic machines to make many things, which we, in our country, are making by hand."

He added:

> "As for the question how the market price is arrived at in the case of various countries, it may be a complex of

various factors about which we do not know and comparison is not a proper thing to do in respect of each individual ingredient as such....It is not possible to go into the several ingredients and then make a comparison. The final solid base is the international price."

1.89. The Ministry of Commerce furnished, at the Committee's instance, a statement showing details of countries with which India had to compete in the world market in the export of her engineering goods, which is reproduced in *Appendix V. The Committee also desired to know the details of the concessions, including cash assistance, given by foreign countries to their exporters in respect of those engineering goods which were also exported by Indian exporters. In a note*, the Ministry of Commerce stated:

"UNCTAD and GATT Centre had recently undertaken the study of various types of assistance made available by various countries, both developed and developing to their exporters. The studies have shown that substantial assistance is made available to exporters in all the countries in various shapes such as:—

(i) Research and development grants;

(ii) Promotional contracts;

(iii) Incentives for capital including export credit and export credit insurance;

(iv) Other input incentives;

(v) Financial assistance for capital promotion;

(vi) Collection and dissemination of foreign markets and foreign market surveys;

(vii) Export publicity and exhibitions abroad;

(viii) Training/export managerial personnel;

(ix) Awards for export performance;

(x) Assistance with design and packaging;

(xi) Currency retention;

(xii) Export bonus import entitlement;

(xiii) Special import licences for exporters;

*Not vetted in Audit.

(xiv) **Foreign exchange allocations to exporters;**

(xv) **Multiple exchange rates;**

(xvi) Production and sales tax exemption;

(xvii) Income tax exemption;

(xviii) Export tax exemption;

(xix) Exemption and Remission of other taxes; and

(xx) Import duties remission.

The choice of the types of assistance afforded by a particular country depends on the needs. Each country is found to adopt one or more measures enlisted above and they also vary from time to time and from country to country."

1.90. The Committee found from the Report of the Indian Institute of Foreign Trade on Bicycle and Bicycle parts (*vide* Table VIII of IIFT Report) that the percentage of uncovered loss to the f.o.b. cost, in respect of units 'U' and 'V' were respectively 2.8 per cent and 1.9 per cent after taking into account the cash assistance then admissible for bicycles and that if the rate of cash assistance was further lowered from 30 to 20 per cent, the proportion of the uncovered loss would increase respectively to 9.5 per cent and 8.8. per cent. The Committee therefore enquired why the exporters should continue to export if in spite of the cash assistance he incurred a loss in export. The representative of the Indian Institute of Foreign Trade replied in evidence:

"This depends upon the type of the unit which is manufacturing and exporting. In those cases, where they find that domestic market can bear the additional burden, they try to resort to marginal costing for export and thus are able to bear the loss on export by shifting it to the domestic market. In those cases where the proportion sold in domestic market is comparatively small, they find it extremely difficult to continue their exports. Unless some other ways and means are made available to help out of the difficulty, they either try to reduce their export operation or stop it completely. So, in the current context, this particular position had been found and we had recommended in the light of our findings that under the circumstances then prevailing unless the assistance was continued, probably the exporter would stop their export operation."

Asked why the domestic consumer should be made to bear the incidence of the loss on exports, the witness replied:

> "It is because of the international market price which is not within our control."

To another question whether it was at all necessary to subsidise exports at any cost by means of cash assistance even when the international prices were very low, the witness replied:

> "On the basis of our own analysis of things in regard to export assistance, I may deduce that if we are to continue our exports against the fierce competition from other sources of supply, we have to subsidise our export operation."

1.91. Since the losses on exports even after the grant of cash assistance were to be borne by the domestic consumer and the internal prices were, therefore, raised considerably in relation to the actual cost of production, the Committee asked whether this did not have an inflationary effect and whether this as well as other consequences of the export promotion scheme on the domestic market had been examined. The Additional Secretary of the Ministry of Commerce replied:

> "We, along with the Ministry of Industrial Development, had considered it. Earlier, there was also an arrangement between the industry and that Ministry to the effect that the internal prices should not be raised. Moreover, the question of cash assistance was their concern. That Ministry had advised that this should not have any impact on the domestic prices. Nevertheless, since the f.o.b. realisation had gone up in the international market, we have withdrawn it completely in the case of bicycles."

He added:

> "It is also reflected to some extent in the marginal costing adopted by the Cost Accounts Officer. He takes the internal production and internal costs into account."

1.92. In view of the fact that the small scale sector also appeared to be contributing considerably to the country's export effort, the Committee desired to know what portion of the cash assistance and other concessions were passed on to the small scale sector. The Secretary, Export Production stated in evidence:

> "The exporter gets these concessions. How much he passes on to his other counterparts, this is a matter between him and his associates."

Asked whether any cost studies of the small scale sector had been carried out, the representative of the Commerce Ministry replied:

> **"We have instructed the Engineering Export Promotion Council that where manufacture is being done both by the small scale and large scale units, in arriving at the costing data they should have an admixture of the large scale and small units. This we have done."**

In case Government were required to extend the cash assistance scheme to the small scale sector also, the Committee desired to know how this could be done. The witness replied:

"So far, we have not adopted any system of cash assistance for small scale as distinct from the large scale."

He added:

> "We have not yet gone into the question of a separate rate of cash assistance for small scale units."

The representative of the Engineering Export Promotion Council stated in this context:

> "We have received instructions about the manner in which the details have to be collected. Depending upon the industry, we find that there are certain sectors which are predominantly in the hands of the small scale sector. Take the case of bicycle components, for instance. So far as bicycle components are concerned, in a recent study the cost structure of the small scale has been furnished to the Government after verification. So far as complete cycles are concerned, the cost data of the large scale units are there. So, we are trying to collect the details."

Since many of the large exporters obtained parts and components from the small scale sector, the Committee asked how it was ensured that the incentives given for export promotion were passed on to such small scale industries which also needed to be encouraged. The witness replied:

> "There are two ways in which this assistance is passed on to the small scale units. One is under the import control policy itself. There is the facility for transferring it. The other is that there are voluntary agreements between the manufacturers and the suppliers of components. If they supply components at a lower rate, part

of the benefit is also passed on to the small scale manufacturer."

The representative of the Commerce Ministry added:

"At the moment, sharing of any incentive is purely voluntary and it does not really come in the policy framework that we have adopted. To give an example, some of these sub-assembly or component manufacturers have a normal sale price and a lesser sale price which they call the export price. To the assembler the component manufacturer is willing to sell at the export price if the actual exporter passes on to him the benefits that he receives by way of cash assistance."

On the Committee pointing out that the assumption that the larger exporter or manufacturer was passing on a portion of the incentives to the small sector if the export price of goods supplied by the latter was less than the normal sale price could not be automatically accepted and enquiring whether this aspect of the question should not be considered in detail by Government and a composite policy evolved in this regard, the witness replied:

"*This will have to be worked out.*"

In a note* furnished subsequently on this question, the Ministry of Commerce stated:

"Exporters of engineering goods in the small scale sector can fall in one of the following categories:

(a) Those who are themselves manufacturer exporters;

(b) Those who are manufacturers but their exports are made through Merchant Exporters (Export Houses);

(c) Those who manufacture only certain parts and components and supply them to machinery exporters for being fitted in the machinery items which are exported.

So far as category (a) is concerned, all the export benefits are claimed by and granted to manufacturer exporters direct as there is no distinction between exporters in organised sector and those in the small scale sector in accordance with the policy, rules and procedures for grant of such benefits. In the case of category (b) export benefits are claimed by Merchant

*Not vetted in Audit.

Exporters/Export Houses, who nominate the manufacturers for receipt of Import Replenishment in accordance with the provisions in the Import Policy for Registered Exporters. As regards passing on cash assistance and drawback benefits to small scale manufacturers, it has to be decided by mutual arrangement between these manufacturers and the export houses. Small scale manufacturers (category 'C') supplying components and parts for being fitted in machinery items being exported by large scale manufacturers are not entitled to claim any benefits direct from the Government, but may be having private agreements with the main exporters for sharing the same, in the price mechanism."

In another note* furnished in this regard, the Ministry stated:

"Once the cash assistance rates are notified, the same are available to all registered 'exporters' of all categories including small scale industries. Category-wise payment records are not kept.

If the intention is to find out how much cash assistance was passed on by the actual exporters who had exported the products manufactured by the Small Scale Industries, it may be stated that since the cash assistance is payable only to the actual exporter and that there is no system of nomination of a receipient by the actual exporter, the cash assistance that might have been passed on to the Small Scale Industries is not available with the Government.

As regards other concessions made available to the exporting community in general, no discrimination is made between exporter from large and small sectors. The preferential treatment however is accorded to SSI sector in the matter of liberal imports of raw materials from preferred sources to enable building up of a strong base."

The Ministry also furnished to the Committee, in this connection, a note* on the subject submitted by the Engineering Export Promotion Council, which is reproduced below:

"Under the current Import Policy for registered exporters there is no special provision for the small scale sector sharing the incentives given for export promotion.

*Not vetted in Audit.

Small scale exporters are also required to get themselves registered under the scheme and if they export they got the same incentives as a large scale exporter. If the small scale exporters have some link-up arrangements with some large scale manufacturer/exporter or Export House they have to arrive at mutual understanding among themselves to share the incentives. But under the scheme those who export, under their names, get the incentives of cash subsidy and drawback."

1.93. The Committee called for details of the total amount paid as cash assistance, the corresponding value of exports and the foreign exchange earned, during the period 1971-72 to 1973-74, in respect of various categories of engineering goods, item-wise and exporter-wise. The particulars furnished* in response by the Ministry of Commerce are tabulated below:

(Rs. in crores)

Year	Cash assistance paid	Corresponding FOB value of exports	Total FOB value of engg. exports
1971-72	18·1586	114·3098	126·04
1972-73	22·6281	135·3083	141·09
1973-74	24·1127	151·6642	180·11

The Ministry added that the collection of information with reference to each item of exported products and each party could not be completed within the available time.

1.94. The Committee desired to know to what extent the exports of Galvanised steel or iron pipes and tubes, ungalvanised pipes and tubes, black pipes and steel bright bars and shaftings had increased in real terms from 1960-61 to 1972-73. Relevant information furnished by the Ministry of Commerce have been tabulated in *Appendix VI. The Committee found from the particulars furnished in this regard that the exports of tubes and pipes of steel (except cast iron) not galvanised, for which cash assistance was given, had registered a fall during 1972-73 as compared to 1971. On the Committee enquiring into the reasons for

*Not vetted in Audit.

this phenomenon, the Ministr of Commerce replied, in a note,* as follows:

"The export of steel tubes during 1971-72 and 1972-73 has been as follows:

	1971-72		1972-73	
	Quantity (000 tonnes)	Value (Rs./ lakhs)	Quantity (000 tonnes)	Value (Rs./ lakhs)
1. Galvanised steel or iron pipes & tubes.	43·2	654	47·1	690
2. Tubes & pipes of steel (except cast iron) not galvanised.	15·7	187	13·1	162
TOTAL :	58·9	841	60·1	852

It will be seen from the above that the total export of steel tubes was higher during 1972-73. There was a fall in export of ungalvanised or black tubes for the following reason:

Steel tubes and pipes are exported either as galvanised or black, depending on the pattern of requirement in the overseas market at the time of contracting, *vis-a-vis* available product and size-mix. The industry aims to export maximum quantity of galvanised in preference to black tubes and pipes, in view of higher export earnings and less quality problems such as rusting and pitting. Supply of black tubes and pipes is always sought to be restricted to the absolute minimum, within the overall demand of both categories. The export of black tubes and pipes was, therefore, lower than than in 1971-72."

1.95. Explaining, during evidence, the role played and steps taken by the Engineering Export Promotion Council in promoting exports of engineering goods, the Chairman of the Council stated:

"First of all, I would like to give to you what we have been able to achieve after 1971-72 as a background of what the Council has done. In 1972-73 our exports have been of the order of Rs. 141 crores; in 1973-74, of Rs. 193 crores and in 1974-75, with good luck, I am sure that we will exceed the target that we have set of Rs. 250 crores.

* Not vetted in Audit.

Our Council as most members I am sure know, is doing this job of promoting the export of engineering goods from this country to various countries of the world. For that we have a head office in Calcutta and four regional offices in Bombay, Madras, Calcutta and Delhi. Then, we have various officers who help the various members of the Export Promotion Council who now roughly number more han 4,000. Members are formed into panels depending upon the kind of things that they are producing. These panels constitute a working committee. The working committee meets once a month and decides about policy matters, how to attack the problems of increasing our exports, how to solve the problems that face the exporters in various ways like supply of raw material, production constraints, like the question of supply of power, communication and all that.

These various members are assisted by our offices abroad which bring them various enquiries. These offices abroad are seen in number—London, Duesseldorf, Chicago, Beirut, Nairobi, Singapore and recently we have opened one in Manila. We are also thinking of opening some more; as a matter of fact, if I may mention so, I have recently been, on behalf of the Council, to the Middle East, which, we think is a very good market for the promotion of our engineering goods export. I led the delegation myself. We found that there was a tremendous possibility of export of engineering goods. Such delegations go abroad quite often as sponsored by the Council. Based upon this, we have made a recommendation that we might increase our offices in the Middle East by one or two besides Beirut.

Basically, the Council is trying to help the exporters in various ways, such as, getting them enquiries from abroad or, if they themselves have contracted them, putting whatever be their problems through our Council. The Council is the main body of contract generally between the exporter and the Government for whatever problems are there. I must say this that, since I have taken over—it is almost two years—the procedure has been streamlined by giving it a professional touch. We have grown in such a big manner that I am sure that in the next five years we will be able to show figure of not 500 but 1,000, if we adopt certain pragmatic measures which the Government is very seriously considering. We have complete rapport with the Government and whenever we have problems, we approach them. On the whole, our relationship has been very fruitful and cooperative."

1.96. The Committee desired to know to what extent the increase claimed in the exports of engineering goods was on account of escalation of prices and the details of the value of the various incentives actually given by Government to various exporters during the period 1971-72 to 1973-74. In a note,* the Ministry of Commerce stated:

"A statement showing exports of 25 major engineering items during the years 1972-73 and 1973-74 is appended (reproduced in Appendix VII). A comparative study of these items of exports reveals that 16 items registered increase in volume and value, 4 items only in value and the remaining five items registered decline in volume and value. It would thus be seen that the increase in exports in 1973-74 over that of 1972-73 has been due to larger volume of exports as well as higher value realisation of our engineering goods in the overseas markets.

Total amounts of cash assistance paid during the years 1971-72 to 1973-74 were as under:

1971-72	Rs. 1815·86 lakhs
1972-73	Rs. 2262·81 lakhs
1973-74	Rs. 2411·27 lakhs

Amount of drawback of customs and excise duties sanctioned during 1971-72 to 1973-74 were as follows:

1971-72	Rs. 15·50 crores.
1972-73	Rs. 16·79 crores
1973-74	Rs. 17·57 crores.

The quantum of Import Replenishments during the above period is being collected from different port offices and will be passed on as soon as these are received."

*Not vetted in Audit.

1.97. According to the 14th Report (Fifth Lok Sabha) of the Estimates Committee (1971-72), the following incentives and facilities were available to exporters:

(a) Facility to obtain imported raw materials and components required for export production under the Import Policy for Registered Exporters.

(b) Facility of grant of advance and imprest ('On account') licences.

(c) Industries in the priority sector exporting 10 per cent or more of their production are granted preferred sources of supply and facilities for further expansion of export production.

(d) Compensatory support on exports of selected products to develop marketing competence and to neutralise the disadvantage inherent in the present stage of development of the economy and the various state and local taxes and levies not refunded.

(e) Additional assistance, on case to case basis, to tender for and secure export contracts of high value.

(f) Priority supply of indigenous raw materials like prime iron and steel.

(g) Supply of important indigenous raw materials (e.g. iron and steel) at international prices.

(h) Reduction in the premium rates applicable for exports made on credit terms by the Export Credit and Guarantee Corporation (ECGC).

(i) Insurance, cover and guarantees by ECGC.

(j) Term finance and guarantee facilities and services on deferred credit basis extended by the Industrial Development Bank of India.

(k) Preferential release of Foreign Exchange requirements for import of capital goods and equipment.

(l) Relaxation of constraints in regard to foreign collaboration.

(m) Drawback of Customs and Central Excise duties.

(n) Enhanced deductions, for tax purposes, on account of expenditure incurred in development of export markets.

(o) Tax exemption on income received by Indian companies from foreign firms for supply of technical know-how and services.

(p) Shipping freight concessions in certain cases.

(q) Railway freight concessions.

(r) Credit facilities at concessional rates from banks.

(s) Grants-in-aid for Export Houses recognised by Government.

In paragraph 8.13 of their 14th Report (Fifth Lok Sabha), the Estimates Committee (1971-72) had gone on to recommend as follows:

"The Committee note that assessment/review of the existing incentives is made by the Departments concerned as and when called for. They further note that the Ministry of Foreign Trade believe that the exporters have been availing of all the incentives and facilities provided in full measure and this is reflected in the continuing rise in the volume and value of India's exports over the past years and in the growing varieties of the goods exported. The Committee suggest that assessments/reviews may be made at least once in every six months by the Ministry of Foreign Trade with a view to find out as to what extent the various export promotion incentives were helping in increasing the exports qualitatively as well as quantitatively."

1.98. In view of the fact that in addition to cash assistance, a number of other concessions and facilities were extended to exporters to boost exports, the Committee desired to know the value of all these concessions and facilities granted to exporters. The Additional Secretary of the Ministry of Commerce stated in evidence:

"The types of assistance are varied and the agencies which administer these concessions are also varied. Naturally, we do not have in one place all the data."

Since all these facilities and concessions were apparently interrelated and would have to be taken into account in determining export promotion policies, the Committee asked whether the Ministry did not consider it necessary to maintain a consolidated account of all these concessions. The witness stated:

"We have figures with different agencies. We have to compile them together. That is all I can submit."

1.99. The Committee desired to know whether any attempt had been made to quantify the various concessions given to exporters with a view to assessing the impact of these concessions and determining how far these export promotion measures had really succeeded in achieving the objectives envisaged. In a note,* the Ministry of Commerce stated:

"In determining the disparity between FOB cost and FOB realisation, prevailing rate of cash assistance and duty drawback, which are definite data are taken into consideration. Regarding other concessions such as railway freight concession (applicable to a few selected items), import replenishment benefits, cheaper export credit etc., a precise quantification has not been found possible. However, in any case of revision of cash assistance, the Cost Accounts Officer does attempt to quantify the concessions as far as possible while assessing the cost.

In cases, where cost studies have been actually conducted, prior to fixation of rates, FOB cost taken into account refers to the actual cost incurred by the manufacturers/exporters and reflects quantification as well of such concessions as railway freight concessions, cheaper credit, cheaper supply of raw material etc. and set off of realisation from raw material waste."

1.100. Asked how much would have been spent, in rupees, by Government and other agencies to earn foreign exchange equivalent to Rs. 5,000, the Secretary, Export Production replied:

"Normally, the rule is, we should not go beyond 25 per cent in regard to cash assistance in order to earn this money. That is to say, Rs, 5,000, we should not go beyond 25 per cent of Rs. 5,000. Since you want to know the whole package, I think....we will have to work out and quantify and give a more reliable figure."

In a note* furnished subsequently in this regard, the Ministry of Commerce stated:

"During 1971-72 to 1973-74 the position of f.o.b. earnings of

*Not vetted in Audit.

engineering goods and c.i.f. value of import licences for import of inputs under REP has been as under:

(Rupees/crores)

Year	Total value of exports of engineering goods	Value of import licences issued under REP @	FOB value of corresponding exports*
1971-72	126·04	27·72	111·05
1972-73	141·07	38·26	162·89
1973-74	180·11	Compilation of Annual figures yet to be completed	

*The value of exports shown in column 2 refers to exports effected during the year. The value shown in column 4 refers to the value of exports corresponding to the licences issued during the year.

@The import of different categories of steel was permitted under P. N. 56 dated 18-4-1972 and was outside REP licensing. The imports of different categories of steel, actually effected by HSL on 'export' account were as below:

1972-73	64019 MT
1973-74	83135 MT

The 14th Report of Estimates Committee relating to 1971-72 gives a list of concessions/facilities designed to promote export production and exports. Barring the schemes of cash assistance, drawback of duties, railway freight concession on international movement of export goods as selected by the Railway Authorities and the interest on export finance various other facilities like priority allocation of raw material, blanket release of foreign exchange etc. available to exporters are of such a nature that they cannot be quantified in terms of money-value.

The facilities listed in the Estimates Committee's Report are made available to all registered exporters in accordance with the regulations."

With reference to the value of import licences issued under REP during 1971-72 and 1972-73, the Committee desired to know the total value of all commodities which had gone into the production of the exported goods. In a note,* the Ministry stated:

*Not vetted in Audit.

"Besides imported materials, several indigenous materials also go into the production of exported goods. Some exporters also use imported raw materials received by them under A.U. Licence for the production of exported goods. Engineering exports are classified into 174 product groups, with sub-groups in a number of cases. Items in a product sub-group are exported by a number of exporters. Exports are also effected by merchant exporters who are not themselves the manufacturers. Many of the manufacturers buy out components or sub-assemblies from other manufacturing units, a large proportion of which are in the small scale sector. A number of these manufacturing units, especially where export production is a small percentage of total production, do not keep stores data separately in respect of items produced for export or sold to an assembling exporter. It will therefore not be possible to state the total value of all commodities which have gone into the production of the exported goods during the different years."

1.101. The Committee desired to know details of the grants paid to the Engineering Export Promotion Council. The Additional Secretary of Ministry of Commerce stated in evidence:

"The grant made for the year 1970-71 was Rs. 26.50 lakhs; for 1971-72 Rs. 25.07 lakhs and for 1972-73 Rs. 27.59 lakhs. There was a special grant of Rs. 30 lakhs for participation in Asia—1972 during 1972-73; thus, the total for that year comes to Rs. 57.59 lakhs."

Asked how much of this was in foreign exchange, the witness replied:

"For the year 1972-73, the figure would be about Rs. 23 lakhs, on a rough totalling, in terms of foreign exchange. This is accounted for by administration outside India to the extent of Rs. 15.4 lakhs and also on trade delegations and study teams."

He added:

"Then comes the expenditure on exhibition and store rooms abroad costing Rs. 5.73 lakhs. These are the two principal items in foreign exchange expenditure."

1.102. The Committee enquired into the number of trade delegations sent abroad by the Council, the expenditure incurred thereon, and whether Government exercised any check over their utility. The witness replied:

> "The delegations and study teams are sponsored by the Export Promotion Councils. They are considered by the Marketing Development Fund Committee, which is a departmental committee. We refer the utility, necessity, justification and the purpose to be achieved, to the various commercial consulates in the various countries concerned. We verify whether there would be any need for this particular product after a certain point of time. We take a view after consulting the commodity officers. Thereafter, the case is submitted to the sub-committee of the Fund Committee referred to earlier. We have since streamlined the procedure. We now collect all the proposals together, before the beginning of the financial year in which the study teams are to be sent; they are scrutinised and vetted and orders are issued in respect of all these delegations in the first two months itself of the financial year, so that the remaining 9 months can be used to make adequate preparations by the team."

Asked whether any continuous assessment was made of the utility of these tours abroad, the witness replied:

> "We do it in three stages: first, immediately after a delegation returns from tour, they submit a preliminary report making their assessments and suggesting immediate follow-up action to be taken. Secondly, we review these reports with reference to the commercial intelligence we get from our own embassies abroad. We check whether these impressions of the delegations are correct and whether prospects really exist. Only thereafter do we take up further analysis of the study team's visit. We take care to avoid duplication. Moreover, there are two kinds of trade delegations; one relating to study teams and the other to market surveys. So far as the study teams are concerned, they are mainly exploratory in character. Then there are market surveys. They not only study the markets but also take orders. In such cases we expect them to come back with sizeable amount of orders for the products in which they are interested, and we also check them."

To another question on how the composition of the delegations was decided upon, the witness replied:

"The delegation is proposed by the EEPC and the list is scrutinised in consultation with the trade and commodities side here, and if there are certain products in which the TDA is interested, we consult them also. Then we arrive at the totality of the delegations to be sent."

In a note* furnished in reply to another question whether these delegations submitted any reports to Government on the conclusion of their visits, the Ministry of Commerce stated:

"The Engineering Export Promotion Council invariably submits reports of the Trade Delegations and Sales/Study Teams. During the years 1970-71 to 1973-74 following reports have been received:

Trade delegations	9
Composite study team	1
Sales teams	5

The Ministry also furnished, at the Committee's instance, a statement showing the expenditure incurred on delegations and study teams during 1970-71 to 1973-74, which is reproduced in *Appendix VII.

1.103. Drawing attention to the fact reported in the Audit paragraph that during 1971-72, while Government grant to the Engineering Export Promotion Council was Rs. 21.33 lakhs, its income from membership subscription was only Rs. 21.33 lakhs, the Committee enquired into the reasons therefor. The representative of the Ministry of Finance stated in evidence:

"For the Export Promotion Councils the Government gives grant for their administrative expenditure in a fixed percentage of such expenditure and this percentage varies from 56 per cent to 71 per cent. They have to collect voluntarily from the member associations the rest of the total expenditure. On other items of expenditure, say, for study teams, specific market surveys, percentages for Government contributions are laid down, in the form of a code. These are registered societies, non-profit making organisations."

He added:

"The rough proportion of the expenditure borne by the industry and the Government works out to 40 : 60. Against a

*Not vetted in Audit.

total budget of Rs. Rs. 107.5 lakhs for 1972-73, the membership contribution was about Rs. 35.92 lakhs as against Rs. 27.46 lakhs for the year 1973-74. In respect of what is called non-code activity, the Government grant in 1973-74 had been Rs. 13.71 lakhs compared to industry's own contribution of Rs. 9.14 lakhs. So far as code activities are concerned—about foreign offices, trade delegations, study teams, market surveys, export publicity, exhibitions, show rooms, etc.—which are highly promotional in character, the industry contributes roughly Rs. 20 lakhs. In some cases it is a matching contribution from the Government; in others it is not; it roughly comes to 60 per cent overall."

Asked what control, if any, Government exercised over the functioning of Export Promotion Councils, the Additional Secretary of the Ministry of Commerce replied:

"We scrutinise their expenditure and we have to satisfy ourselves that the object for which the expenses have been incurred by them is achieved and that amount is being utilised properly by them. We check it up. The market studies that they have done have been found to be useful."

To another question as to what was the assessment of the Ministry of the Council performance and utility in the formulation of policies relating to exports, the witness replied:

"We have formed engineering export promotion councils. This is our principal source for collecting the information of the product capability and export product availability and also for undertaking certain market studies to find out in which direction we should export. We have been getting some basic data which are of an advisory nature and we subject it to further tests and scrutiny."

He added:

"So far as the performance part of it is concerned, the Engineering Export Promotion Council has been generally keeping up to the target. The export figure last year has been Rs. 170 crores. There has been a progressive increase in the export of engineering goods."

1.104. Referring to the constitution, in June 1974, of a Standing Committee to review cash compensatory allowances, the Committee enquired into (i) the methodology adopted by the Standing Committee for determining the quantum of cash assistance payable and (ii) the number of commodities taken up for review by this committee, its findings and the action by Government thereon. In a note* furnished in this regard, the Ministry of Commerce stated:

"Cash Assistance rates on different export products are determined on the basis of data about cost of production and f.o.b. realisation obtained in a proforma prescribed for the purpose. The Committee, in one of its meetings, considered the question of revision of the proforma. The Committee decided to modify the then existing proforma, making it more broad based and specific with reference to the cost of production etc. The councils are now required to indicate details of installed capacity and the licensed capacity of the manufacturers, actual production etc. Care is also taken to ensure that the data furnished is representative of the entire industry. Based on the data submitted in the proforma, the Committee considers the question of fixation of cash assistance rates after the data is vetted in consultation with DGTD, the Cost Accounts Branch of the Ministry of Finance where appropriate and Commodity Division of the Ministry of Commerce after deliberation on market situation, internal prices prevailing and the competing sources and at the prices at which they sell *vis-a-vis* on our production cost and price quoted by the exporter. The Committee keeps in view the twin objectives of maximum possible price realisation *vis-a-vis* competing sources of supply and also accordingly need to step up export earnings. It has also withdrawn or reduced cash assistance wherever f.o.b. realisation has improved or otherwise where the incentive is no longer found necessary.

The Committee has so far examined following export products. The export products and the findings of the Committee are as follows:

1. Bicycles.
2. Governor Carriage Tricycles.

The Committee decided that cash assistance at a uniform rate of 15 per cent of the f.o.b. value be allowed on exports of these two items.

3. Handwoven woollen carpets.

*Not vetted in Audit.

The Committee decided that cash assistance of 10 per cent which was available upto 30-9-1974 be extended upto 31-3-1976.

4. Ammonium Chloride.

5. Magnesium Chloride.

6. Activated fullers earth.

7. Magnesium Oxychloride.

8. Potassium Bichromate.

9. Hydroquinone.

The Committee decided to withdraw cash assistance of 10 per cent available on all these export products with effect from 1-2-1975.

10. Magnesium Carbonate.

The Committee decided to reduce cash assistance on this export product from 10 per cent to 5 per cent with effect from 1st February 1975.

11. Liquid Glucose.

The Committee decided that the existing rate of 10 per cent cash assistance should continue unchanged.

12. Barytes.

It has been decided to withdraw the grant of cash assistance on exports of this item with effect from 23rd December 1974.

13. Wood panel and other products.

The Committee decided that cash assistance of 15 per cent available upto 31-12-1974 may be extended upto 21-3-1975.

The above decisions have been implemented.

In addition, cash assistance for a number of basic drug items listed in the statement annexed have been decided to be withdrawn by Government in the altered market situation and in view of domestic demand and production.

The Committee has asked the office of the Chief Controller of Imports & Exports to collect information on f.o.b. realisation reported by different exporters in respect of major items where the cash assistance outflow is the heaviest with a view to study the trends based on the figures available, which is awaited."

1.105. In their 174th Report (Fifth Lok Sabha), the Public Accounts Committee had drawn attention, in April, 1976, to the fact that the cash assistance given from time to time, for promoting exports of walnuts had little or no relevance to the realities of the situation prevailing at a given point of time and that, more often than not, such assistance proved to have been "not only a drag on the exchequer but in the result infructuous." The Committee had then emphasised that what was required was an integrated and coordinated approach to the entire question and not "a propensity towards ad hoc and piece-meal fiats." Again, in their 178th Report (Fifth Lok Sabha), the Committee had criticised in April, 1976, the grant of a "massive assistance" for exports of man-made fabrics in what they described as "an indiscriminate and even irrational manner" and had highlighted a number of deficiencies and defects in the conception and operation of the cash assistance scheme. The present Audit paragraph under consideration, which deals with the extension of cash compensatory support to exports of engineering goods, is yet another instance of fromulation of policies on the basis of an inadequate assessment and appreciation of the factors involved and of failure to take prompt corrective action even when certain anomalous consequences of such policies had come to light. The facts disclosed therein reinforce the Committee's earlier impressions in regard to the administration of the cash assistance scheme. Some of the major shortcomings of the scheme in respect of engineering goods that have come to the Committee's notice are discussed in the succeeding paragraphs.

1.106. To begin with, the Committee find that at the time of taking the initial decision to extend, with effect from 6 June 1966, cash compensatory support to exports of engineering goods, as well as for a number of years thereafter, the various factors involved had not been critically assessed and taken into account for a proper determination of policies in this regard and instead what can only be termed an ad hoc approach had been adopted. Explaining the rationale for the grant of cash assistance for exports of engineering goods immediately after devaluation of the Rupee (6 June 1966), the Commerce Ministry have stated that the expectation that 57½ per cent more realisation, in terms of rupees, as a result of devaluation would off-set the disability in foreign competition had not materialised, and that a study, by the Committee of Secretaries, of typical products moving in exports indicated that despite devaluation, non-traditional goods required some assistance. Besides, according to the Ministry, the process of diversification and modernisation of export trade, particularly in the non-traditional sector, had just begun and a number of export products entering the market had to be assisted on the basis of the 'infant industry' argument. With a view to encouraging such exports and promoting items other than those in which India had a competitive advantage, a decision is stated to have been taken that cash compensatory support might be provided for selected non-traditional export products.

1.107. It has, no doubt, been contended by the Ministry that a study of typical export products had been undertaken by the Committee of Secretaries before the decision to introduce cash assistance immediately after devaluation was taken. The Committee, however, find that though cash assistance is normally intended to bridge the gap between the cost of production of an export product and the f.o.b. realisation accruing from its export and a detailed examination of the cost structure and f.o.b. realisations is, therefore, of fundamental and vital importance, "the cost structure and data about f.o.b. realisation had not been gone into" by the Committee of Secretaries, while deciding "as a matter of policy" in August 1966 to extend cash compensatory support to selected non-traditional export products. It is, therefore, not clear to the Committee how the need and justification for cash assistance were determined by the Committee of Secretaries in the absence of any precise cost-benefit analysis.

1.108. The Committee are of the view that devaluation, which had admittedly made Indian goods cheaper in the world market by 57½ per cent, should not have ordinarily warranted further assistance and incentives for export promotion. Data relating to cost of production and f.o.b. realisations should have been examined in detail before Government agreed to extend cash assistance. That this was not done is regrettable.

1.109. It has also been contended by the Ministry that since the rates of cash assistance were valid only for a year at a stretch, a review of the need for continuance or otherwise of the assistance in the changed circumstances that might prevail took place once a year by itself. It is, however, seen that during the five-year period from 1969 to 1973, when certain perceptible changes had taken place in regard to the indigenous availability of raw materials required for the manufacture/fabrication of engineering goods and in the behaviour of international prices (the prices of imported prime steel, the principal raw material for engineering goods, had generally increased by about 80 per cent between early 1972 and November 1973 and the f.o.b. realisations from exports of products made from mild steel had increased by about 100 to 150 per cent), justifying a close second look at the need for continuance of cash assistance, the rates of cash assistance in respect of most of the engineering goods had remained practically unchanged and had been reduced only in respect of steel wire ropes in October, 1972. It is also significant in this context that cash assistance for exports of steel wire ropes had, in fact, been increased from 20 to 25 per cent of the f.o.b. realisation with effect from 1 February 1970. Similarly, in respect of Transmission Line Towers, cash assistance for which was abolished only with effect from 23 February 1974 on the ground that the f.o.b. realisations had increased and there was no loss in exports, an increase in the rate of cash assistance had been allowed with effect from 1 April 1970 which had continued even during 1972-73. While the Committee have not examined in detail the reasons for the non-revision of/increase in the rates of cash assistance for individual export products, it would, prima facie, appear from the facts disclosed in the Audit paragraph that all the relevant factors affecting or having a bearing on exports of engineering goods had not been adequately taken into account and made use of promptly for the determination of policies from time to time. In any event, it is fairly evident that no attempts were made to ascertain, on the basis of scientific cost studies, the actual need for and quantum of cash assistance till May 1972, when cost studies were commissioned through the Indian Institute of Foreign Trade in respect of only five mild steel-intensive items (steel pipes and tubes, steel wire ropes, transmission line towers, electric transformers and bicycles and bicycle components) and that conclusive action in respect of some of these commodities was taken much later, in 1974, only after some of the deficiencies of the cash assistance scheme had been highlighted by Audit.

1.110. Cash assistance for exports is also not normally allowed beyond 25 per cent of the 'added value', which is arrived at by deducting the cost of imported material going into an export product from the f.o.b. realisation. This principle ensures that the assistance given for exports has some relevance and relation to the net foreign exchange earned and is not disproportionate. Thus, when the import content of an export product goes up, the general policy is to reduce the quantum of cash assistance, the reduction being proportionate to the diminution of the value added indigenously. In respect of engineering goods, however, the value added condition had been imposed only in June 1973, when a decision was taken that the supply of imported steel at the Joint Plant Committee price (the price at which steel was being sold by the main producers in India) plus 2 per cent would be made only for those contracts where the f.o.b. value of exports was at least 25 per cent higher than the c.i.f. value of all inputs required for the fabrication of export products, which were wholly or partly imported into the economy, in spite of the fact that the international prices of prime steel had started rising early in 1972 itself.

1.111. The Committee note in this context that the import content of engineering goods exported from the country went up from

September 1970 itself when, on account of scarcity of indigenous prime steel of some varieties, imports of prime steel had been permitted by Government. A decision, however, appears to have been taken, in April 1971, that the then existing rates of cash assistance need not be disturbed on account of the increase in import content of the export products. The principal considerations which then weighed with Government were that (a) the imports allowed during 1971-72 were in the nature of distress imports to augment domestic supplies and were not of the exporters' own choice or volition, (b) increase in the Import Replenishment in such cases was not of a very high quantum and as such its impact in terms of reducing cost of production was not likely to be considerable and (c) the import cost of certain steel items was not less than the domestic prices. The Ministry have further contended in this connection that as there was no provision during 1971-72 for supplying imported steel at indigenous prices (this measure is stated to have been adopted from April 1972 only), the importer had to pay the international price even if it was higher than the indigenous price and that since cash assistance sought to meet the difference between f.o.b. cost and f.o.b. realisation, to the extent that f.o.b. cost increased on account of the comparative higher price of imported steel, "the need for cash assistance gets strengthened and does not disappear."

1.112. As regards the Ministry's contention that the procedure for supplying imported steel at indigenous prices was not in vogue during 1971-72 and was adopted only from April 1972 and the importer, therefore, had to pay the international price even if it was higher than the indigenous price, the Committee find that in May 1967 itself, a policy of reimbursing the difference between the domestic price and international price of steel and pig iron to exporters of engineering goods had been introduced, according to which exporters were to be reimbursed the price difference in respect of ten categories of steel. It, therefore, follows that at least in respect of these categories, an in-built subsidy was already available to the exporters of engineering goods. In any case, it is not very clear to the Committee how the import cost of certain steel items (which unfortunately have not been specified by the Ministry) being not less than the domestic prices could be considered a valid reason for not applying the 'value added' criterion at least in the case of those steel items whose international prices were lower than the indigenous prices. Even in respect of those items whose international prices corresponded to or were more than the domestic prices, the fact remains that while the need for cash assistance may, as claimed by the Ministry, get strengthened on account of the increase in f.o.b. cost, there would also be a corresponding reduction in the net foreign exchange to be earned from the exports of engineering goods using these categories of steel and the Committee are not sure whether this factor had also been taken into account by Government. As regards the other argument that the impact of the increase is the import content on the cost of production was not likely to be considerable, the Committee are unable to appreciate how Government could arrive at this conclusion without any detailed cost studies. In these circumstances, the Committee have a doubt whether there was, in fact adequate justification for keeping the cost of the imported steel going into the finished export product out of the purview of computation of the quantum of export assistance. They apprehend that all the wider ramifications of this question might not have been examined thoroughly at the relevant time.

1.113. While the Committee are thus not entirely satisfied with the arguments advanced for not reducing, in 1971-72, the rates of cash assistance for exports of engineering goods following the increase in the import content of the export products, they see no justification whatsoever for persisting with this policy during 1972-73 also, when there were more drastic changes in the situation. The Committee find that the world prices of prime steel had begun to rise from the beginning of 1972-73, the rise being particularly steep from November 1972 onwards and that during this period large imports of steel for export production had also become necessary to meet the export target of Rs. 200 crores proposed by the Engineering Goods Export Promotion Council, leading to a higher percentage of import content in the export products. [According to the assessment of the Export Promotion Council, out of the total requirement of 8.10 lakh tonnes of steel for 1972-73, 4.80 lakh tonnes (59 per cent) were to be imported]. That the import content of engineering goods contracted for export in 1972-73 had increased perceptibly would also be evident from the typical instances of some exports cited by Audit, which reveal that the estimated c.i.f. value of import content of some typical engineering goods ranged between 74 per cent (black pipes) and 97 per cent (steel bright bars and shaftings) of the expected f.o.b. realisation from the export, while in one case (galvanised pipes and black pipes), the estimated c.i.f. value of import content was nearly 42 per cent more than the expected f.o.b. realisation. Though it has been contended by the Ministry of Commerce that the figures relating to f.o.b. realisation and value of import content shown in the Audit paragraph were only anticipatory and had, perhaps, been taken from the firms' applications/Release Orders, the Committee are of the view that these were indicative of the trends then in operation, which could and ought to have been taken promptly into account. Besides, according to the revised figures furnished subsequently in this regard by Government themselves, the estimated c.i.f. value of import content ranged between 80 per cent

(Galvanised steel pipes) and 73 per cent (Black pipes) of the expected f.o.b. realisation, while in the case of steel bright bars and shaftings, the estimated c.i.f. value of import content was nearly 55 per cent more than the f.o.b. realisation. It is significant in this context that the percentage of estimated value of the import content to the expected f.o.b. realisation in the case of three exporters (Steel pipes and tubes, Galvanised steel pipes and Galvanised pipes and black pipes) had come down only on account of the subsequent renegotiation of the contracts in question with a view to taking advantage of the rise in international prices and obtaining higher prices for the export products. It has also been admitted by the Ministry that the supply of imported steel during this period (1972-73) to the fabricators/manufacturers of engineering goods at the lower indigenous prices (Joint Plant Committee prices plus 2 per cent) led to anomalous situation in which exporters of engineering goods, having got imported steel at the lower prices, quoted also lower prices for the resultant export products leading to lesser f.o.b. realisations though the raw material prices were high and that for "quite a number of products", the value of the steel imports was itself almost equal to or in "a few cases" even higher than the f.o.b. value realised by export.

1.114. In these circumstances and in view of the fact that Government's policy at the relevant time was to subsidise supplies of imported steel by making it available at the lower indigenous prices, the Committee fail to appreciate how the import cost of certain steel items being not less than the domestic prices could still be considered a valid reason for not disturbing the then existing rates of cash assistance so as to ensure that these rates bore some relevance to the net foreign exchange to be earned and were not abnormally disproportionate as had happened. They feel that Government ought to have reacted to the changed situation more quickly and made suitable adjustments in the rates of cash assistance for engineering goods. As has been pointed out earlier by the Committee, in paragraph 1.8 of their 236th Report (Fifth Lok Sabha), even if the circumstances prevailing in 1972-73 warranted the grant of cash assistance, the quantum of such assistance should have been determined after a scientific evaluation and analysis of the costs and f.o.b. realisations. This, unfortunately, does not appear to have been done, which is regrettable.

1.115. While the value-addition requirement imposed in June 1973, brought some results, although belatedly, it is clear that even this measure failed to remedy entirely the anomalous position created by the high import content of exportable goods and the disproportionate and liberal grant of cash assistance. Though the Ministry have contended that after the value-addition requirement was stipulated, there was no case of net outflow of foreign exchange, the Committee find that even after three of the six contracts (firms 'B', 'D' and 'F') relating to pipes and tubes were re-negotiated, the amount of cash assistance admissible was disproportionate, the percentage of cash assistance admissible to the net foreign exchange to be earned being 93 per cent, 151 per cent and 131 per cent respectively. In other words, the cash assistance admissible was in one case almost equal to and in two cases considerably more than the net foreign exchange to be earned. The conclusion that the corrective action taken in June 1973 was also inadequate in these cases is, therefore, fairly inescapable.

1.116. Yet another argument advanced by the Ministry with reference to a specific instance of disproportionate grant of cash assistance for exports of steel weld mesh is that the cash assistance scales for exports of engineering goods cannot be said to be liberal from any standard of costing. This, unfortunately, is not sustainable on the basis of the facts as they emerge from a study of the Audit paragraph and the evidence tendered before the Committee.

1.117. That whatever reviews and exercises were carried out in this regard till 1973 were only superficial and inadequate and that the decisions taken from time to time were not based on any precisely thought-out foundations are also evident from the illustrative instances of disproportionate grant of cash assistance cited in the Audit paragraph relating to exports of steel weld mesh and bright steel bars. For instance, in the case of steel weld mesh, for which cash assistance at 20 per cent of f.o.b. realisations was available till 31 March 1974, the Central Board of Excise and Customs had noticed (early in 1972-73) that an exporter would get, according to the then existing rates of cash assistance, an assistance of Rs. 251 per tonne although if the principle that the assistance should not exceed 25 per cent of the added value was to be observed the cash assistance should not have been more than Rs. 31 per tonne and that, in this case, for earning a net foreign exchange of Rs. 125 per tonne, Government would be paying Rs. 251 per tonne as cash assistance. The Board had also pointed out that if the increased assessable value of the imported mild steel rods used for the exported steel weld mesh (the imported value of mild steel rods had registered an increase in January 1972) and the latest f.o.b. realisation from the export of weld mesh were taken into consideration, the net foreign exchange drain worked out to Rs. 129 and even then the exporter would get cash assistance of Rs. 251 per tonne. It is obvious that if the contract in question had not been re-negotiated subsequently by the exporter to derive an advantage from the rise in international prices, the cash assistance admissible at the then existing rate of 20 per cent would have proved, by any standard, to have been excessive and even abnormal. The Committee are, however, concerned to find that even when this specific instance of anomaly in the operation of the cash assistance scheme was brought to the Ministry's notice, apart from informing the Directorate of Drawback that the decision to grant cash assistance for exports of steel weld at 20 per cent of the f.o.b. realisation had been taken in August 1966 with the approval of the Cabinet, little else was done by the Ministry to remedy the situation and that it was only much later (in early 1974) that a study was conducted to find out the value addition from the export of this item, after taking into account all imports going into the Product, when it was found that the net value addition was only 11 per cent and a decision taken to abolish the cash assistance for this product with effect from 1 April 1974. The Committee cannot countenance the Ministry's casual approach to this question and the failure to take prompt corrective action even when anomalous consequences of the export promotion policy had been highlighted by one of Gvernment's own agencies, and desire fixation of responsibility for this failure which must have cost the exchequer dearly.

1.118. Again, in respect of bright steel bars and shaftings the justification for the grant of cash assistance at 10 per cent of f.o.b. realisation, even when mild steel bars and rods were imported in considerable quantities, often during periods when world steel prices ruled high, and the value added indigenously was also not very significant, is open to question. Admittedly, the process involved in the production of bright steel bars from mild steel bars is not sophisticated and requires only machining. The Committee find from their examination of an illustrative instance of export of this commodity cited in the Audit paragraph, that while the percentage of cash assistance admissible to the net foreign exchange to be earned had been assessed by Audit, on the basis of the expected f.o.b. realisation and estimated c.i.f. value of import content, at as large a figure as 2875 per cent, according to the Ministry's own computation furnished to the Committee subsequently, the foreign exchange to be earned from this export was negative. Apart from informing the Committee that cash assistance for bright bars and shaftings was introduced in 1966-67 immediately after devaluation with the approval of the Committee of Secretaries the Ministry have not been able to vouch whether the manufacturing processes involved in the production of bright bars had been taken into consideration and whether any detailed examination of the cost structure, processing, etc. had been undertaken before a decision to grant cash assistance for this commodity was taken. While the Committee have, therefore, not been in a position to adequately satisfy themselves that the cash assistance granted for this commodity was, in fact, justified and all the relevant factors were taken into account in determining the need for the assistance, they cannot help concluding, on the basis of the facts made available to them, that cash assistance in this case was extended injudiciously. This conclusion is also strengthened by the fact that a study undertaken much later (in early 1974, leading to the abolition of cash assistance for this item with effect from 1 April 1974) had disclosed that a comparison of the f.o.b. cost and f.o.b. realisations did not justify continuance of the assistance and that the net value addition was only 11 per cent. At this distance of time, the Committee have to merely rest content with expressing their displeasure over the manner in which this question appears to have been handled.

1.119. The final picture that emerges from the foregoing paragraphs is, thus, far from satisfactory. Viewed in retrospect, the Committee cannot help feeling that greater vigilance and care could have been exercised by Government in allowing large payments out of the exchequer and the cash assistance scheme administered in a more prudent and discriminating manner. The Committee find that during the three year period from 1971-72 to 1973-74, a total sum of Rs. 64.90 crores had been paid as cash assistance for exports of engineering goods and a further sum of Rs. 49.86 crores also sanctioned as drawback of customs and excise duties, as against which the total f.o.b. value of exports of engineering goods during the period amounted to Rs. 447.24 crores. While the votaries of the cash assistance scheme may argue that this is not too high a price for maintaining a steady growth in exports, which is vital for the economy, if the value of the other concessions and facilities, like Import Replenishment concessional railway freight, concessional bank finance, supply of raw materials at subsidised prices, Grants-in-aid etc., extended to exporters is also quantified and taken into account, the total cost of the export promotion effort may well turn out to be not quite proportionate to the net gain actually accruing to the country as foreign exchange.

1.120. This does not, however, imply that the Committee are opposed to all export promotion schemes and activities in principle. While they are not unwilling to concede the necessity for boosting the country's exports through the instrumentality of cash assistance and allied incentives for export promotion, particularly in the context of the dumping and pricing-out tactics adopted by India's competitors in international trade and commerce, what they would like to emphasise is that a more discriminating administration of various export promotion schemes should be possible and also practicable. Similarly, prompt corrective action should also be taken so as to obviate wide aberrations or anomalies of the type higlighted in the Audit paragraph. What is required, as has already been pointed out by the Committee in their 174th Report (Fifth Lok Sabha), is an integrated and coordinated approach to the entire question of export promotion and not isolated and temporary palliatives. This calls for a more meaningful export strategy related to the overall policy of the country's industrial and economic growth. As a first step in this direction, Government would do well to attempt a quantification, in monetary terms of the various concessions given in the past to exporters and make an assessment of the actual impact of these concessions with a view to determining how far these export promotion measures have actually succeeded in achieving the objectives envisaged.

1.121. The present system of payment of cash assistance is also non-discriminatory and is granted to the industry as a whole irrespective of the fact whether the export transactions by individual exporters actually result in a loss or not. In view of the fact that some of the larger business and export houses are well capable of sustaining the country's export effort and still making substantial profits, as could be seen from their balance sheets, the Committee are of the opinion that it would be worthwhile to examine the feasibility of restricting such subsidies and incentives only to the actually needy exporters while, at the same time, imposing suitable obligations for export on those who do not really require such incentives to sustain themselves. The representative of the Finance Ministry also conceded during evidence that this question should be considered and the Committee would, therefore, urge Government to act upon this suggestion with the utmost expedition. Similarly, there also appears to be a case for examining the question of limiting such subsidies only to those exporters with a large enough ratio of exports to domestic sales in the interest of discouraging those speculative exporters who enter the field temporarily only to take advantage of the various benefits offered and have no involvement and interest in building up the long term exports from the country.

1.122. The facts disclosed by the Audit paragraph also underscore the need for an urgent review of the need and justification for continuance of liberal scales of cash assistance for sustaining exports of certain commodities. The Committee have been informed in this context that a Standing Committee has been constituted in the Commerce Ministry with effect from June 1974 to review cash compensatory allowances and that this Committee has examined 13 export commodities till April 1975 and recommended withdrawal or reduction or increase in the rates of cash assistance for various items. However, that committee was yet to take up examination of major export items involving heavy out-flow of cash assistance and for this purpose relevant data was to have been collected by the

Chief Controller of Imports and Exports in respect of major items where the cash assistance outflow was the heaviest. Considerable time having elapsed since then, the Committee would like to be apprised whether this task has since been completed and if so, of the action taken by Government on the findings of the Standing Committee.

1.123. An analysis of the evidence tendered before the Committee also brings into sharp focus the absence of any institutional mechanism, prior to June 1974, when the Standing Committee was constituted, to review the need and justification for cash assistance and to monitor and evaluate the behaviour of international prices and f.o.b. realisations. Apart from ad hoc **reviews undertaken whenever something was brought to notice and which, in any case, proved to be wholly inadequate in the ultimate analysis, the Committee find that there was no permanent agency within Government to aid decision-making in this regard. Consequently, an almost exclusive reliance had to be placed on the data furnished by the Export Promotion Council, which is comprised of the interested exporters and industrialists themselves and it was admitted by the Chairman of the Engineering Goods Export Promotion Council himself that there was also no machinery at the disposal of the Council to check the veracity of the data relating to cost of production furnished by the exporters for this purpose. Besides, the representative of the Finance Ministry also admitted that the data furnished in this regard by the Council was examined only "wherever possible" and that the weakest link in the scheme was the determination of f.o.b. realisation. In a number of cases scrutinised subsequently, the data furnished by the Council was also admittedly found to be at variance with the actual position obtaining. Stressing once again, as they have often done in the past, the vital importance of a concurrent monitoring and evaluation of the market trends, f.o.b. realisations, import content of products etc., the Committee would invite attention to their recommendations contained in paragraph 149 of their 17th Report (Fifth Lok Sabha) and paragraph 1.11 of their 236th Report (Fifth Lok Sabha), and strongly reiterate the need for devising a more satisfactory monitoring machinery for this purpose so as to ensure that Government are able to intervene effectively and in time to safeguard public interest.**

NEW DELHI;
September 30, 1977.
Asvina 8, 1899 (*S*).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

APPENDIX I

(*vide* para 1.22)

Procedure followed for the reimbursement to the fabricators of Engineering goods for export

1. (a) The Joint Plant Committee has decided to constitute a fund called the "JPC Engineering Goods Export Assistance Fund" which will be used exclusively for reimbursing to fabricators of engineering goods or to their authorised agents the excess of domestic prices over international prices in respect of shipments made on or after May 2, 1967.

(b) "International Prices", would, in this context, mean the base international price calculated as per para 3 here below and the Nenelux extras prevalent on the date of the shipment. Similarly, the domestic prices would mean the base prices and Indian extras as prevalent on the date of shipment.

2. (a) Under the scheme, the following categories of iron and steel produced by the main producers would be supplied to the fabricators:

(i) Pig iron for foundry use

(ii) MS Blooms, Slabs and Bilets

(iii) MS bars rods and rounds

(iv) MS structurals—light, medium and Heavy

(v) MS Skelp

(vi) Hot Rolled and Cold Rolled MS Strips and Sheets

(vii) MS Plates

(viii) Tin Plates—Prime

(ix) G. P. Sheets, and

(x) Rails for points and crossings.

(b) The above materials will be billed by the main producers at their normal prices leaving the fabricators or their authorised agents to claim the excess of domestic prices over international prices as per the procedure outlined herein.

3. (a) The international base prices for steel items would be computed as under:

The average LMB dollar prices for the concerned categories minus 2½%, minus $ 4, converted into rupees at the prevailing par value of the rupee plus excise duty as may be applicable to the category concerned. For this purpose, average LMB price will mean the average of appropriate Metal Bulletin prices for January, February and March 1967 LMB prices which will apply for shipments during the period 1st October 1967 to 31st March 1968. This process will be repeated every half-year.

(b) The international prices of tested categories will be $ 4 (subsequently changed to $ 2/- w.e.f. October '67) higher than the corresponding prices for commercial categories under (a) above.

(c) In the case of Pig Iron for foundry use where LMB quotations are not available, the supply to export fabricators will be made at the average prices at which the Pig Iron has been contracted for export during the month of March for the subsequent period April to September and during the month of September for the subsequent period October to March. In case no contract has been entered into during these months, the average of January, February and March will apply for the period April—September and the average of July, August and September for the period October—March. In case no contracts have been entered into for foundry grade Pig Iron, the rates for basic grade will be converted to foundry grade by adding the differential of $ 3. These F.O.B. rates will then be converted to F.O.R. rates by substracting 2½% and $ 4.

(d) In the case of Tin Plates where LMB quotations are not available, the supply to export fabricators will be made at the average FOB rate (duly converted to FOR rates by substracting 2½% and $ 4) at which Tin Plate has been imported into India during January to March for the period April to September and during July to September for the period October to March.

4. Reimbursement of the excess will only be made after the exports have taken place.

5. Applications for reimbursement will be made by the fabricators to the Secretary, Engineering Export Promotion Council, 14/1B Ezra St., Calcutta-1, or the respective Regional Offices of the Engineering Export Promotion Council at Bombay, Delhi, Madras, depending upon the region in which such fabricators are located. This application and the indents must invariably be accompanied by the following documents:

(a) Statement of export in the proforma prescribed by the Engineering Export Promotion Council.

(b) Bills of Lading and Bank attested invoices.

(c) Application for reimbursement of the difference between the domestic prices and international prices and 6 copies of the indent duly signed by the applicant in case the raw material is only being required at the time of reimbursement and has not been drawn on an advance basis.

(d) A certificate from the fabricators certifying that to the best of his knowledge information and belief, the particulars contained in his application are true and that the type of raw materials asked for have been actually consumed by him in his own factory/foundry for exports against which replenishment quota is being asked for and has not been drawn earlier against any indent whatsoever.

(e) The fabricator will also give an undertaking that he will refund the amount or part thereof in case the particulars furnished by him are found to be incorrect.

6. On receipt of these applications, the Engineering Export Promotion Council or its Regional Offices will scrutinise the requirements of the fabricators in accordance with the process wastages approved by the Government.

7. After the said scrutiny, the Engineering Export Promotion Council will forward all these papers to the Joint Plant Committee with their recommendations (which will be duly numbered).

8. These papers will be checked by the Joint Plant Committee and payment made by an account-payee cheque to the fabricators concerned or his authorized agent latest within a period of 15 days from the date of receipt of complete documents as outlined above.

APPENDIX II

(*Vide* Para 1.52)

Chronological Summary of Revisions introduced periodically in the Cash Assistance rates for Engineering Goods

Sl. No.	Red Book Entry No.	Item	Rate of assistance on 1-4-69	Rates at Subsequent periods
1	2	3	4	5
1	A. 9.1	Fabricated Steel Structurals all others, not specified hereunder	30%	1-4-70—30% 1-4-71—30% 1-4-72—30% 1-4-73—30% 1-4-74—Nil.
2	A. 23.1	Steel pipes & Tubes, ungalvanised	30%	1-4-70—30% 1-4-71—30% 1-4-72—30% 1-4-73—30% 9-1-74—Nil. 1-4-74—Nil.
3	A. 23.2	Steel pipes and tubes, galvanised	30%	1-4-70—30% 1-4-71—30% 1-4-72—30% 1-4-73—30% 9-1-74—Nil. 1-4-74—Nil.
4	A. 24	Steel weldmesh	20%	1-4-70—20% 1-4-71—20% 1-4-72—20% 1-4-73—20% 1-4-74—Nil.
5	A. 27	Transmission line towers galvanised	20%	1-4-70—25%+5% Addl. C. A. 1-4-71—As Above 1-4-72—As above 1-10-72—25%+5% Addl. C.A. + percentage on a sliding scale depending on the percentage of production. 1-4-73—As above. 23-2-74—Nil. 1-4-74—Nil.

1	2	3	4	5
6	A.45	Steel bright bars & shaftings "Additional 5% was allowed in such cases where the f.o.b. value of exports was 133⅓% or more of all inputs *i.e.* both imported and indigeneous."	10%+5%	1-4-70—10%+5% 1-4-71—10%+5% 1-4-72—10%+5% 1-4-73—10%+5% 1-4-74—Nil.
7	A. 49	Steel Wire ropes and wire strand	20%	1-2-70—20%+5% Addl. C. A. 1-4-70—as above 1-4-71—as above 1-4-72—as above 1-10-72—13%+5% Addl. C. A. 1-4-73—as above 1-4-74—as above
8	A. 66.2	Bicycle Tube Valves	—	1-4-70—10% 1-4-71—10% 1-4-72—10% 1-4-73—10% 22-3-74—Nil. 1-4-74—Nil.
9	A. 72	Electric Power Capacitors & Condensors	10%	1-4-70—10% 1-4-71—10% 1-4-72—10% 1-4-73—10% 1-4-74—10% 11-6-74—7%
10	A. 75.2	All Aluminium Conductors (AAC)	10%	1-1-70—15% 1-4-70—15% 1-4-71—15% 1-4-72—15% 1-4-73—15% 1-4-74—10%
11	A. 75.3	Aluminium Conductors, Steel re-inforced (ACSR)	10%	1-11-69—15% 1-4-70—15% 1-4-71—15% 1-4-72—15% 1-4-73—9% 1-4-74—Nil.
12	A. 75.4	Insulated cables (less than 1.1 kv.) with aluminium conductors.	10%	1-11-69—15% 1-4-70—15% 1-4-71—15% 1-4-72—15% 1-4-73—15% 1-4-74—15%
13	A. 75.5	Insulated cables (1.1 kv and above) with aluminium conductors	Nil.	1-1-70—15% 1-4-70—15% 1-4-71—15% 1-4-72—15% 1-4-73—10% 1-4-74—10%

1	2	3	4	5
14	A. 77.3	Decorative electric light sets of twinkling and non-twinkling varieties.	Nil.	C.A. at 10% allowed w.e.f. 1-7-72 but not continued w.e.f. 1-4-74.
15	A. 106·1	Small & cutting tools, not specified thereunder	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
16	A. 106.2	Bonded abrasive products, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above.
17	A. 106.3	Broaches, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
18	A.106.5	Diamond cutting tools including Dressers wheels, all types	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1.4.72—as above 1-4-73—as above 1-4-74—as above.
19	A. 106.7	Drills all types including twist drills	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1.4.72—as above 1-4-73—as above 1-4-74—as above
20	A.106.8	Engineers' steel files, Saw files and rasps, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
21	A. 106.10	Gear cutting tools, all types	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
22	A. 106.11	Tools for lathes, Shapers, and Planers, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above

1	2	3	4	5
23	A. 106.12	. Milling cutters, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
24	A. 106.13	. Miningtools, all types (excluding drilling equipments)	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
25	A. 106.14	. Pneumatic tools, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
26	A. 106.15	. Reamers, all types.	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C. A. 1-4-72—as above 1-4-73 —as above 1-4-74—as above
27	A. 106.16	. Rock drills, all types	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
28	A. 106.17	. Saws, segments and saw blades all types	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
29	A. 106.18	. Threading taps, threading dies and chasers	15%	1-4-70—15% 1:4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
30	A. 106.19	. Tungsten carbide tips and dies, all types	15%	1-4-70—15% 1-4-71—15% + 7½% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above

1	2	3	4	5
31	A.111.1	Drop forged and other hand tools—all other not specified hereunder	15%	1.4.70—15% 1-4-171—15%+5% Addl. C.A. 1-4-72—as above 1-4-73—as above 1-4-74—as above
32	A.111.2	Allen head keys, all types	15%	As above
33	A.111.3	Breake adjusting tools	15%	As above
34	A.111.4	Chisel, punches and hammers, all types	15%	As above
35	A.111.6	Clamp on vice	15%	As above
36	A.111.7	Flaring tools, all types .	15%	As above
37	A.111.8	Pliers, spanners, wrenches and screw and nut drivers, all types	15%	As above
38	A.111.9	Ripping bar	15%	As above
39	A.111.10	Sockets and rachets, all types	15%	As above
40	A.126	Ball, cylindrical roller, taper roller and needle roller bushes and needle roller	5%	1-4-70—10% 1-4-71—10% 1-4-72—10% 1-4-73—10% 1-4-74—5%
41	A.129.1	Fork Lift Trucks . .	10%	C.A. raised to 23% w.e.f. 1-4-72
42	A.129.2	Cement Mill Machinery .	10%	1-4-70—10% 1-4-71—17½% 1-4-72—17½% 1-4-73—17½% 1-4-74—17½%
43	A.136.1	(a) Commercial vehicles .	10%	1-9-69—20% 1-4-70—20% 1-4-71—20% 1-9-71—25% 1-4-72—25% 1-4-73—25% 1-4-74—20%
		(b) Jeeps	10%	1-4-70—10% 1-4-71—20% 1-4-72—20% 1-4-73—20% 1-4-74—20%
44	A.136.2	Motor cycles	10%	1-4-70—10%+10% Addl. C.A. 1-4-71—as above 1-4-72—as above 1-4-73—as above 1-4-74—as above

1	2	3	4	5
45	A.151.	Belt links for machine guns .		12-1-72—20% 1-4-72—20% 1-4-73—15% 1-4-74—Nil
46	A.152.1	Bicycles complete (other than sports light road-star type)	30%	1-4-70—30% 1-4-71—30% 1-4-72—30% 1-4-73—30% 22-2-74—Nil 1-4-74—Nil
47	A.152.2	Bicycle components and accessories.	30%	1-4-70—30% 1-4-71—30% 1-4-72—30% 1-4-73—30% 14-3-74—20% 1-4-74—20%
48	A.152.3	Special model bicycles with three speed hubs	—	1-8-69—20% 1-4-70—20% 1-9-70—25% 1-4-71—25% 1-4-72—25% 1-4-73—25% 23-4-74—10%

APPENDIX III

(*vide Para* 1.60)

Copy of Ministry of Commerce Public Notice No. 86 *ITC (PN)/*743 *dated the* 5*th June,* 1973.

SUBJECT: *Supply of imported steel for export production.*

Attention of all Registered Exporters is invited to former Ministry of Foreign Trade Public Notices No. 56-ITC(PN)/72 dated the 18th Apirl, 1972 and No. 78-ITC(PN)/72 dated the June, 1972 on the subject of supply of imported steel for export production and the facilities available to manufacturers registered under the Engineering Export Promotion Council Scheme for allocation of imported steel materials by the Hindustan Steel Limited at a concessional price for meeting export orders.

2. It has come to the notice of Government that certain export contracts submitted for supply of steel under this Scheme have been coucluded at an export price (f.o.b.) which is significantly below the c.i.f. price of the steel materials required for the execution of the export contracts.

3. It has, therefore, been decided that the Scheme for the supply of imported steel for export production, as envisaged in the Public Notice No. 56-ITC(PN)/72 dated 18-4-1972 and No. 78-ITC(PN)/72 dated 8-6-1972 will now be available only in respect of export contracts where the f.o.b. value of the exports is at least 25 per cent higher than the value (at c.i.f. import price) of all Steel materials required for the fabrication of the export products, irrespective of whether the steel material is obtained from indigenous or imported supplies.

4. The determination in regard to whether or not an export contract would qualify in terms of the criterion now laid down, namely that the f.o.b. value for exports should be at least 25 per cent higher than the C.I.F. import price of all steel materials used for fabrication of the export products, would be made by the Hindustan Steel Limited, on the basis of the prices ruling in international markets at the time these contracts are brought for such certification by the exporters. The H.S.L. would give their certification (approval

or rejection) within one week and this certification would be obtained before registering the contracts in the usual manner with the Engineering Export Promotion Council or the Directorate General of Technical Development for grant of the necessary facilities for supply of imported steel material.

5. The provisions of this Public Notice would come into force with immediate effect and all export contracts in respect of which firm letters of credits have not been opened by foreign suppliers and accepted by an Indian Bank before the 5th June, 1973 will become subject to the Secrutiny as indicated above, the supply of steel being limited only to those contracts against which firm letters of credit have been opened and accepted by Indian banks on or before the 5th June, 1973 or approved by the Hindustan Steel Limited for all other export contracts.

6. Also, the description of the under-mentioned categories of imported steel available under Public Notice No. 56-ITC (PN3/72 dated 18-4-1972 and mentioned in the annexure there to, may be deemed to have been amended as follows:

Sl. No.	Exisiting Description	Revised Description
5.	Hot rolled Strips/Skelp	Hot rolled Sheets, Skelp.
9.	Hot rolled/Cold rolled Sheets.	Cold rolled Sheets/Strips

APPENDIX IV

(*Vide* para 1·74)

A list of members of the Working Committee of Engineering Export Promotion Council and the Committee of Administration of the Conncil, alongwith other relevant details.

List of Members of Working Committee of Engineering Export Promotion Council, 1972-1974.

I Name of the Member	Items manufactured/exported by the Member
1. Dr. B.V. Bhoota, Chairman Engineering Export Promotion Council. M/s. Dorr Oliver India Ltd., 15 Queens Road, Estates, Bombay.	Manufacturer/exporter of Chemical Plants.
2. Dr. G.V.R. Murthy, Vice Chairman Engineering Export Promotion Council. M/s. Union Carbide India Ltd. 1 Middleton Street, Calcutta-16.	Manufacturer exporter of batteries, torches, etc.
3. Shri K. K. Jhalani, Vice Chairman, Engineering Export Promotion Council. M/s Gedore Tools (I) P. Ltd. 151 Gulf Links, Post Box, 3027, New Delhi.	Manufacturer exporter of Hand tools.

II. Name of the Member	Panels represented	Items manufactured/ exported by the member
4. Shri A.K. Kajaria, Bharat Luxmi Trading Co. - Pvt. Ltd. P. O. Box No. 172, Calcutta.	Cast Iron pipes and fittings including spun pipes and other sanitary castings.	Manufacturer exporter of C.I. pipe fittings.
5. Shri R. L. Rajarhia, Orient Steel & Wire, Industries Limited, 2 Brabourne Road, Calcutta-1.	Ferrous Industrial Castings and forgings.	Manufacturer/exporter of Steel Castings, iron & steel shots & grinds, lingening chains.
6. Shri B. P. Bhardwaj, Bhagwati Steel Pvt. Ltd., 67 Park Street, Calcutta-16.	Fabricated steel structural.	Fencing material and Tension bars.
7. Shri Raunaq Singh, Bharat Steel Tubes Ltd., Allahabad Bank Building, 17 Parliament Street, New Delhi.	Steel Pipes, Tubes and fittings there of.	Tubes & Pipes.
8. Shri D.D. Saraf, Nathmall Girdharilall 11, A Jatindra Mohan Avenue, Calcutta-6.	Ferrous holloware.	Ghamellas Buckets.

Sl. No.	Name of the Member	Panels represented	Items manufactured/ exported by the member
9.	Shri Sashi Chand Jain, Bombay Wire Ropes Ltd., 10, New Marine Lines, Bombay-20.	Wire ropes and wire strand.	Wire ropes.
10.	Shri M. D. Jindal, Machino-Techno (Sales) P. Ltd., 33 Netaji Subhas Road, Calcutta-1.	Steel Wire products nos., (Other than wire ropes and strand but including steel fasteners).	Manufacturer exporter of wire products, box-strappings.
11.	Shri Banwarilal Dalmia, Shree Shanker Industries, 29A, Sir Hariram Goenka St., Calcutta-7.	Steel products n.o.s.	Steel Castings.
12.	Shri A. K. Jajodia, Chase Bright Steel Ltd., Mehar Chambers, Nicol Road, Ballard Estate, P.O. Box No. 1704, Bombay-1.	Bright bars and shaftings.	Steel Bright bars.
13.	Shri Surendra Kumar, Tiger Products Pvt. Ltd., Asha Deep, 1st Floor, Hailey Road, New, Delhi.	Non-ferrous (other than aluminium) semis and manufacture.	Tiger locks, Padlocks, hardware items and sanitary fittings.
14.	Shri R.D. Pusalkar, Rustom & Horasby (India) Ltd., 1 Forbes Street, Fort, Bombay.	Internal cumbustion engine pumps and compressors and parts thereof.	Cumbustion engines, pumps, etc.
15.	Shri Prabhu V. Mehta, The Star Trading Co. Pvt. Ltd., Dhanraj Mahal, Apollo Bunder Road, Bombay-1.	Textile Mill Machiery and Accessories.	merchant-exporter of textile machinery and allied products.
16.	Shri P. K. Ganguli, Walchandnagar Ind. Ltd., Construction House, Ballard Estate, Bombay.	Industrial Machinery for manufacture of sugar, paper. cement and chemicals.	Manufacturer exporter of sugar mill machinery.
17.	Shri N. D. Panjabi, Numex Engineers, 306 Commerce House, Medows Street, Bombay-1.	Food processing machinery including canning equipment and animal drawn sugarcane crushers.	Merchant exporter of Oil Mill Machinery.
18.	Shri V. P. Punj, Frick India Ltd., 13/3 Main Mathura Road, Faridabad, Haryana.	Industrial machinery—others.	Manufacturer exporter of-Ice making plants, deep freezer, etc.
19.	Shri K.K. Gupta, Singer Sewing Machine Co., 207, D.N. Road, Bombay.	Sewing machines, hosiery knitting machines and accessories.	Manufacturer exporter of sewing machines.
20.	Shri Arvind Narain, The Jay Engg. Works Ltd., 19 Kasturba Gandhi Marg, New Delhi.	Electric fans.	Manufacturer exporter of fans and sewing machines.

II. Name of the Member	Panels represented	Items manufactured/ exported by the member
21. Shri Chaudhary Devinder Singh Industrial Cables (I) Ltd., Hindustan House (6th Floor), Kasturba Gandhi Marg, New Delhi.	Electric cables and wires.	Manufacturer exporter of electric cabls and wires.
22. Shri K. Eswaran, Hackbridge Hewitic and Easun Ltd., 5-7 Second Line Beach, P.B. No. 50, Madras-1.	Electric generators, Power & distribution transformers, motors switchgears and control gears.	Manufacturer exporter of electric generators etc.
23. Shri J. Desai, Expo Machinery Ltd., 19-A, Alipore Road, Delhi.	Heating and cooling equipment.	Exporting agents of M/s Kelvinators manufacturing refrigerators and other heating & cooling equipments.
24. Shri V.D. Sarda, Permanent Magnets Ltd., Sylvester Buildings, 20 Lod Custom House Road, Bombay-1.	Electrical manufacturers n.o.s.	Manufacturer of exporter permanent magnets.
25. Shri A. N. Ahuja, Ahuja Radios, 215, Okhla Industrial Estate, New Delhi.	Electric equipment, apparatus, appliances and instruments.	Manufacturer exporter of Public Address equipments, radio etc.
26. Shri Brijmohan Lall, Hero Cycles Pvt. Ltd., G.T. Road, Hero Nagar, Ludhiana.	Bicycles and bicycle components and accessories.	Manufacturer exporter of bicycles and parts.
27. Shri T.A.S. Balagopal, Tata Engg. & Locomotive Co. Ltd., Block 'A' Shiv Sagar Estate, Annie Besant Road, Worli, Bombay-18.	Build in vehicles including heavy duty trucks jeeps, chasis, bus bodies ambulence cars, three wheeler motorcycles, scooters, etc.	Manufacturer exporter of vehicles.
28. Shri Jaspal Singh Bhasin, Bharat Springs P. Ltd., 11 C Denham Hall Lane, Girgaum, Bombay-4.	Automobile ancillaries and accessories.	Manufacturer exporter of auto-parts and accessories.
29. Shri R.C. Maheshwari, Textile Machinery Corpn. Ltd., Belgharia, Calcutta-56.	Railway wagons and coaches.	Manufacturer exporter of textile machinery, railway coaches.
30. Shri S. N. Rungta, Shree Laxmi Iron and Steel Works Pvt. Ltd., P. 16, Kalakar Street, Calcutta-7.	Railway track and signalling materials.	Manufacturer exporter of railway track & signalling materials.
31. Shri S.C. Bhandari, Melite Videsh Vyapar Pvt. Ltd., 17G Cawasji Patel Street, GPO Box No. 862, Bombay.	Miscellaneous manufacturers n.o.s.	Merchant exporter of different engg. goods.
32. Shri N. J. Ralani, Hindustan Aluminium Corpn. Ltd., Century Bhavan, Dr. Annie Besant Road, Bombay.	Ingot Aluminium Semis of Aluminium and manufacturers of Aluminium.	Manufacturer exporter of aluminium Semis & manufacturers.

II Name of the Member	Panels represented	Items manufactured/ exported by the member.
33. Shri J.S. Parikh, Batliboi & Co. (P) Ltd., P.O. Box No. 190A, Forbes Street, Fort, Bombay-1.	Export House.	Merchant exporter of various engg. goods.
34. Shri B.D. Kumar, Joint Secretary, Ministry of Commerce, Udyog Bhavan, New Delhi.		
35. Shri K. Rajagopalan, Development Officer, Director General of Technical Development, Udyog Bhavan, New Delhi.		
36. Shri T. Ghosh, Iron & Steel Controller, 234/4, Acharya Jagdish Ch., Bose Road, Calcutta-20.		
Alternate		
Shri A.C. Ray, Deputy Iron & Steel Controller 234/4, Acharya Jagdish Ch. Bose Road, Calcutta-20.		
37. Shri L.K. Dhawan, Director, Projects & Equipment Corpn. of India Lt., 'Chandralok', 36. Janpath, New Delhi-1, (Merchant exporter Public Sector Undertaking)		
Alternate		
Maj. Gen. S.P. Vohra, Projects & Equipment Corpn. of India Ltd., 'Chandralok', 36 Janpath, New Delhi-1.		
38. Shri Ashish Kamani, Kamani Engg. Corpn. Ltd., Kamani Chamber, Nicol Road, Ballard Estate, Bombay. (Manufacturer exporter of Transmission Line Towers)		
Alternate		
Shri A.C. Dev, Kamani Engg. Corpn. Ltd., Kamani Chamber, Nicol Road, Ballard Estate, Bombay.		
39. Shri Ranvir Khatau, Associated Cement Cos. Ltd., Cement House, 121, Maharshi Karve Road, Bombay. (Manufacturer exporter of Cement Plants)		

Name of the Member	Panel reprenented	Items manufactured/exported by the member
Alternate		
Shri S. N. Gulati, Associated Cement Cos. Ltd., Cement House, 121, Maharshi Karve Road, Bombay.		

NOMINEES OF THE ORGANISATIONS

1. Federation of Indian Chambers of Commerce and Industry, New Delhi.	Lala Charat Ram, Jay Engineering Works Ltd., Himalaya House (4th Floor), 23, Kasturba Gandhi Marg, New Delhi-1. (Manufacturer exporter of electric fans and sewing machines).
2. All India Manufacturers' Organisation, Bombay.	Shri Firoz S. Baldiwala Tayabi Bucket Factory, 174, Janjiker Street, Bombay-3. (Manufacturer exporter of buckets).
3. Indian Engineering Association Calcutta.	Shri P.K. Nanda. Metal Box Co. of India Ltd., Barlow House, 59-C, Chowringhee Road, Calcutta-20. (Manufacturer exporter of Crown-corks and containers).
4. Engineering Association of India, Calcutta.	Shri S.C. Chokhani Sudarshan Engineering Pvt. Ltd., 138 Kalbadevi, Bombay-2.
5. The Federation of Association of Small Scale Industries, New Delhi.	Shri O.P. Saraf, 'Sarfaf Bhavan', 34, Pusa Road, New Delhi-5. (Manufacturer exporter of buckets, Ghamellas and merchant exporter of sewing mechines).
6. The Associated Chambers of Commerce and Industry of India, New Delhi.	Shri W. N. Talwar, Managing Director Payen-Taldros Pvt. Ltd., 14/1, Delhi Mathura Road, P.O. Amarnagar, Farid abad. (Manufacturer exporter of Gas kets).

List of Members of Administration of Engineering Export Promotion Council

(1972—1974)

(For Admin: and Finance)

Chairman

Dr. B. V. Bhoota,
Messrs. Door-Oliver India Limited,
16, Queens Road Estate,
Bombay-1.

(Manufacturer exporter of Chemical Plants).

Vice-Chairman

Shri K. K. Jhalani,
Messrs. Gedore Tools (India) Limited,
151 Golf Links,
Post Box No. 3027,
New Delhi-3.

(Manufacturer export of Hand-tools)

Dr. G. V. R. Murty,
Messrs. Union Carbide India Limited,
1, Middleton Street,
Calcutta-16.

(Manufacturer exporter of Batteries, torches etc.)

Members

Shri B. P. Bhardwaj,
Messrs. Bhagawati Steel Pvt. Ltd.,
67, Park Street,
Calcutta-16.

(Manufacturer exporter of Fencing material, tension bars, etc.)

Shri B. L. Dalmia,
Messrs. Shree Shankar Industries,
29-A Sir Hariram Goenka Street,
Calcutta-7.

(Manufacturer exporter of Steel castings).

Shri M. D. Jindal,
Messrs. Machino (Sales) Pvt. Ltd.,
33, Netaji Subhas Road,
Calcutta-1.

(Manufacturer exporter of steel fastners, bolts and nuts).

Shri V. P. Punj,
Messrs. Fedders Lloyd Corpn. Pvt. Ltd.,
M-13 Connaught Place,
New Delhi-1.

(Manufacturer exporter of Ice-making Plants).

Shri O. P. Saraf,
Saraf Bhavan,
34 Pusa Road,
New Delhi -5.
(Represents FASSI)
Federation of Associations
of Small Scale Industries.

(Manufacturers exporter of buckets,
Ghamellas and also merchant exporter
of Sewing machines).

NOMINEES OF THE GOVERNMENT OF INDIA

Shri B. D. Kumar,
Chief Controller of Imports and Exports,
Ministry of Commerce,
Government of India,
Udyog Bhavan,
New Delhi.

Shri K. Rajagopalan,
Development Officer,
Directorate General of Technical Development,
(DGTD),
Udyog Bhavan,
New Delhi.

APPENDIX V

(*Vide* para 1·89)

Statement showing the details of Countries with which India had to Complete in the world market for the sale of the export of engineering goods.

S. No.	Name of the export product	Names of countries India has to compete with in the world market for sale of the export product in question
1	Fabricated Steel Structurals-all others, not specified hereunder.	West Germany, UK, Japan, USA, China.
2	Steel pipes & Tubes, ungalvanised . .	Japan, China, Belgium, UK, Taiwan, USA.
3	Steel pipes and tubes, galvanised . . .	Do.
4	Steel weldmesh	East European Countries.
5	Transmission line towards galvanised . .	Italy, USA, Japan, Spain.
6	Steel bright bars & shaftings . . .	Japan, UK, Spain, South Africa.
7	Steel Wires ropes and wire strand . .	Australia, W. Germany, France, Japan and East European Countries.
8	Bicycle Tube Valves	Czechoslavakia & Other East European Countries, Taiwan.
9	Electric Power Capacitors & Condensors .	EEC, W. Germany, UK, Spain.
10	All Aluminium Conductors (AAC) . .	Yugoslavia, Taiwan, Spain.
11	Aluminium Conductors, Steel re-inforced (ACSR)	Do.
12	Insulated cables (less than 1·1 kv. with aluminium conductors.	Yugoslavia, Taiwan, Spain, Japan.
13	Insulated cables (1·1· kv. and above) with aluminium conductors.	Do.
14	Decorative electric lights sets of twinkling and non-twinkling varieties.	Japan, Holland Spain, Taiwan, and South Korea.
15	Small & cutting tools, not specified thereunder .	Sweden, UK, W. Germany, Spain, Japan.
16	Bonded abrasive products, all types .	UK, USA.
17	Broahes, all types	W. Germany, Sweden, UK, Spain, Japan.

S. No.	Name of the export product	Names of countries India has to compete with in the world market for sale of the export product in question
18	Diamond cutting tools including Dressers wheels, all types.	Sweden, S. Africa, Spain.
19	Drills all types including twist drill	UK, W. Germany, Sweden, Spain and Japan.
20	Engineers' steel files, saw files, and rasps, all types.	UK, USA.
21	Gear cutting tools, all types	UK and USA.
22	Tools for lathes, Shapers, and Planers, all types.	Spain, Italy and France.
23	Milling cutters, all types	UK, USA and Sweden.
24	Mining tools, all types (excluding drilling equipments).	Rumania, Poland, UK and Japan.
25	Pneumatic tools, all types	UK, W. Germany, Japan.
26	Reamers, all types	Do.
27	Rock drills, all types	Rumania, UK, W. Germany and Japan.
28	Saws, segments and saw blades, all types	Sweden, W. Germany and UK.
29	Threading taps, threading dies and chasers	Sweden, W. Germany, UK and USA.
30	Tungsten carbide tips and dies, all types	UK and Sweden.
31	Drop forged and other hand tools—all others not specified hereunder.	W. Germany, Spain, Taiwan, Japan and USA.
32	Allen head keys, all types	Do.
33	Break adjusting tools	Do.
34	Chisel, punches and hammers, all types	Do.
35	Clamp on vice	Do.
36	Flaring tools, all types	Do.
37	Pliers, spanners wrenches and screw and nut drivers, all types.	Do.
38	Ripping bar	Do.
39	Sockets and rackets, all types	Do.
40	Ball, cylindrical roller, taper roller and needle roller bushes and needle roller.	Sweden, Japan, UK.
41	Fork Lift Trucks	EEC, UK and Japan.

S. No.	Name of the export product	Names of countries India has to compete with in the world market for sale of the export produt in question
42	Cement Mill Machinery	Japan, UK, West Gemany.
43	(a) Commercial vehicles	Japan, UK, W. Germany, Spain, USA, Italy.
	(b) Jeeps	Do.
44	Motor cycles	Japan, UK.
45	Beltlinks for machine guns	W. Germany, Japan and UK.
46	Bicycles complete (other than 30% sports light road-star type).	UK, Chechoslovakia, Japan, West Germany and China.
47.	Bicycle com ponents and accessories .	Do. Taiwan.
48	Special model bicycles with three speed hubs .	Japan, UK, Czechoslavakia and Austria.

APPENDIX VI

(*Vide* para 1.94)

Exports of Galvanised steel of iron pipes and tubes/Ungalvanised pipes and tubes, black pipes and steel bright bars and shiftings

(Qty. in '000 tonnes)
(Value in Rs. lakhs)

Item	1960-61		1961-62		1962-63		1963-64		1964-65		1965-66		1966-67		1967-68	
	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val
1. Galvanised steel or iron pipes and tubes	1·9	15	1·1	10	0·6	5	4·3	34	8·9	62	15·5	109	27·2	258	30·1	323
2. Tubes and pipes or steel except castiron, not galvanised . .	..	..	..	..	Negl.	Negl.	Negl.	Negl.	0·1	1	8·9	57	18·4	183	16·9	174

(Qty. in '000 tonnes)
(Value in Rs. lakhs)

Item	1968-69		1969-70		1970-71		1971-72		1972-73	
	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.
1. Galvanised steel or iron pipes and tubes . .	69·0	646	69·1	753	41·4	566	43·2	654	47·0	690
2. Tubes and pipes or steel except castiron, not galvanised .	32·0	281	36·9	341	19·6	227	15·7	187	13·1	162

Note: Figures from 1966-67 are in terms of post-devalued Rupee.

APPENDIX VII

(*Vide* para 1·102)

Statement showing expenditure incurred on Delegations/Study teams during the period 1970-71 to 1973-74.

Year	Details of Team	Countries visited	Total Expenditure
			Rs.
1970-71	Delegation to Australia	Australia, New Zealand Fiji & Singapore	1,02,707·67
	4 member sales team	Zambia & Kenya	37,000·00
	One-man sales team	Malaysia & Indonesia	7,200·00
1971-72	Delegation to South East Asia.	Indonesia, Malaysia & Thailand	52,613·12
	One-man sales team	Aden, UAR, Sudan, Kenya, Nigeria, Ghana, Ethopia, Lebanon, Kuwait, Syria, Iraq, and Iran	16,765·00
	Do.	Kenya, Dubai, Lebanon, Syria, UAR, Mauritius, Jordan & Iraq	11,317·00
1972-73	One-man Sales team	Nigeria, Ghana, Sudan, & East Africa	13,240·00
1973-74	Delegation to Latin America	Jamaica Trinidad, Venezuela, Brazil, Columbia, Argentina Chile & Peru	2,37,320·00
	Delegation to Indonesia	Indonesia, Phillippines & Washington	1,15,368·18
	Delegation to S.E. Asia	Phillippines, Indonesia and Taiwan	40,500·00
	5-man Composite study team	Canada	1,00,447·82
	One-man sales team	Italy. W. Germany, U.K. Sweden, Denmark, Holland	15,340·00
	Do.	USA, Canada & Japan	16.165·00
	Do.	Iran, Kuwait, Lebanon, S. Arabia	10,788·00
	Do.	Indonesia, Singapore, Malaysia, Hong Kong	10,788·00
			7,87,559·79

Appendix VIII

Conclusions/Recommendations

S. No.	Para No.	Ministry concerned	Conclusions/Recommendations
1	2	3	4
1	1.105	Ministry of Commerce	In their 174th Report (Fifth Lok Sabha), the Public Accounts Committee had drawn attention, in April, 1976, to the fact that the cash assistance given from time to time, for promoting exports of walnuts had little or no relevance to the realities of the situation prevailing at a given point of time and that, more often than not, such assistance proved to have been "not only a drag on the exchequer but in the result infructuous." The Committee had then emphasised that what was required was an integrated and coordinated approach to the entire question and not "a propensity towards *ad hoc* and piece-meal fiats." Again, in their 178th Report (Fifth Lok Sabha), the Committee had criticised, in April, 1976, the grant of a "massive assistance" for exports of man-made fabrics in what they described as "an indiscriminate and even irrational manner" and had highlighted a number of deficiencies and defects in the conception and operation of the cash assistance scheme. The present Audit paragraph under consideration, which deals with the extension of cash compensatory support to exports of engineering goods, is yet another instance of formulation of policies on the basis of an inadequate assess-

1	2	3	4
			ment and appreciation of the factors involved and of failure to take prompt corrective action even when certain anomalous consequences of such policies had come to light. The facts disclosed therein reinforce the Committee's earlier impressions in regard to the administration of the cash assistance scheme. Some of the major shortcomings of the scheme in respect of engineering goods that have come to the Committee's notice are discussed in the succeeding paragraphs.
2	1.106	Ministry of Commerce	To begin with, the Committee find that at the time of taking the initial decision to extend, with effect from 6 June 1966, cash compensatory support to exports of engineering goods, as well as for a number of years thereafter, the various factors involved had not been critically assessed and taken into account for a proper determination of policies in this regard and instead what can only be termed an *ad hoc* approach had been adopted. Explaining the rationale for the grant of cash assistance for exports of engineering goods immediately after devaluation of the Rupee (6 June 1966), the Commerce Ministry have stated that the expectation that 57½ per cent more realisation, in terms of rupees, as a result of devaluation would off-set the disability in foreign competition had not materialised, and that a study, by the Committee of Secretaries, of typical products moving in exports indicated that despite devaluation, non-traditional goods required some assistance. Besides, according to the Ministry, the process of diversification and modernisation of export trade, par-

			ticularly in the non-traditional sector, had just begun and a number of export products entering the market had to be assisted on the basis of the 'infant industry' argument. With a view to encouraging such exports and promoting items other than those in which India had a competitive advantage, a decision is stated to have been taken that cash compensatory support might be provided for selected non-traditional export products.
	1.107	Do.	It has, no doubt, been contended by the Ministry that a study of typical export products had been undertaken by the Committee of Secretaries before the decision to introduce cash assistance immediately after devaluation was taken. The Committee, however, find that though cash assistance is normally intended to bridge the gap between the cost of production of an export product and the *f.o.b.* realisations accruing from its export and a detailed examination of the cost structure and f.o.b. realisations is, therefore, of fundamental and vital importance, "the cost structure and data about f.o.b. realisation had not been gone into" by the Committee of Secretaries, while deciding "as a matter of policy" in August 1966 to extend cash compensatory support to selected non-traditional export products. It is, therefore, not clear to the Committee how the need and justification for cash assistance were determined by the Committee of Secretaries in the absence of any precise cost-benefit analysis.
4	1.108	Do.	The Committee are of the view that devaluation, which had admittedly made Indian goods cheaper in the world market by 57½ per cent, should not have ordinarily warranted further assistance and incentives for export promotion. Data relating to cost of

1	2	3	4
			production and f.o.b. realisations should have been examined in detail before Government agreed to extend cash assistance. That this was not done is regrettable.
5	1.109	Ministry of Commerce	It has also been costended by the Ministry that since the rates of cash assistance were valid only for a year at a stretch, a review of the need for continuance or otherwise of the assistance in the changed circumstances that might prevail took place once a year by itself. It is, however, seen that during the five-year period from 1969 to 1973, when certain perceptible changes had taken place in regard to the indigenous availability of raw materials required for the manufacture/fabrication of engineering goods and in the behaviour of international prices (the prices of imported prime steel, the principal raw material for engineering goods had generally increased by about 80 per cent between early 1972 and November 1973 and the f.o.b. realisations from exports of products made from mild steel had increased by about 100 to 150 per cent), justifying a close second look at the need for continuance of cash assistance, the rates of cash assistance in respect of most of the engineering goods had remained practically unchanged and had been reduced only in respect of steel wire ropes in October 1972. It is also significant in this context that cash assistance for exports of steel wire ropes had, in fact, been increased from 20 to 25 per cent of the f.o.b. realisation with effect from 1 February 1970. Similrly, in respect of Transmission Line Towers, cash assistance for which was abo-

			lished only with effect from 25 February, 1974 on the ground thtt the f.o.b. realisations had increased and there was no loss in exports, an increase in the rate of cash assistance had been allowed with effect, from 1 April, 1970 which had continued even during 1972-73. While the Committee have not examined in detail the reasons for the non-revision of/increase in the rates of cash assistance for individual export products, it would, *prima facie,* appear from the facts disclosed in the Audit paragraph that all the relevant factors affecting or having a bearing on exports of engineering goods had not been adequately taken into account and made use of promptly for the determination of policies from time to time. In any event, it is fairly evident that no attempts were made to ascertain, on the basis of scientific cost studies, the actual need for and quantum of cash assistance till May 1972, when cost studies were commissioned through the Indian Institute of Foreign Trade in respect of only five mild steel-intensive items (steel pipes and tubes, steel wire ropes, transmission line towers, electric transformers and bicycles and bicycle components) and that conclusive action in respect of some of these commodities was taken much later, in 1974, only afer some of the deficiencies of the cash assistance scheme had been highlighted by Audit.
6	1.100	Do.	Cash assistance for exports is also not normally allowed beyond 25 per cent of the 'added value', which is arrived at by deducting the cost of imported material going into an export product from the f.o.b. realisation. This principle ensures that the assistance given for exports has some relevance and relation to the net foreign exchange earned and is not disproportionate. Thus, when the im-

			port content of an export product goes up, the general policy is to reduce the quantum of cash assistance, the reduction being proportionate to the diminution of the value added indigenously. In respect of engineering goods, however, the value added condition had been imposed only in June 1973, when a decision was taken that the supply of imported steel at the Joint Plant Committee price (the price at which steel was being sold by the main producers in India) plus 2 per cent would be made only for those contracts where the f.o.b. value of exports was at least 25 per cent higher than the c.i.f. value of all inputs required for the fabrication of export products, which were wholly or partly imported into the economy, in spite of the fact that the international prices of prime steel had started rising early in 1972 itself.
7	1.111	Ministry of Commerce	The Committee note in this context that the import content of engineering goods exported from the country went up from September 1970 itself when, on account of scarcity of indigenous prime steel of some varieties, imports of prime steel had been permitted by Government. A decision, however, appears to have been taken, in April 1971, that the then existing rates of cash assistance need not be disturbed on account of the increase in import content of the export products. The principal considerations which then weighed with Government were that (a) the imports allowed during 1971-72 were in the nature of distress imports to augment domestic supplies and were not of the exporters' own choice or volition, (b) increase in the Import Replenishment in such cases was not of a very high quantum and as such its impact in terms of reducing

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			cost of production was not likely to be considerable and (c) the import cost of certain steel items was not less than the domestic prices. The Ministry have further contended in this connection that as there was no provision during 1971-72 for supplying imported steel at indigenous prices (this measure is stated to have been adopted from April 1972 only), the importer had to pay the international price even if it was higher than the indigenous price and that since cash assistance sought to meet the difference between f.o.b. cost and f.o.b. realisation, to the extent that f.o.b. cost increased on account of the comparative higher price of imported steel, "the need for cash assistance gets strengthened and does not disappear."
8	1.112	Do.	As regards the Ministry's contention that the procedure for supplying imported steel at indigenous prices was not in vogue during 1971-72 and was adopted only from April 1972 and the importer, therefore, had to pay the international price even if it was higher than the indigenous price, the Committee find that in May 1967 itself, a policy of reimbursing the difference between the domestic price and international price of steel and pig iron to exporters of engineering goods had been introduced, according to which exporters were to be reimbursed the price difference in respect of ten categories of steel. It, therefore, follows that at least in respect of these categories, an in-built subsidy was already available to the exporters of engineering goods. In any case, it is not very clear to the Committee how the import cost of certain steel items (which

			unfortunately have not been specified by the Ministry) being not less than the domestic prices could be considered a valid reason for not applying the 'value added' criterion at least in the case of those steel items whose international prices were lower than the indigenous prices. Even in respect of those items whose international prices corresponded to or were more than the domestic prices, the fact remains that while the need for cash assistance may, as claimed by the Ministry, get strengthened on account of the increase in f.o.b. cost, there would also be a corresponding reduction in the net foreign exchange to be earned from the exports of engineering goods using these categories of steel and the Committee are not sure whether this factor had also been taken into account by Government. As regards the other argument that the impact of the increase in the import content on the cost of production was not likely to be considerable, the Committee are unable to appreciate how Government could arrive at this conclusion without any detailed cost studies. In these circumstances, the Committee have a doubt whether there was, in fact adequate justification for keeping the cost of the imported steel going into the finished export product out of the purview of computation of the quantum of export assistance. They apprehend that all the wider ramifications of this question might not have been examined thoroughly at the relevant time.
9	1.113	Ministry of Commerce	While the Committee are thus not entirely satisfied with the arguments advanced for not reducing, in 1971-72, the rates of cash assistance for exports of engineering goods following the increase in the import content of the export products, they see no

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			justification whatsoever for persisting with this policy during 1972-73 also, when there were more drastic changes in the situation. The Committee find that the world prices of prime steel had begun to rise from the beginning of 1972-73, the rise being particularly steep from November 1972 onwards and that during this period large imports of steel for export production had also become necessary to meet the export target of Rs. 200 crores proposed by the Engineering Goods Export Promotion Council, leading to a higher percentage of import content in the export products. [According to the assessment of the Export Promotion Council, out of the total requirement of 8.10 lakh tonnes of steel for 1972-73, 4.80 lakh tonnes (59 per cent) were to be imported]. That the import content of engineering goods contracted for export in 1972-73 had increased perceptibly would also be evident from the typical instances of some exports cited by Audit, which reveal that the estimated c.i.f. value of import content of some typical engineering goods ranged between 74 per cent (black pipes) and 97 per cent (steel bright bars and shaftings) of the expected f.o.b. realisation from the export, while in one case (galvanised pipes and black pipes), the estimated c.i.f. value of import content was nearly 42 per cent more than the expected f.o.b. realisation. Though it has been contended by the Ministry of Commerce that the figures relating to f.o.b. realisation and value of import content shown in the Audit paragraph were only anticipatory and had, perhaps, been taken from the firms' applications/Release Orders, the Committee are of the view that these were indicative of the

trends then in operation, which could and ought to have been taken promptly into account. Besides, according to the revised figures furnished subsequently in this regard by Government themselves, the estimated c.i.f. value of import content ranged between 80 per cent (Galvanised steel pipes) and 73 per cent (Black pipes) of the expected f.o.b. realisation, while in the case of steel bright bars and shaftings, the estimated c.i.f. value of import content was nearly 55 per cent more than the f.o.b. realisation. It is significant in this context that the percentage of estimated value of the import content to the expected f.o.b. realisation in the case of three exporters (Steel pipes and tubes, Galvanised steel pipes, and Galvanised pipes and black pipes) had come down only on account of the subsequent re-negotiation of the contracts in question with a view to taking advantage of the rise in international prices and obtaining higher prices for the export products. It has also been admitted by the Ministry that the supply of imported steel during this period (1972-73) to the fabricators/manufacturers of engineering goods at the lower indigenous prices (Joint Plant Committee prices plus 2 per cent) led to anomalous situation in which exporters of engineering goods, having got imported steel at the lower prices, quoted also lower prices for the resultant export products leading to lesser f.o.b. realisations though the raw material prices were high and that for "quite a number of products", the value of the steel imports was itself almost equal to or in "a few cases" even higher than the f.o.b. value realised by export.

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10	1.114	Ministry of Commerce	In these circumstances and in view of the fact that Government's policy at the relevant time was to subsidise supplies of imported steel by making it available at the lower indigenous prices, the Committee fail to appreciate how the import cost of certain steel items being not less than the domestic prices could still be considered a valid reason for not disturbing the then existing rates of cash assistance so as to ensure that these rates bore some relevance to the net foreign exchange to be earned and were not abnormally disproportionate as had happened. They feel that Government ought to have reacted to the changed situation more quickly and made suitable adjustments in the rates of cash assistance for engineering goods. As has been pointed out earlier by the Committee, in paragraph 1.8 of their 236th Report (Fifth Lok Sabha), even if the circumstances prevailing in 1972-73 warranted the grant of cash assistance, the quantum of such assistance should have been determined after a scientific evaluation and analysis of the costs and f.o.b. realisations. This, unfortunately, does not appear to have been done, which is regrettable.
11	1.115	Do.	While the value-addition requirement imported in June 1973, brought some results, although belatedly, it is clear that even this measure failed to remedy entirely the anomalous position created by the high import content of exportable goods and the disproportionate and liberal grant of cash assistance. Though the Ministry have contended that after the value-addition requirement was sti-

pulated, there was no case of net outflow of foreign exchange, the Committee find that even after three of the six contracts (firms 'B', 'D' and 'F') relating to pipes and tubes were re-negotiated, the amount of cash assistance admissible was disproportionate, the percentage of cash assistance admissible to the net foreign exchange to be earned being 93 per cent, 151 per cent and 131 per cent respectively. In other words, the cash assistance admissible was in one case almost equal to and in two cases considerably more than the net foreign exchange to be earned. Assistance should not exceed 25 per cent of the added value was to be observed the cash assistance should not have been more than Rs. 31 per tonne and that, in this case, for earning a net foreign exchange of Rs. 125 per tonne, Government would be paying Rs. 251 per tonne as cash assistance. The Board had also pointed out that if the increased assessable value of the imported mild steel rods used for the exported steel weld mesh (the imported value of mild steel rods had registered an increase in January 1972) and the latest f.o.b. realisation from the export of weld mesh were taken into consideration, the net foreign exchange drain worked out to Rs. 129 and even then the exporter would get cash assistance of Rs. 251 per tonne. It is obvious that if the contract in question had not been re-negotiated subsequently by the exporter to derive an advantage from the rise in international prices, the cash assistance admissible at the then existing rate of 20 per cent would have proved, by any standard, to have been excessive and even abnormal. The Committee are, however, concerned to find that even when this specinfic instance of anmaly in the operation

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			of the cash assistance scheme was brought to the Ministry's notice, apart from informing the Directorate of Drawback that the conclusion that the corrective action taken in June 1973 was also inadequate in these cases is, therefore, fairly inescapable.
12	1.116	Ministry of Commerce	Yet another argument advanced by the Ministry with reference to a specific instance of disproportionate grant of cash assistance for exports of steel weld mesh is that the cash assistance scales for exports of engineering goods cannot be said to be liberal from any standard of costing. This, unfortunately, is not sustainable on the basis of the facts as they emerge from a study of the Audit paragraph and the evidence tendered before the Committee.
13	1.117	Do.	That whatever reviews and exercises were carried out in this regard till 1973 were only superficial and inadequate and that the decisions taken from time to time were not based on any precisely thought-out foundations are also evident from the illustrative instances of disproportionate grant of cash assistance cited in the Audit paragraph relating to exports of steel weld mesh and bright steel bars. For instance, in the case of steel weld mesh, for which cash assistance at 20 per cent of f.o.b. realisations was available till 31 March 1974, the Central Board of Excise and Customs had noticed (early in 1972-73) that an exporter would get, according to the then

existing rates of cash assistance, an assistance of Rs. 251 per tonne although if the principle that the decision to grant cash assistance for exports of steel weld mesh at 20 per cent of the f.o.b. realisation had been taken in August 1966 with the approval of the Cabinet, little else was done by the Ministry to remedy the situation and that it was only much later (in early 1974) that a study was conducted to find out the value addition from the export of this item, after taking into account all imports going into the product, when it was found that the net value addition was only 11 per cent and a decision taken to abolish the cash assistance for this product with effect from 1 April 1974. The Committee cannot countenance the Ministry's casual approach to this question and the failure to take prompt corrective action even when anomalous consequences of the export promotion policy had been highlighted by one of Government's own agencies, and desire fixation of responsibility for this failure which must have cost the exchequer dearly.

14	1.118	Ministry of Commerce	Again, in respect of bright steel bars and shaftings the justification for the grant of cash assistance at 10 per cent of f.o.b. realisation, even when mild steel bars and rods were imported in considerable quantities, often during periods when world steel prices

1	2	3	4	5
			ruled high, and the value added indigenously was also not very significant, is open to question. Admittedly, the process involved in the production of bright steel bars from mild steel bars is not sophisticated and requires only machining. The Committee find from their examination of an illustrative instance of export of this commodity cited in the Audit paragraph, that while the percentage of cash assistance admissible to the net foreign exchange to be earned had been assessed by Audit, on the basis of the expected f.o.b. realisation and estimated c.i.f. value of import content, at as large a figure as 2875 per cent, according to the Ministry's own computation furnished to the Committee subsequently, the foreign exchange to be earned from this export was negative. Apart from informing the Committee that cash assistance for bright bars and shaftings was introduced in 1966-67 immediately after devaluation with the approval of the Committee of Secretaries the Ministry have not been able to vouch whether the manufacturing processes involved in the production of bright bars had been taken into consideration and whether any detailed examination of the cost structure, processing, etc. had been undertaken before a decision to grant cash assistance for this commodity was taken. While the Committee have, therefore, not been in a position to adequately satisfy themselves that the cash assistance granted for this commodity was, in fact, justified and all the relevant factors were taken into account in determining the need for the assistance, they cannot help concluding, on the basis of the facts made available to them, that cash assistance	

			in this case was extended injudiciously. This conclusion is also strengthened by the fact that a study undertaken much later (in early 1974, leading to the abolition of cash assistance for this item with effect from 1 April 1974) had disclosed that a comparison of the f.o.b. cost and f.o.b. realisations did not justify continuance of the assistance and that the net value addition was only 11 per cent. At this distance of time, the Committee have to merely rest content with expressing their displeasure over the manner in which this question appears to have been handled.
15	1.119	Ministry of Commerce	The final picture that emerges from the foregoing paragraphs is, thus, far from satisfactory. Viewed in retrospect, the Committee cannot help feeling that greater vigilance and care could have been exercised by Government in allowing large payments out of the exchequer and the cash assistance scheme administered in a more prudent and discriminating manner. The Committee find that during the three year period from 1971-72 to 1973-74, a total sum of Rs. 64.90 crores had been paid as cash assistance for exports of engineering goods and a further sum of Rs. 49.86 crores also sanctioned as drawback of customs and excise duties, as against which the total f.o.b. value of exports of engineering goods during the period amounted to Rs. 447.24 crores. While the votaries of the cash assistance scheme may argue that this is not too high a price for maintaining a steady growth in exports, which is vital for the economy, if the value of the other concessions and facilities, like Import Replenishment concessional railway freight, concessional bank finance, supply of raw materials at subsidised prices, Grants-

1	2	3	4
			in-aid etc., extended to exporters is also quantified and taken into account, the total cost of the export promotion effort may well turn out to be not quite proportionate to the net gain actually accruing to the country as foreign exchange.
16	1.120	Do.	This does not, however, imply that the Committee are opposed to all export promotion schemes and activities in principle. While they are not unwilling to concede the necessity for boosting the country's exports through the instrumentality of cash assistance and allied incentives for export promotion, particularly in the context of the dumping and pricing-out tactics adopted by India's competitors in international trade and commerce, what they would like to emphasise is that a more discriminating administration of various export promotion schemes should be possible and also practicable. Similarly, prompt corrective action should also be taken so as to obviate wide aberrations or anomalies of the type highlighted in the Audit. paragraph. What is required, as has already been pointed out by the Committee in their 174th Report (Fifth Lok Sabha), is an integrated and coordinated approach to the entire question of export promotion and not isolated and temporary palliatives. This calls for a more meaningful export strategy related to the overall policy of the country's industrial and economic growth. As a first step in this direction, Government would do well to attempt a quantification, in monetary terms, of the various concessions given in the past to exporters and make an assessment of the actual impact of

			these concessions with a view to determining how far these export promotion meansures have actually succeeded in achieving the objectives envisaged.
17	1.121	Ministry of Commerce	The present system of payment of cash assistance is also non-discriminatory and is granted to the industry as a whole irrespective of the fact whether the export transactions by individual exporters actually result in a loss or not. In view of the fact that some of the larger business and export houses are well capable of sustaining the country's export effort and still making substantial profits, as could be seen from their balance sheets, the Committee are of the opinion that it would be worthwhile to examine the feasibility of restricting such subsidies and incentives only to the actually needy exporters while, at the same time, imposing suitable obligations for export on those who do not really require such incentives to sustain themselves. The representative of the Finance Ministry also conceded during evidence that this question should be considered and the Committee would, therefore, urge Government to act upon this suggestion with the utmost expedition. Similarly, there also appears to be a case for examining the question of limiting such subsidies only to those exporters with a large enough ratio of exports to domestic sales in the interest of discouraging those speculative exporters who enter the field temporarily only to take advantage of the various benefits offered and have no involvement and interest in building up the long term exports from the country.

1	2	3	4
18	1.122	Do.	The facts disclosed by the Audit paragraph also underscore the need for an urgent review of the need and justification for continuance of liberal scales of cash assistance for sustaining exports of certain commodities. The Committee have been informed in this context that a Standing Committee has been constituted in the Commerce Ministry with effect from June 1974 to review cash compensatory allowances and that this Committee has examined 13 export commodities till April 1975 and recommended withdrawal or reduction or increase in the rates of cash assistance for various items. However, that committee was yet to take up examination of major export items involving heavy out-flow of cash assistance and for this purpose relevant data was to have been collected by the Chief Controller of Imports and Exports in respect of major items where the cash assistance outflow was the heaviest. Considerable time having elapsed since then, the Committee would like to be apprised whether this task has since been completed and if so, of the action taken by Government on the findings of the Standing Committee.
19	1.123	Do.	An analysis of the evidence tendered before the Committee also brings into sharp focus the absence of any institutional mechanism, prior to June 1974, when the Standing Committee was constituted, to review the need and justification for cash assistance and to monitor and evaluate the behaviour of international prices and f.o.b. realisations. Apart from *ad hoc* reviews undertaken

whenever something was brought to notice and which, in any case, proved to be wholly inadequate in the ultimate analysis, the Committee find that there was no permanent agency within Government to aid decision-making in this regard. Consequently, an almost exclusive reliance had to be placed on the data furnished by the Export Promotion Council, which is comprised of the interested exporters and industrialists themselves and it was admitted by the Chairman of the Engineering Goods Export Promotion Council himself that there was also no machinery at the disposal of the Council to check the veracity of the data relating to cost of production furnished by the exporters for this purpose. Besides, the representative of the Finance Ministry also admitted that the data furnished in this regard by the Council was examined only "wherever possible" and that the weakest link in the scheme was the determination of f.o.b. realisation. In a number of cases scrutinised subsequently, the data furnished by the Council was also admittedly found to be at variance with the actual position obtaining. Stressing once again, as they have often done in the past the vital importance of a concurrent monitoring and evaluation of the market trends, f.o.b. realisations, import content of products etc., the Committee would invite attention to their recommendations contained in paragraph 1:49 of their 174th Report (Fifth Lok Sabha) and paragraph 1.11 of their 236th Report (Fifth Lok Sabha), and strongly reiterate the need for devising a more satisfactory monitoring machinery for this purpose so as to ensure that Government are able to intervene effectively and in time to safeguard public interest.

GMGIPMRND—LS I—1944 LS—19-10-77—1200.

Sl. No.	Name of Agent	Agency No.
	DELHI.	
24.	Jain Book Agency. Connaught Place, New Delhi.	11
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15
29.	The English Book Store, 7-L., Connaught Circus, New Delhi.	20
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27
32.	Jayana Book Depot, Chapparwala Kuan, Karol-Bagh, New Delhi.	66
33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	58
36.	Hird Book House, 82, Janpath, New Delhi.	95
37.	Bookwell, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96
	MANIPUR	
38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
	AGENTS IN FOREIGN COUNTRIES	
39.	The Secretary, Establishment Department, The High Commission of India India House, Aldwych, LONDON, W. C.—2.	59

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