

**PUBLIC ACCOUNTS COMMITTEE  
(1977-78)**

(SIXTH LOK SABHA)

**SEVENTEENTH REPORT**

**EXPORT OF BICYCLES AND BICYCLE  
COMPONENTS DURING 1970's**

**MINISTRY OF COMMERCE**

[On paragraph 28 of the Report of the Comptroller &  
Auditor General of India for the year 1974—75, Union  
Government (Civil).]



*Presented in Lok Sabha on , 14 Nov 1977*

*Laid in Rajya Sabha on*

*14 NOV 1977*

**LOK SABHA SECRETARIAT  
NEW DELHI**

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CORRIGENDA TO 17TH REPORT OF THE PUBLIC  
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PRESENTED TO LOK SABHA ON 14 NOVEMBER, 1977

| <u>Page</u> | <u>Para</u> | <u>Line</u>             | <u>For</u>  | <u>Read</u>          |
|-------------|-------------|-------------------------|---|----------------------|
| 1           | -           | 2                       | EXPORTS   | Export               |
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### *Part II\**

Minutes of the sittings of the Public Accounts Committee held on 24 June, 1976  
and 12 September, 1977.

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\*Not Printed. One cycle-styled copy laid on the Table of the House and five copies placed in the Parliament Library.

LIST OF MEMBERS OF PUBLIC ACCOUNTS COMMITTEE  
(1977-78)

CHAIRMAN

Shri C. M. Stephen

MEMBERS

*Lok Sabha*

2. Shri Balak Ram
3. Shri Brij Raj Singh
4. Shri Tulsidas Dasappa
5. Shri Asoke Krishna Dutt
6. Shri Kanwar Lal Gupta
7. Shri P. K. Kodiyan
8. Shri B. P. Mandal
9. Shri R. K. Mhalgi
10. Dr. Laxminarayan Pandeya
11. Shri Gauri Shankar Rai
12. Shri M. Satyanarayan Rao
13. Shri Vasant Sathe
- \*14. Shri Sheo Narain
- \*15. Shri Jagdambi Prasad Yadav

*Rajya Sabha*

16. Smt. Sushila Shanker Adivatekar
17. Shri Sardar Amjad Ali
18. Shri M. Kadershah
19. Shri Piare Lal Kureel *uri* Piare Lal Talib
20. Shri S. A. Khaja Mohideen

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\*Ceased to be a Member of the Committee, consequent on his appointment as Minister of State with effect from 14-8-1977.

(iv)

21. Shri Bezawada Papireddi
22. Shri Zawar Hussain.

SECRETARIAT

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 Seventeenth Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraph 28 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil) relating to Export of Bicycles and Bicycle Components during 1970's.

2. The Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government (Civil) was laid on the Table of the House on 26 March, 1976. The Public Accounts Committee (1976-77) examined paragraph 28 of the said Audit Report at their sitting held on 24 June, 1976, but could not finalise the Report on account of the dissolution of the Lok Sabha on 18 January, 1977. The Public Accounts Committee (1977-78) considered and finalised this Report at their sitting held on 12 September, 1977 based on the evidence taken and the further written information furnished by the Ministry of Commerce. The Minutes of the sittings form Part II\* of the Report.

3. A statement containing conclusions/recommendations of the Committee is appended to this Report (Appendix). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the commendable work done by the Chairman and the Members of the Public Accounts Committee (1976-77) in taking evidence and obtaining information for this Report.

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

6. 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,

NEW DELHI;

Public Accounts Committee, Chairman.

September 30, 1977

Asvina 8, 1899 (Saka)

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

## REPORT

### EXPORTS OF BICYCLES AND BICYCLE COMPONENTS DURING THE 1970s.

#### A. Audit Paragraph

1.1. Presently, the installed capacity of the 14 units in the organised sector engaged in production of bicycles is reported to be 40.19 lakh bicycles; these units are located in Punjab, Uttar Pradesh, Haryana, West Bengal, Bihar, Tamil Nadu, Maharashtra and Assam. The organised sector accounts for about 80 per cent of the production of bicycles. There are a number of units in the small-scale sector also, with a capacity of 5 lakh bicycles. They are mainly located in Punjab, Delhi, Uttar Pradesh and West Bengal. In 1974 about 27 lakh bicycles were produced by the organised sector and the small-scale sector.

1.2. Apart from 56 units in the organised sector, about 300 units in the small-scale sector are engaged in manufacture of bicycles components and accessories (hereinafter mentioned as bicycle components).

1.3. The value of annual production and exports of bicycles and bicycle components during 1970 to 1974 were as follows:

| Year  | Production of organised sector |  |
|-------|--------------------------------|--|
|       | Bicycles<br>(Nos. lakhs)       | Bicycle com-<br>ponents value<br>(Rs. lakhs) |
| 1970* | 20.94                          | 1,026.00                                     |
| 1971* | 18.17                          | 1,066.00                                     |
| 1972* | 22.87                          | 1,231.00                                     |
| 1973@ | 25.00                          | 1,500.00                                     |
| 1974@ | 27.00                          | 2,240.00                                     |

\*SOURCE: Annual Reports of the Director General, Technical Development.

@SOURCE: Annual Report of the Ministry of Industry and Civil Supplies.

*Export of bicycles (complete) and bicycle components*

| Year    | Bicycles<br>No.<br>(Lakhs) | (complete)<br>Value<br>(Rs. lakhs) | Bicycle<br>compo-<br>nents<br>Value<br>(Rs. Lakhs) | Total<br>value<br>(Rs. lakhs) | Percent-<br>age of<br>Cols.<br>3 to 5 | Percent-<br>age of<br>Cols.<br>4 to 5 |
|---------|----------------------------|------------------------------------|--|-------------------------------|---------------------------------------|---------------------------------------|
| 1970-71 | 2.03                       | 243.88                             | 461.77   | 705.65                        | 35                                    | 65                                    |
| 1971-72 | 1.28                       | 166.66                             | 562.21   | 728.87                        | 23                                    | 77                                    |
| 1972-73 | 2.16                       | 305.22                             | 732.86   | 1,038.08                      | 30                                    | 70                                    |
| 1973-74 | 1.72                       | 264.99                             | 1,197.68   | 1,462.67                      | 18                                    | 82                                    |
| 1974-75 | 1.55                       | 352.24                             | 1,770.07   | 2,122.31                      | 17                                    | 83                                    |

*Source.*—Export statistics published by the Director General, Commercial Intelligence and Statistics, Calcutta.

1.4. Most of the exports of bicycles is in knocked-down conditions. Export of bicycles (complete) bears a relatively small proportion (about 8 per cent) to production of bicycles. The proportion (45 to 80 per cent) which export of the components bears to the production thereof in the organised sector alone is, on the other hand, very high.

1.5. Indian bicycles and bicycle components are exported to about 86 countries of the world, main importers being Nigeria, Indonesia, Iran, Thailand, Malaysia, Kenya, Vietnam Republic, Singapore, the United States of America and Tanzania.

1.6. Bicycles exported are of two types, viz., roadster and sports light roadster (special model speed light weight bicycles). The roadster is the universal model commonly used, and accounts for the major portion of our exports. The sports light roadster is a sophisticated model which is mainly in demand in the United States of America. There are only two manufacturers of sports light roadster bicycles, exports of which constitutes only a small portion (less than 10 per cent in 1974) of the total export of bicycles.

1.7. Rates of cash assistance and import replenishment admissible on exports of bicycles and bicycle components from April 1970 onwards are shown below:—

| Period   | Complete bicycle<br>(Roadster) |                               | Complete bicycle<br>(Sports Light<br>Roadster) |                              | Bicycle C m-<br>ponents |                              |
|--|--------------------------------|-------------------------------|--|------------------------------|-------------------------|------------------------------|
|  | Cash<br>assis-<br>tance        | Imp ort<br>repleni-<br>shment | Cash<br>assis-<br>tance                        | Import<br>repleni-<br>shment | Cash<br>assis-<br>tance | Import<br>repleni-<br>shment |
| (percentage of f.o.b. value)                             |                                |                               |  |                              |                         |                              |
| 1st April 1970 to<br>31st August 1970 .                  | 30                             | 20                            | 20   | 47                           | 30                      | 30                           |
| 1st September 1970<br>to 21st February<br>1974 . . . . . | 30                             | 20                            | 25   | 30                           | 30                      | 30                           |
| 22nd February 1974<br>to 13th March 1974                 | Nil                            | 20                            | 25   | 30                           | 30                      | 30                           |
| 14th March 1974 to<br>31st March 1974                    | Nil                            | 20                            | 25   | 30                           | 20                      | 30                           |
| 1st April 1974 to<br>22nd April 1974                     | Nil                            | 10                            | 25   | 30                           | 20                      | 20                           |
| 23rd April 1974 to<br>31st August 1974                   | Nil                            | 10                            | 10   | 30                           | 20                      | 20                           |
| 1st September 1974<br>to 31st March 1975                 | 15                             | 10                            | 10   | 30                           | 20                      | 20                           |
| 31st April 1975 on-<br>wards . . . . .                   | 15                             | 10                            | 12½  | 30                           | 20                      | 20                           |

1.8. In 1972 the Indian Institute of Foreign Trade was asked to study the adequacy or otherwise of the cash assistance available for exports of complete (roadster) bicycles and bicycle components. In its reports submitted in November 1972 the Institute recommended continuance of cash assistance and export assistance at the rates prevailing then.

10.9. In January 1973 a committee was set up by the Ministry of Commerce under the Chairmanship of the Chief Controller of Imports and Exports to review the registered exporters policy for 1973-74. Ministries of Commerce and Finance as well as the Director General, Technical Development, were represented in the Committee, which was asked to review, among other things, the need for and quantum of existing cash subsidies and import replenishment. It was decided that since this committee was going into the question of cash subsidies on engineering goods exports consideration of the Institute's report on bicycles might be held over.

1.10. In an annexure to its report submitted to Government in February 1973 the Committee indicated the proposed rates of cash assistance on exports of complete bicycles (roadster) and bicycle components as 22.5 and 20 per cent of f.o.b. realisation respectively as against 30 per cent admissible for both then. The Committee also indicated therein proposed reduction of the existing rates of import replenishment by 10 per cent *viz.*, from 20 to 10 per cent for complete bicycles (roadster) and from 30 to 20 per cent for components. It was estimated that the proposed reduction in cash assistance would result in a saving of Rs. 83 lakhs to Government during 1973-74. The proposed reduction in import replenishment was expected to result in a saving of Rs. 80 lakhs in foreign exchange during that year. The above reductions were, however, not effected.

1.11. The report of the Indian Institute of Foreign Trade was referred to the Cost Accounts Branch of the Ministry of Finance in May 1973 for advice about cash assistance admissible on marginal cost basis. The Cost Accounts Branch pointed out certain anomalies in the method adopted by the Institute in working out the f.o.b. cost of bicycles. On the basis of the data for two manufacturing units, the Cost Accounts Branch estimated that f.o.b. realisation fell short of the f.o.b. cost of those two units by 24.65 and 17.69 per cent as against the existing cash assistance of 30 per cent. The Cost Accounts Branch also pointed out that the Institute's study did not take into account the extra benefits accruing to exporters from import replenishment on exports of bicycles and components. It added that "Normally import entitlements are sold at heavy premium or utilised by importing directly raw materials or capital goods. The units concerned would derive considerable advantage in imports over indigenous cost."

1.12. In July 1973 the Director General, Technical Development, confirmed the above presumption, stating that the actual import content in complete bicycles (roadster) would not exceed Rs. 10 per bicycle, which worked out to less than 10 per cent of the f.o.b. realisation, as against 20 per cent import replenishment allowed. About components also, it was stated that the actual import contents was much less than the permitted level of 30 per cent.

1.13. In November 1974 'C', one of the leading manufacturers of bicycles, submitted its cost data for 1973-74 to Government. 'C's calculations showed a premium of 50 per cent on import replenishment. Had premium on import replenishment been taken into account for the two units whose costing had been done by the Indian Institute of Foreign Trade, the gap between the f.o.b. cost and f.o.b. realisation would have been substantially less than 24.65 and 17.69 per cent. For example, presuming that premium on import replenishment in 1971-72, for which costing was done by the Institute, was 50 per cent, as in the case of 'C' in 1973-74, the

gap between the f.o.b. cost and f.o.b. realisation would have been 14.65 and 7.65 per cent respectively.

1.14. In August 1973 the Ministry of Commerce proposed reduction of cash assistance on complete bicycles (roadster) and bicycle components from 30 to 21 per cent of f.o.b. value. The Ministry of Finance pointed out in October 1973 that certain facts viz., increase in f.o.b. realisation by 17 shillings per unit, increase in the rate of duty draw-back from 11 to 13 per cent and premium on import replenishment, had not been taken into account in working out the proposed rate of cash assistance. Had those facts been taken into account the rate of cash assistance would have been lower than the rate proposed by the Ministry of Commerce. However, since the Institute's report had been received in November 1972 and a decision had already been delayed, the Finance Ministry gave its concurrence (October 1973) subject to the following:—

- (i) reduction of cash assistance on complete bicycles (roadster) and components from 30 per cent to 20 per cent and not 21 per cent since the system was to fix the cash assistance at rounded rates;
- (ii) reduction of cash assistance on sports light roadster bicycles from 25 to 20 per cent as the f.o.b. realisation had increased by 6 dollars per unit as reported by the Director General, Technical Development, and
- (iii) reduction of import replenishment on complete bicycles (roadster) and components from 20 and 30 per cent to 10 and 20 per cent respectively.

1.15. In January 1974, it was decided to allow cash assistance on complete bicycles (roadster) and components at 20 per cent and on sports light roadster bicycles at 22½ per cent of f.o.b. value against the prevailing rates of 30 per cent and 25 per cent, respectively. It was directed that suitable adjustments in the import replenishment rates should be made simultaneously.

1.16. While orders conveying the above decision were yet to be issued, the Director General, Technical Development, informed the Ministry of Commerce in February 1974 that the unit-value realisation from complete bicycles (roadster) had gone up from £8.50 (Rs. 161) to £12.50 (Rs. 236), and that substantial export contracts were currently being booked at the higher price. The Ministry of Commerce made fresh calculations, and it was found that there was no loss in export of complete bicycles (roadster). It was accordingly decided (February 1974) to abolish cash assistance for complete bicycles (roadster).

1.17. No change was made in the decision of January 1974 about bicycle componems and sports light roadster bicycles on the ground that no separate costing of these two items had been made, nor had the Director General, Technical Development, intimated any higher unit-value realisation therefor. According to Government, average increase in unit value realisation on components was 6.57 per cent (excluding saddles) during April 1973 to December 1973, as compared to the corresponding period of the previous year. However, unit value of most bicycle components exported (which accounted for 91 per cent of the total exports of components by weight, excluding saddles) had increased by 8 per cent or more during April 1973 to December 1973 compared to the corresponding period of the previous year as against increase of 10 per cent registered by bicycles. (Saddles are exported by numbers and account for about 3 per cent of the total exports by value). The Ministry stated (Decmbr 1975) that "the proposal not to effect any change in the rates of Cash Assistance for export of Components was recorded in February 1974, when the statistics of the D.G.C.I. & S. relied upon were not available. Usually the published statistics are available six months after the period these relate to".

1.18. Cash assistance on complete bicycles (roadster) was abolished from 22nd February 1974, and that on bicycle components was reduced to 20 per cent from 14th March 1974. For sports light roadster bicycles, cash assistance was reduced from 25 to 10 per cent of f.o.b. value from 23rd April 1974.

1.19. The import replenishment on complete bicycles (roadster) and bicycle components was reduced from 20 and 30 per cent to 10 and 20 per cent respectively from 1st April 1974.

1.20. In March 1974 the Director General, Technical Development, informed the Ministry of Commerce as follows:—

".....conventional roadster bicycles are almost always shipped in a knocked down condition. There is, therefore, a risk consequent on abolition of cash subsidy on the export of complete bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of bicycle components and walk away with 30 per cent cash assistance prescribed for bicycle components."

1.21. He suggested that to avoid this situation cash assistance might be restricted only to eight important bicycle components which he specified, and pointed out that those eight components constituted the bulk of exports of bicycles components from our country. The Ministry of Commerce stated (March 1974) in reply that, as there were more than seventyfive components of bicycles, "some more thought could be given to the problem" and perhaps the components could be put in two groups, one for which cash assistance would be admissible and other for which cash assis-

assistance would not be available, while announcing registered exporters policy and cash assistance effective from April 1974. No such grouping has so far been made (November 1975). There was no cash assistance on complete bicycles (roadster) during 22nd February 1974 to 31st August 1974. During the period cash assistance was available for bicycle components, their exports increased to 83.70 lakh kilograms (Rs. 8.44 crores) during April 1974 to September 1974 from 71.51 lakh kilograms (Rs. 4.58 crores) during the corresponding period in the previous year, *i.e.*, April 1973 to September 1973, while exports of bicycles decreased to 51,435 (Rs. 1.14 crores) during April 1974 to September 1974 from 87,627 (Rs. 1.32 crores) during April 1973 to September 1973. The Ministry stated (December 1975) that "although it may be admitted that there was a decline in exports of bicycles complete during the period in question and that it could be due to abolition of Cash Assistance on this item, it will be incorrect to conclude that bicycles were being exported as components and the percentage rise (of about 17 per cent) in exports of components represented exports of bicycles complete in knocked down condition exported as components".

1.22. In the test audit check it was, however, noticed that the number of complete bicycles exported to country 'P' during April 1973 to September 1973 was 7,500 bicycles (Rs. 12.06 lakhs) while during April 1974 to September 1974 there was no export of complete bicycles to that country. Export of bicycle components to that country rose from 12.23 lakh kilograms (Rs. 63.09 lakhs) during April 1973 to September 1973 to 14.97 lakh kilograms (Rs. 138.38 lakhs) during April 1974 to September 1974. Similarly, while 1,060 complete bicycles were exported to country 'O' during April 1973 to September 1973, there was no export of complete bicycles to that country during April 1974 to September 1974. During that period the number of saddles exported increased from 1,250 to 2,250. Exports of components (other than saddles) to country 'O' increased from 2.74 lakh kilograms (Rs. 17.48 lakhs) during April 1973 to September 1973 to 4.59 lakh kilograms (Rs. 47.44 lakhs) during April 1974 to September 1974.

1.23. Government stated (December 1975) that export of bicycles to the countries 'P' and 'O' was erratic and the fact that there was no export of bicycles to these countries during April 1974 to September 1974 "cannot be attributed to any particular reason". The table below shows the exports of bicycles during the half year April 1974 to September 1974 as compared to corresponding half years of earlier years:—

| Period                    | P      | Q      |
|---------------------------|--------|--------|
| April 1971—September 1971 | 15,950 | 1,495  |
| April 1972—September 1972 | 21,700 | 605    |
| April 1973—September 1973 | 7,500  | 71,060 |
| April 1974—September 1974 | Nil    | Nil    |

1.24. When the proposal for reduction of cash assistance from 30 per cent to 20 per cent on bicycle components was sent to the Ministry of Finance in February 1974, that Ministry suggested (February 1974) to the Ministry of Commerce that cash assistance on bicycle components might be withdrawn. The Ministry of Commerce did not, however, accept the proposal on the ground that export of bicycle components was more than 75 per cent of the total export of bicycles and bicycle components, and the manufacturers of bicycle components, being in the small-scale sector there would be a set back in export of bicycle components if cash assistance was withdrawn or reduced further. While pointing out that the rate of cash assistance is decided on the basis of cost of production and f.o.b. realisation without any distinction between the small-scale sector and large-scale sector, the Ministry of Finance did not press (March 1974) its view further as proper cost data were not readily available for an objective analysis to determine the rate of cash assistance justified. On reconsideration, however, the Ministry of Finance felt in June 1974 that even without waiting for detailed cost study, which would take more than 6 months, there was clear justification for reducing cash assistance on export of bicycle components, particularly because cash assistance on export of bicycle components might lead to malpractices, as there was no cash assistance on complete bicycles, and suggested to the Ministry of Commerce the following two alternatives:—

- (i) reduction of cash assistance on export of bicycle components from 20 per cent to 10 per cent, or
- (ii) grant of cash assistance on export of both complete bicycles and bicycle components at the rate of 10 per cent.

1.25. The second alternative was based on the consideration that cash assistance at 20 per cent on export of bicycle components was estimated to be about Rs. 2.20 crores whereas cash assistance at 10 per cent on both complete bicycles and bicycle components would be around Rs. 1.50 crores and there would be a saving of Rs. 70.00 lakhs in a full year. In the meantime, several representations were received during February 1974 to July 1974 from the trade for restoration of cash assistance on complete bicycles (roadster). One State Government also made a similar request in July 1974. On consideration of the representations and also the suggestion of the Ministry of Finance mentioned above, on 5th August 1974 the Ministry of Commerce recommended to the Ministry of Finance cash assistance at the rate of 12½ per cent for both complete bicycles (roadster) and bicycle components upto March 1975 as it was understood by the former Ministry that "f.o.b. realisations have not been as high as were originally" and that "realisations vary from market to market". On 13th August 1974 the Ministry of Finance reiterated its

earlier view that cash assistance on complete bicycles (roadstar) and components should be 10 per cent on the following grounds:—

- (i) Having withdrawn the cash assistance wholly on export of complete bicycles, its restoration at the rate of 12.5 per cent without detailed cost study was not justified.
- (ii) The cost data for bicycles given by one or two exporters were not authenticated by Chartered Accountants and therefore could not be relied upon. Moreover, certain inadmissible expenses had been included in the f.o.b. cost.
- (iii) No data about components were available in proper form.

1.26. From a note recorded on 17th August 1974 in the Ministry of Commerce it appears that the Director General, Technical Development, had been consulted and the Ministry was informed that "from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent". On 22nd August 1974 the case was discussed by cash assistance review committee which recommended that cash assistance on complete bicycles should be 15 per cent on the basis of the following cost data:—

|   | Rs. |
|---|-----|
| F.o.b. realisation per bicycle . . . . .  | 200 |
| Duty drawback at 12 per cent . . . . .  | 24  |
| F.o.b. Cost . . . . .   | 260 |
| Shortfall in realisation<br>(18 per cent of f.o.b. value realisation) . . . . . | 36  |

1.27. It was also reported that two Far Eastern countries had reduced their prices considerably, which had posed a threat to the bicycle export. It was, therefore, decided to allow cash assistance on ad hoc basis at the rate of 15 per cent of f.o.b. realisation for bicycles from 1st September 1974 to 31st March 1975. In the case of components the existing rate of 20 per cent was to continue.

1.28. It was also decided that cost data would be collected and sent to the Cost Accounts Branch which would give its report by the end of October 1974.

1.29. For the above determination of the f.o.b. cost of, and if f.o.b. realisations from, bicycles, the Ministry of Commerce relied on unauthenticated data, as pointed out by the Ministry of Finance. F.o.b. cost of Rs. 260 adopted as the basis for determining the loss had been furnished (July 1974), without any detailed break-up, by the Chairman, Bicycles and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council (incidentally, he was connected with a leading bicycle-manufacturing firm); of the cost of Rs. 260 intimated by him, Rs. 220 were

stated to be the average ex-factory cost and Rs. 40 for packing, freight, etc. F.o.b. realisation of Rs. 200 was assumed on the basis of data given by a different manufacturer. According to the statistics published by the Director General, Commercial Intelligence and Statistics, f.o.b. realisations during April 1974 to July 1974 ranged between Rs. 188 and Rs. 247, the average being Rs. 219 per bicycle. If this figure had been taken into account, the loss would have worked out to 6.7 per cent only, even assuming the f.o.b. cost of Rs. 260 as correct and without taking into account the benefit accruing from import replenishment:—

|  | Rs.   |
|--|-------|
| F.o.b. realisation . . . . .                       | 219   |
| Add duty drawback at 12 per cent . . . . .         | 26.28 |
| F.o.b. cost . . . . .                              | 260   |
| Loss . . . . .                                     | 14.72 |
| Loss as percentage of f.o.b. realisation . . . . . | 6.7   |

1.30. The Ministry stated (December 1975) that "as the exports of bicycles were going down steeply after the abolition of Cash Assistance on them and as the industry was protesting vehemently, it was necessary to take an early decision in the matter. It was for this reason that the unaudited cost data available was taken into account as a rough estimate . . . . ."

1.31. As mentioned earlier, the Indian Institute of Foreign Trade had not gone into the costing of components. In June 1974, the Engineering Export Promotion Council had recommended cash assistance at the rate of 15 per cent both for components complete bicycles. The decision to continue cash assistance on export of bicycle components at 20 per cent of f.o.b. value was taken without reference to any cost data. It is to be pointed out that while the unit-value realisation of bicycles rose by 9 per cent in 1973-74 as compared to 1972-73, the corresponding rise for most of the components (covering 96 per cent of the total exports of components by weight, excluding saddles) was 11 per cent or more. Between April 1974 and July 1974 the unit-value realisations from most components (exports of which accounted for 94 per cent of the total exports of components by weight, excluding saddles) rose by 25 per cent or more whereas that of bicycles fell marginally by 3 per cent. The rise in unit-value realisations from components does not seem to have been taken into consideration in continuing cash assistance on components at 20 per cent. The Ministry stated (December 1975) that "these statistics were not available at the time of taking the decision to continue cash assistance on components and accessories."

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."

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\*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.

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\*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.”

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\*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 Accounts 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-

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\*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

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\*Not vetted in Audit.

Council collect market information about prevailing international prices, competitive positions *vis-à-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 machi-

nery 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 ceiling 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 criterion 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.

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\*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 anomalous 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—

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\*Not vetted in Audit.

the reduction being proportionate to the diminution 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

sidies could be regulated whenever necessary. In a note, the Ministry informed the Committee as follows:

"The Government do not have at present a machinery to keep a watch over and monitor f. o. b. realisations merely for the purpose of regulating the cash subsidy."

Asked, in this context, whether any steps had been taken to devise better information systems for regulating cash assistance, the Ministry, in a note, replied that "in accordance with the revised policy for grant of cash assistance", the following information was being asked from the concerned Export Promotion Council/Industry in respect of each item for which grant of cash assistance/enhancement of scale was requested:

- (a) export potential and domestic availability as well as supply elasticity of the products;
- (b) import content and domestic value added;
- (c) approximate implicit subsidy, if available, under the import replenishment scheme;
- (d) compensation for irrecoverable taxes and levies;
- (e) difference between domestic cost and international price of indigenous inputs and raw materials; and
- (f) costs of entry into new market.

1.62. In this context, the Committee consider it relevant to draw attention to their observations/recommendations contained in paragraph 1.49 of their 174th Report (5th Lok Sabha) on 'Cash Assistance', which are reproduced below:

"The basic defect in the system of granting of cash assistance seems to be that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion, so that the necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. Consequently, the assistance given from time to time has had little or no relevance to the realities of the situation at a given point of time and more often than not, such assistance proved to have been not only a drag on the exchequer but in the result infructuous. The Committee, therefore, desire that a suitable

machinery for a concurrent review of the relevant factors should be devised so as to ensure that the trade does not derive undue benefits from the fact that all the relevant information may not be readily available to the administrative Ministry concerned."

1.63. It would thus be seen from the forgoing paragraph that the question of revising the cash assistance for export of complete bicycles (Roadster) had been hanging fire for nearly two years, for one reason or the other, though it had been mooted in the middle of 1972 and a cost study by the Indian Institute of Foreign Trade had then been commissioned. For facility of ready reference, the various events between 1972 and 1974 may be briefly summed up as follows:

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| Early 1972     | . . . . . | Certain anomalies in the operation of the cash assistance scheme brought to the notice of the Commerce Ministry by the Central Board of Excise & Customs.  |
| Middle of 1972 | . . . . . | Cost studies commissioned through the Indian Institute of Foreign Trade in respect of Steel pipes and tubes, Steel wire ropes, Transmission Towers, Electric Transformers and Bicycles and bicycle parts.  |
| November 1972  | . . . . . | IIFT Report on Bicycles and bicycle parts submitted to Government.   |
| January 1973   | . . . . . | Committee constituted under the chairmanship of the Chief Controller of Imports & Exports to review Registered Exporters' Policy for 1973-74 and consideration of IIFT Report deferred.  |
| February 1973  | . . . . . | Report of Review Committee (referred to above), recommending, <i>inter alia</i> , reduction in the rates of cash assistance on bicycles and components submitted to Government. Recommendations not accepted by Government.  |
| May 1973       | . . . . . | IIFT Report referred to Cost Accounts Branch for advice. Anomalies in the method adopted by the Institute in working out f.o.b. cost, as well as non-inclusion of benefits accruing from import replenishment pointed out by Cost Accounts Branch.   |
| July 1973      | . . . . . | Presumption made by the Cost Accounts Branch in regard to advantages derived by exporters from import replenishment confirmed by DGTD.   |
| August 1973    | . . . . . | Proposal mooted by Commerce Ministry to reduce cash assistance on complete bicycles from 30 to 21 per cent.  |
| October 1973   | . . . . . | Finance Ministry pointed out certain omissions/deficiencies in the calculations of the Commerce Ministry. The former, however, agreed to reduction of cash assistance on complete bicycles (Roadster) from 30 to 20 per cent, since a decision in this regard had already been delayed considerably. |

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| January 1974  | Main Committee of MDF decided to allow cash assistance on complete bicycles at 20 per cent.   |
| February 1974 | Commerce Ministry's attention drawn by DGTD to increase in realisations on exports of Roadster bicycles and cash assistance completely abolished. |

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1.64. As stated earlier [Vide paragraph 1.57], the Main Committee of the Marketing Development Fund had also decided, in January 1974, to reduce the cash assistance on special model bicycles with 3-speed hubs (Sports Light Roadster) from 25 to 22.5 per cent of the f.o.b. value. The Audit paragraph points out that while deciding in February 1974, to abolish cash assistance on complete bicycles (Roadster), no change was made in the decision of January 1974 in regard to Sports Light Roadster bicycles on the ground that no separate costing had been done in respect of this item nor had the Director General, Technical Development intimated any higher unit value realisation in respect of these special model bicycles. The then existing rate of cash assistance of 25 per cent for SLR bicycles was, however, continued till 22 April, 1974 and reduced to 10 per cent with effect from 23 April, 1974.

1.65. The Committee, therefore, desired to know the basis on which it had been decided to reduce the cash assistance on SLR bicycles to 10 per cent, particularly in the context of the earlier decision of February 1974 not to make any change in the January 1974 decision of the MDF Committee on the ground that relevant cost data in this regard were not available. In a note, the Ministry of Commerce stated:

“The need for reducing the cash assistance for SLR bicycles was acknowledged by the MDF Committee in its meeting on 1-1-1974. The Committee even decided on a rate of 22½ per cent of the f.o.b. realisation along with other rates for bicycles and bicycle components. However, the question of cash assistance for bicycles, bicycle components and SLR bicycles came up for further examination based on the DGTD's report about increased f.o.b. realisation for bicycles. During detailed consideration of this matter by the MDF Committee on 18-4-75, the broad cost analysis which had been done was considered reasonable. Cash assistance was accordingly fixed at 10 per cent on the basis of the suggestion of the Ministry of Finance but the decision was tentative and subject to revision after detailed cost study.”

1.66. In this connection, the Committee found from the extracts of the relevant notes leading to the decision to abolish cash assistance on complete bicycles (Roadster) furnished to the Committee [Vide Appendix I] that the Director in the Ministry of Commerce had, *inter alia*, observed as follows:

“... Since there was no separate costing of bicycle components and SLR bicycles, and D. G. T. D. have not indicated any higher unit value realisation in this respect, M. D. F. decision may be followed for export of components and SLR....”

1.67. The Ministry of Commerce also furnished, at the Committee's instance, extracts of the relevant notes from the files of that Ministry and of the Ministry of Finance (Commerce Division) leading to the decision of the former Ministry not to accept the latter's suggestion to withdraw cash assistance on bicycles components, which are reproduced in Appendix II\*. The Committee found therefrom that the question of withdrawal/reduction of cash assistance on SLR bicycles had also been considered simultaneously leading ultimately to the decision to reduce the cash assistance on this item to 10 per cent with effect from 23 April, 1974. The position in this regard as emerging from the documents made available by the Ministry of Commerce is discussed in the succeeding paragraphs.

1.68. In their notes dated 19 February, 1974/21 February, 1974, recorded with reference to the decision of the Commerce Ministry not to withdraw cash assistance on SLR bicycles and bicycle components but to reduce the assistance as decided, in January 1974, by the MDF Main Committee, the Ministry of Finance (Commerce Division) had made, *inter alia*, the following observations in regard to cash assistance on SLR bicycles.

“We are not convinced by making a distinction between complete bicycles on the one hand and the bicycle parts and SLR bicycles on the other hand. If export realisation is much more than the cost of production for complete bicycles, the same position will hold good for bicycle components and SLR bicycles. The cost of production when the cash assistance on SLR bicycles was refixed in 1970 would be available in the relevant file of the Ministry of Commerce. That could be taken as the basis after providing for 60 per cent increase as is being done for complete bicycles, the cost could be compared with f.o.b. realisation. Further, the rate of cash assistance on SLR bicycles was 25 per

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\*This issue has been discussed in detail in a later section of this Report.

cent as against 30 per cent for complete bicycles when the then prevailing rate of assistance, was less for SLR bicycles, it is difficult to maintain that 22.5 per cent assistance is still necessary for such bicycles when no assistance is considered necessary for bicycles. It would be difficult to maintain to different principles for two types of bicycles and it may result in discrimination and representation from the exporters. We would, therefore, strongly recommend that cash assistance on bicycle components and SLR bicycles should also be withdrawn immediately. If the exporters represent a fresh examination on the basis of the cost data furnished by the exporters can be made and assistance reintroduced if it is justified on facts and figures.

In regard to SLR bicycles, there may not be more than two units manufacturing such bicycles and exporting them. It should not, therefore, be difficult to get proper cost data from these units and take decision on merit after withdrawing the CA at this stage."

With reference to these observations, the Under Secretary in Ministry of Commerce had pointed out on 23 February, 1974 that in order to find a market for the 76,000 three speed hubs imported under export obligation and then available with various parties, participation of the Export Promotion Council had been arranged in the New York Bicycle Fair and as a report on the participation was awaited, a sudden withdrawal of cash assistance at that stage might create confusion. It had also been pointed out that if the other alternative course of implementing the decision (January 1974) of the MDF Main Committee and reviewing the position after two or three months by which time the cost report might also be available, was adopted, Government might be blamed for frequent changes in the Cash Assistance Policy. The Joint Secretary in the Ministry, in his note dated 23 February, 1974, had suggested, while observing *inter alia*, the exports of SLR bicycles would have a set-back if the cash assistance was withdrawn completely, that Finance might be requested to allow the reduction of cash assistance as decided by the Marketing Development Fund to be given effect to immediately and a cost study taken up simultaneously to determine the need to reduce the assistance further. On 25 February, 1974, the reason adduced by the Under Secretary had been considered tenable by the Additional Secretary in the Ministry, who had also endorsed the proposal that the MDF decision could be given effect to initially and the position reviewed further on the basis of cost studies.

1.69. In their subsequent note dated 5 March, 1974, the Ministry of Finance (Commerce Division), while agreeing to the implementation of the January 1974 decision of the Main Committee of the Marketing Development Fund in regard to cash assistance on bicycle components, had, how-

ever, reiterated their earlier views in regard to SLR bicycles and had pointed out that the case for withdrawal/further reduction of cash assistance was still valid as indicated below:

|  |  |
|--|--|
| FOB cost of production per bicycle . . . . .   | Rs. 192.29   |
| Escalation in cost of production (60 as adopted in the case of Roadster bicycles) . . . . .  | Rs. 115.37   |
| Total cost . . . . .   |  |
|  | Rs. 307.66   |
|  |  |
| FOB realisation according to the DGTD and as indicated in the note of the MDF Main Committee (\$ 32 at the spot rate of Rs. 8) . . . . .   | Rs. 256.00   |
| Benefit of duty drawback (On the basis of the revised rate of 13 of the f.o.b. value as adopted for Roadster bicycles though the rate available in 1970 was Rs. 70 per unit) . . . . . | Rs. 33.00  |
| Total realisation . . . . .  |  |
|  | Rs. 289.00   |
|  |  |
| Estimated loss . . . . .   | Rs. 18.00<br>or about 7 per cent<br>of the f.o.b. value. |

The Finance Ministry had accordingly concluded that there was no justification for fixing the rate of cash assistance beyond 10 per cent. As regards the contention of the Commerce Ministry that exports of components and SLR bicycles would have a set back if cash assistance was withdrawn completely, the Finance Ministry had drawn attention to the fact that if the withdrawal of cash assistance on complete bicycles (Roadster) could not have a set-back, "the position should not be different for bicycle components and SLR bicycles."

1.70. Cash assistance on exports of complete bicycles (Roadster), abolished with effect from 22 February, 1974, was however, reintroduced with effect from 1 September, 1974 on an *ad hoc* basis at the rate of 15 per cent of f.o.b. realisation and the rate was to be effective till 31 March, 1975. The Audit paragraph further points out that on 5 August, 1974, the Commerce Ministry had recommended to the Finance Ministry cash assistance at the rate of 12½ per cent in respect of both complete bicycles (Roadster) and bicycle components upto 31 March, 1975 on the grounds that "f.o.b. realisations have not been as high as they were originally" and that "realisations vary from market to market", which, however, had not been agreed to by the latter, which reiterated instead its earlier view that cash assistance on complete bicycles (Roadster) and components should be 10 per cent on the following grounds:

- (i) Having withdrawn the cash assistance wholly on export of complete bicycles, its restoration at the rate of 12.5 per cent without detailed cost study was not justified.

(ii) the cost data for bicycles given by one or two exporters were not authenticated by Chartered Accountants and therefore could not be relied upon. Moreover, certain inadmissible expenses had been included in the f.o.b. cost.

(iii) No data about components were available in proper form.

1.71. The Audit paragraph also observes that while deciding to reintroduce cash assistance for complete bicycles (Roadster), the Commerce Ministry had, as pointed out by the Finance Ministry, relied on unauthenticated data. Besides, the f.o.b. cost of Rs. 260 adopted as the basis for determining the loss on exports had been furnished, in July 1974, without any detailed break-up, by the Chairman, Bicycle and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council, who was also connected with a leading bicycle-manufacturing firm. In this context, the Committee were informed by Audit that the Ministry of Commerce had stated, in December 1975, as follows:

“As regards the observation of Audit that the Chairman of the Bicycles and Bicycle Components Panel of the EEPC was connected with a leading bicycle manufacturing firm, it may be explained that the various panels constituted by the Engineering Export Promotion Council consist of the exporters of the commodity concerned. The Chairman of each Panel is elected from among the members and hence it is natural that the Chairman is a leading manufacturer/exporter of the product.”

1.72. Asked on what basis the Commerce Ministry revised its earlier decision of February 1974 to abolish cash assistance on complete bicycles (Roadster) within a period of six months, the Commerce Secretary replied in evidence:

“At one time the view was taken that cash assistance was not required. But later on, in August 1974, a view was taken to restore it from 1st September. Only for a few months it remained suspended.”

He added :

“Very large number of representations were made. Those representations were considered. There was the Cash Assistance Review Committee which is an inter-ministerial group. They went into this particular matter. All the figures were placed before them. It was felt that there was 18 per cent loss on bicycles and they came to the conclusion to allow 15 per cent cash assistance. This was a reasonable view that they thought they would take at that time.”

To another question whether these representations were received from the organised sector or the small scale sector, the witness replied.

“Representations were received from the organised sector. A letter was received from the Punjab Government also which wanted to take up the point on behalf of the small scale sector.”

The Ministry of Commerce subsequently informed the Committee that “a spate of representations had been received in this connection” and also furnished for the Committee’s perusal copies of “the more important ones among them”, which have been reproduced in Appendix III. The Committee have found from a scrutiny of these representations that while withdrawing cash assistance, in February, 1974, on complete bicycles (Roadster) the unit value (f.o.b.) realisation had been adopted as Rs. 250.00 (£ 12.50) on the basis of information furnished by the Directorate General of Technical Development, the Chairman of the Bicycles and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council, in his representation addressed to the Commerce Minister had contended that the actual realisation was much lower and ranged between Rs. 174 and Rs. 180 (exclusive of duty drawback). On the other hand, alongwith their representation dated 21 June, 1974, the Atlas Cycle Industries Ltd. had furnished a statement showing f.o.b. realisations, in respect of different exports to various countries during 1974, ranging from Rs. 179.85 to Rs. 293.31.

1.73. The Ministry of Commerce also furnished, at the Committee’s instance, extracts of the relevant notes from the files of the Commerce and Finance Ministers leading to the suggestion (5 August, 1974) for the grant of cash assistance for complete bicycles (Roadster) at 12-1/2 per cent and the later decision to allow cash assistance at the rate of 15 per cent from 1 September, 1974 to 31 March, 1975, which are reproduced in Appendix IV. The position as emerging from the files is briefly indicated below:

On 7 June, 1974, the Ministry of Finance (Commerce Division) had pointed out that even without waiting for a detailed cost study, there was “clear justification” for reducing cash assistance on export of bicycle components to prevent malpractices and had suggested that, pending reference to the Cost Accounts Branch for cost study, either the cash assistance on bicycle components be reduced from 20 to 10 per cent or cash assistance on complete bicycles as well as bicycle components may be allowed uniformly at 10 per cent.

In July, 1974, an Under Secretary in the Department of Export Production (Ministry of Commerce), on the basis of the cost data prepared in September, 1973 by the Cost Accounts Branch

in respect of M/s Sen Raleigh, Calcutta, as well as the details of the realisations, costs and profit/loss on export in 1973 and 1974 furnished by Atlas Cycle Industries Ltd, had concluded, *inter alia*, that the rate of 10 per cent cash assistance for export of complete bicycles (Roadster) as suggested by the Finance Ministry appeared to hold good.

On 25 July 1974, the Director in the Commerce Ministry had suggested that a decision might be taken on the basis of the data indicated in the Under Secretary's note, according to which the shortfall in realisation was about 11 per cent in respect of Roadster bicycles. He had accordingly suggested that the views of the Finance Ministry might be agreed to and a uniform rate of cash assistance of 10 per cent on complete bicycles as well as bicycle components might be allowed.

The Joint Secretary in the Ministry, in his note dated 3 August, 1974, had, however, drawn a distinction in regard to the volume of exports between components and assembled bicycles and had also pointed out that the figures of f.o.b. realisations intimated by Atlas Cycle Industries Ltd. would have to be modified as they included the value of accessories as well and the need to make certain allowances with reference to the quantity exported at any particular price. On this basis, he had computed the net shortfall around 18 per cent of f.o.b. realisation and had recommended that a minimum cash assistance of 15 per cent should be allowed on Roadster bicycles, while suggesting, at the same time, a reduction in the rate of cash assistance for bicycle components from 20 to 15 per cent.

On the case being submitted to the Additional Secretary in the Ministry, he had observed, on 5 August, 1974, that the f.o.b. realisations and costing available on record, on the basis of which the Finance Ministry had suggested an assistance of 10 per cent needed to be up-dated, and that as "the f.o.b. realisations have not been as high as they were originally" (according to the Additional Secretary, the realisation was somewhere around £12½ then) and "the realisations vary from market to market", a uniform rate of 12½ per cent might be suggested for both components and bicycles, to obtain till 31 March, 1975. He had also added that, in the meanwhile, costing and f.o.b. realisation data would be up-dated and the position further reviewed.

The Finance Ministry, to whom the case had been referred again had, however, observed, in their note dated 12/13 August, 1974, that it was difficult to agree to the grant of cash assistance at a rate higher than 10 per cent of the f.o.b. realisation for the following reasons:

- “(i) Having withdrawn the cash assistance completely on export of complete bicycles, reintroduction of cash assistance at a higher rate of 12.5 per cent without a detailed cost study may not be justified.
- (ii) As the M/Commerce is aware, grant of cash assistance on an *ad-hoc* basis without supporting details was objected to by the PAC in the case of audit paras, on cash assistance on some items included in the report of the C&AG for 1972-73. In this context, we have to be very cautious in announcing the rate of cash assistance which may prove to be liberal later on which a detailed cost study is undertaken. It has been our experience in the past that the figures given by the Council/industry were inflated and in a majority of cases where cost study was undertaken, the cash assistance was either not justified or recommended at a much reduced rate.
- (iii) The cost data furnished by the industry and the Council as available in the file is unaudited without a certificate of its correctness and reasonableness by a firm of Chartered Accountants and the Council. Certain inadmissible items like manufacturing overheads, general administrative expenditure, depreciation, interest and bank commission, selling and distribution expenses have been taken into account which are not admissible in the principle of marginal costing.
- (iv) The data available in the file is for one or two exporters and not for all the representative exporters to arrive at complete loss on exports. Even this data is in respect of complete bicycles on which cash assistance has already been withdrawn with the approval of the Main Committee of the MDF. The cost data for components is not available in the proper form. Even in the DGCI&S statistics, the export is in terms of quantity (kgs.) and value (rupees) for which comparable f.o.b. cost is not available. In this context, whatever rate is decided on components, is purely *ad-hoc*. The main basis for this rate is the reasonable loss on export of complete bicycles and the anxiety to avoid misuse of the facility of cash assistance on bicycles components in the absence of any assistance on complete bicycles.”

1.74. The Committee learnt from Audit that, with reference to their observations in this regard contained in the Audit paragraph, the Ministry of Commerce had stated (December 1975) as follows:

“Although the facts stated are correct, it may be pointed out that the Finance Ministry’s suggestion for allowing 10 per cent Cash Assistance on export of bicycles and 10 per cent on bicycle components was totally *ad-hoc* proposal not based on any kind of data, whereas Commerce Ministry’s proposal for grant of 12½ per cent, later 15 per cent) Cash Assistance on export of bicycles was based on the available data and DGTD’s advice.”

1.75. In view of the fact that while deciding to allow cash assistance, on *ad hoc* basis, for complete bicycles (Roadster) at the rate of 15 per cent from 1 September, 1974 to 31 March, 1975, the Commerce Ministry had relied on unauthenticated data without any detailed break-up, furnished by the Chairman, Bicycles and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council, the Committee enquired why the assistance had been allowed on the basis of unauthenticated data. In a note, the Ministry of Commerce replied:—

“Re-introduction of cash assistance at 15 per cent on f.o.b. value of complete bicycles was decided in the meeting of the Cash Assistance Review Committee held on 22.8.1974.

The above decision was based on (1) data supplied by the Chairman of the Bicycle Panel of the Engineering Export Promotion Council (2) the data available from the Cost Accounts Branch Report prepared in connection with the fixation of domestic prices of bicycles. On analysis of these data, the following conclusions were reached:

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|------------------------------------|---------------------|
| “F.O.B. realisation . . . . .      | Rs. 200/-           |
| F.O.B. cost . . . . .              | Rs. 260/-           |
| Duty drawback @ 12% . . . . .      | Rs. 24/-            |
| Shortfall in realisation . . . . . | Rs. 36/-<br>or 18%” |

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In addition to the shortfall of 18 per cent as indicated above, the Chairman also drew (attention) to an individual problem that had arisen for the bicycle manufacturers as Taiwan and China had reduced their prices considerably posing threat to our bicycle exports. The Committee had also decided that

the cash assistance on this item should finally be fixed only after detailed cost examination. However, since this was likely to take time, it was decided to allow cash assistance of 15 per cent on *ad-hoc* basis from 1.9.1974 to 31.3.1975. This was done in view of the fact that in the absence of any assistance, the exports of bicycles were receiving a set-back."

Asked how Government could justify the concessions given to the industry on the basis of unreliable and unauthenticated data which appeared to indicate a softness towards the industry, the Commerce Secretary replied in evidence:

"It is true that there were various views expressed on this subject by various officers within the Commerce Ministry as well as in the Finance Ministry. What has been taken up in this para has been reproduced from some of the files and, to that extent, it is true that various officers had different views on the subject.

Finally, this matter did come up before what is known as the Cash Assistance Review Committee. I have got here the minutes of the meeting of this Committee."

After reading out relevant portions of the minutes, he added:

"This is about the bicycles price. This is quite in detail and that is how the decision was arrived at."

Relevant extracts from the Minutes of the Second Meeting of the Cash Assistance Review Committee held on 22 August 1974, leading to the decision to reintroduce cash assistance on exports of Roadster bicycles, were also furnished to the Committee subsequently by the Ministry, which are reproduced in Appendix V.

1.76. Drawing attention to the Commerce Ministry's statement to Audit, in December 1975, that while the Finance Ministry's suggestion for allowing 10 per cent cash assistance was "totally an *ad hoc* proposal not based on any kind of data", the Commerce Ministry's proposal for the grant of 12½ per cent (subsequently increased to 15 per cent) was based on the available data and the DGTD's advice, the Committee desired to know whether the data claimed to have been available with the Commerce Ministry were acceptable to the Finance Ministry/Government. In a note, the Ministry of Commerce stated:

"The data available with the Commerce Ministry was from two sources (i) data furnished by the Chairman of the Bicycle Panel of the E.E.P.C. and (ii) data of costs prepared by the

Cost Accounts Branch for determining domestic prices of bicycles available in the Ministry of Industry.

The decision on the basis of the above data was taken in the meeting of the Cash Assistance Review Committee held on 22.8.1974. It may be stated that the Ministry of Finance (Departments of Expenditure and Economic Affairs) were represented on the Cash Assistance Review Committee."

In reply to another question as to how Government could decide such an important issue without obtaining reliable data, the Ministry, in a note, stated:

"The data supplied by the Engineering Export Promotion Council corroborated the data in the Cost Accounts Report of the Ministry of Industry. The weighted average of f.o.b. realisation in the case of exports of bicycles complete to Iran during 1974-75 works to about Rs. 200/- (61,479 bicycles valued at Rs. 1,22,31,800/-) which compared well with the realisation intimated by the Council. As such, the available data could not be set aside as unreliable."

1.77. Since it had also been stated by the Ministry that the proposal was based on the advice of the Director General, Technical Development, the Committee called for a copy of the advice received in this regard. In a note, the Ministry of Commerce informed the Committee, in this connection, as follows:

"The D.G.T.D. were consulted informally on the subject by discussions held at senior officers' level. D.G.T.D.'s views (as recorded on file after discussions on 25 July 1974) are reproduced below:

'I had consulted Shri Rajagopalan, D.O., DGTD, regarding present f.o.b. realisation. He said that the export of bicycles now being made are in respect of contracts entered into quite sometime back and therefore do not reflect the present prices. He was of the view that we should collect information from our Commercial Representatives in different countries to find out price at which these countries are importing Roadster Bicycles.

Since collection of data about costing and f.o.b. realisation will be a never ending process, since they will vary from time to time, it is suggested that we take a decision on the basis of data given in the Under Secretary's note. As for these figures,

the shortfall in realisation is about 11 per cent in respect of export of Roadster bicycles. A cash assistance of 10 per cent should therefore meet the requirement.

At present, there is no cash assistance on complete bicycle whereas there is a 20 per cent cash assistance on bicycle components. It has been pointed out by the Audit and confirmed by D. G. T. D. that there is a possibility of complete bicycles being exported as bicycle components for availing cash assistance. In view of this, it is necessary to have the same rate of cash assistance both for complete bicycles and bicycle components.’”

The Audit paragraph, however, points out that from a note recorded on 17 August 1974, in the Ministry of Commerce, it appeared that the Director General, Technical Development, had been consulted and the Ministry was informed that “from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent.” The relevant note (recorded by the Additional Secretary Ministry of Commerce furnished to the Committee by the Ministry is reproduced below:

“(1) This was raised in today’s CAR Committee and Dr. . . . . . Economic Adviser and Shri. . . . . desired to see this case.

(2) I should add that I have since had discussion on the appropriate rate of CA for bicycle components with DGTD and I am informed that from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent. This may be taken as my final view regarding the specific rate. This is now proposed to be discussed on 22.8.74, at 3.45 PM in my room.”

1.78. According to the Audit paragraph, while the Commerce Ministry had adopted, for the determination of f.o.b. cost and realisations, the cost of Rs. 260 intimated, without any detailed break-up, by the Chairman, Bicycles and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council and the realisation of Rs. 200 on the basis of data given by a different manufacturer (Atlas Cycle Industries Ltd.), the f.o.b. realisations during April 1974 to July 1974 actually ranged between Rs. 188 and Rs. 247 (average Rs. 219 per bicycle as per the statistics published by the Director General, Commercial Intelligence & Statistics). The Audit paragraph goes on to point out further that had this figure of Rs. 219, representing the average realisation per bicycle, been taken into account, the loss would have worked out only to 6.7 per cent (as against 18 per cent assumed by the Commerce Ministry), even assuming the f.o.b. cost of Rs. 260 as correct and without taking into account

the benefit accruing from import replenishment. On the Committee pointing out in this connection that even though the statistics compiled by official agencies indicated a situation far removed from the industry's contentions, the Ministry and the Cash Assistance Review Committee appeared to have overlooked them in favour of the trade interests concerned, the Commerce Secretary stated in evidence:

"For example the kind of calculation made by the D.G.C.I.S. about the figures shows that the f.o.b. realisation from the bicycles was of a certain order. The figure has been taken from April to July. This is not fair. They could as well have taken from January to June for the six months period. I cannot say whether from the statistical point of view the months you choose are a matter to be looked into or not. I have with me here the figures from January to March and the average price is Rs. 161 and that figure comes to Rs. 174 from January to June. Here in a kind of supposed calculation, a figure has been taken for April to July; when the Team met for a discussion on this subject they did not have any figures before them. Suppose they had before them the figure for June. Then they had to go by a certain figure that had been before them or that had been supplied to them. And on the basis of that, they came to the figure of Rs. 200 as the f.o.b. realisation prices which was not unusually a wrong price in this context.

If we take the 1973-74 realisations, according to the DGCIS it was 154 but in 1974-75 it was 227 and in 1975-76 it was 199. This is a matter of play with the statistics as to which period they should take for the purpose of averaging out of these things. It is nothing else but this. But, whatever we had, at the time when this decision was taken on the basis of whatever material available with them, they had to come to a judgment. I presume that their judgment of 200 as the f.o.b. realisation was right."

He added:

"That is on the basis of certain assumed statistics."

Asked whether both the sets of figures were not more or less assumed, the witness replied:

"What I am trying to say is that, while he has assumed the statistics from April-July, we might as well say that he could have taken the statistics from January to June which would have given him a much lesser f.o.b. realisation. He has taken 219 for his f.o.b. calculations; actually he should have taken

177. And if we take the whole year of 1975-76, then the actual comes to 199."

1.79. Asked whether the index period was not selected and calculations of f.o.b. realisations done on the basis of a scientific understanding of the various factors involved, the Additional Secretary of the Ministry of Finance replied in evidence:

"Under stable conditions and relatively stable prices and if there are no production constraints, like shortage of power, raw material etc. the Cost Accounts Officer's report would certainly be an essential guide for regulating the rate of cash assistance. But, in some of these products we are faced with both the problems of difficulties in the domestic production and large variations in the realisations abroad. It is very difficult to have a system which will be sensitive to these factors. On the other hand, as some of the Hon. Members pointed out, there is always a demand from the industry, that rate of cash assistance as well as the import replenishment should not be varied from time to time and there must be a certain amount of stability so that they can plan well their production capacity for export. We have thus two conflicting points of view to be reconciled and we are compelled to take an overall judgment. There is another factor. From time to time certain markets are faced with some difficulties if competition as had happened in the case of jute exports from Bangladesh, and prices are under-cut. These factors will not figure in the cost accounts report. But they have to be taken into account by the Review Committee at the point of time when a decision is taken."

He added:

"For instance, in 1974-75 the realisation was Rs. 227 whereas, according to statistics, it was only 199 in the following year. Suppose we had not given the cash assistance. No exports would have taken place, because of the drastic reduction in the realisation."

1.80. To another question whether the Industry would not be left with an adequate margin of profit even without the cash assistance, the Commerce Secretary replied:

"That impression was conveyed and as a result of that the cash assistance was discontinued.

But at the time when the cash assistance was restored, the calculations were again gone into. The calculations as at that time presented before the Finance Ministry and the Commerce Ministry showed a loss of 18 per cent. 15 per cent cash assistance was given."

Asked, in this context, why an industry should, even after the grant of cash assistance, want to export at a loss, the witness replied:

"It is a very difficult question.

Probably what happens is that those who are efficient make up for it. It is almost an average on which this kind of thing work. This was not more than a guide to us that it was a loss of let us say 18 per cent and the Committee thought if we could make good 15 per cent, this will be all right. In fact this was a kind of recommendation received from the various organisations that 15 per cent will be sufficient."

The Committee enquired into the details of the profitability ratio of the bicycle and bicycle components industries *vis-a-vis* other engineering units for the period 1970-71 to 1975-76. In a note,\* the Ministry of Commerce informed the Committee that "information on profitability ratio on bicycles and bicycles components industries *vis-a-vis* other engineering units for the above periods" was not available.

1.81. The Committee learnt from Audit that with reference to the units value realisation worked out by them on the basis of the published statistics of the Director General, Commercial Intelligence and Statistics and mentioned in the Audit paragraph, the Ministry of Commerce had stated, in December, 1975, as follows:

"As regards unit value realisation (on average basis) worked out and mentioned by audit on the basis of D.G.C.I. & S. export statistics, it may be stated that these figures (relating to period April-July 1974) were not available at the time of preparation of the note for consideration of the MDF Committee (August 1974) as the published statistics are usually received after six months."

Dealing with this question, in paragraph 1.50 of their 174th Report (5th Lok Sabha), the Public Accounts Committee (1975-76) had recommended:

"The Committee have been informed that there is usually a time lag of about six months between the information that is collected by the Director General, Commercial Intelligence and

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\*Not vetted in Audit.

Statistics and the relevant period for which the information is required. This is not a very satisfactory arrangement. That this should be so despite the introduction of mechanical compilation in the Directorate is a matter for concern. The Committee desire that the existing arrangements for the collection and dissemination of information relating to commercial intelligence and statistics should be critically reviewed and necessary corrective measures taken without delay so that the information system serves as an aid to decision making."

In their Action Taken Note on the above recommendation, the Ministry of Commerce had informed the Committee as follows:

"The Government has, however, already been seized of the problem of compiling the accurate statistics of the foreign trade and their timely publication with minimum delay. Based on the recommendations of a high level Committee, certain important changes in the method of compilation and publication of trade statistics coupled with structural strengthening of the organisation have been made. As a result, the time lag between the period for which the information relates and its compilation and preparation for publication has been reduced from about six months in 1972-73 to about three months at present. The observation of the Public Accounts Committee has been duly brought to the notice of the Director General of Commercial Intelligence and Statistics, who will, no doubt, keep the system under constant review in order to bring about such further improvement in the information system so that it serves as an aid to decision making in a more effective manner."

1.82. The Committee, therefore, desired to know the specific steps taken to devise a suitable machinery for the periodical and systematic collection of data by the Director General, Commercial Intelligence and Statistics and to ensure that the data, which were vital for the determination of policies in regard to cash assistance and other incentives for export promotion, were made available to the Commerce Ministry concurrently and continuously. The Commerce Secretary stated in evidence:

"We are grappling with this problem very desperately to get the figures and the data as quickly as possible and under the present system, the D.G.C.I.S. gives us the data getting which is somewhat delayed and cumbersome. They get the data from the various Customs Houses and seaports and then they compare them with the other data that they get from the various export promotion councils. After comparing both

then they finalise the data and put them on paper. It is only recently that we have been able to introduce the computerised system by which data processing work is being done a little faster than before but data collection work still requires to be speeded up. What we are doing in the absence of data is to collect whatever data we can from various export promotion councils otherwise we have to work on insufficient data. DGCIS data is not available before six months."

On the Committee enquiring into the extent to which the introduction of computerisation in the Directorate General, Commercial Intelligence and Statistics had contributed to the speeding up of data collection and collation and dissemination of information, the Ministry of Commerce, in a note, replied:

"No computer has been installed in the office of the Director General of Commercial, Intelligence and Statistics, Calcutta. Some mechanisation has, however, been done with installation of data processing equipments in that office. The benefits achieved as a result of which the time lag between the period for which the information relates and its compilation and preparation for publication has been reduced from about six months in 1972-73 to about three months at present."

1.83. The Committee asked whether the Directorate did not maintain and furnish periodically to the Commerce Ministry, regular working sheets of realisations from exports which could be referred to as and when required without waiting for the published statistics, and in case such periodical information was received, how these were utilised by the Commerce Ministry. In a note, the Ministry replied:

"The erstwhile time lag in the availability of India's Foreign Trade statistics to the Ministry of Commerce has since been reduced to a period of about three months. This has been made possible largely by an arrangement with the D.G.C.I.&S. Office to receive a copy of monthly Statistics of the Foreign Trade of India in the manuscript form without waiting for a printed copy of the volume. The manuscript copy so obtained is used widely for the statistical requirements. However, there is no machinery to watch and monitor the export realisation whether on the basis of this manuscript copy or otherwise."

1.84. Since the Ministry must also, presumably, be receiving regular market intelligence reports in regard to international price trends, export realisations, etc., the Committee desired to know if such intelligence reports were actually received during the relevant periods and, if so, how these

were utilised for determining the policies in regard to cash assistance from time to time. In a note furnished in this regard, the Ministry stated:

“The market survey reports indicating the prospects, prevalent price trends, etc. received from our Commercial Secretaries attached to the Indian Embassies abroad and other agencies like Indian Institute of Foreign Trade, Trade Development Authority, etc. are transmitted to the Engineering Export Promotion Council for exploiting the opportunities revealed through such Reports. There is no machinery to cull out price trends from these Reports and use them for the purpose of fixation of cash assistance.”

In reply to another question whether data relating to cost of production of different items, on which cash assistance or other export incentives were available, and the export realisations therefrom were made available regularly to the Ministry by the various Export Promotion Councils, the Ministry stated:

“There are at present no standing arrangements to collect periodically on regular basis, data from the Export Promotion Councils on various items relating to f.o.b. cost and realisation for which cash assistance has been granted. However, the proposals received from the Export Promotion Council containing all relevant data including cost of production, export realisation etc. are taken into account at the time of review/revision of cash assistance by the Inter-Ministerial Committee.”

1.85. Though the cash assistance of 15 per cent, granted on an *ad hoc* basis in August 1974, for complete bicycles (Roadster) was valid only till 31 March 1975, continuance of the assistance at the same rate for a further period of six months, *i.e.* upto 30 September 1975, and again upto 31 March 1976, was sanctioned respectively on 30 April 1975 and 1 October 1975. Simultaneously, on 30 April 1975, cash assistance for Sports Light Roadster bicycles was also increased from 10 to 12½ per cent. The Audit paragraph also points out that on 30 August 1974 [after the initial decision to re-introduce cash assistance, on *ad hoc* basis, from 1 September 1974 for complete bicycles (Roadster) was taken] the Cost Accounts Branch of the Finance Ministry had been directed to undertake cost studies in respect of four bicycle manufacturers\* ('A', 'B', 'C' and 'D'—'D' was later substituted by 'E' in view of the fact that 'D' had remained closed for long) and that reports in respect of units 'A', 'B' and 'C' were submitted in February and March 1975, which cast doubts on the justification for

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\*'A'—T.I. Cycles India Ltd. (Tube Investments of India Ltd.); 'B'—Atlas Cycle Industries Ltd.; 'C'—Sen Raleigh Ltd.; 'D'—Hind Cycles Ltd.; 'E'—Hero Cycles (P) Ltd.

the cash assistance allowed from time to time for exports of complete bicycles (Roadster).

1.86. The Committee learnt from Audit that the Ministry of Commerce had stated, in this connection in December 1975, as follows:

“Audit have made a point that though cost reports regarding some units had been received prior to 30th April, 1975, the same were not taken into consideration while deciding about the extension of cash assistance upto 30th September. They have also mentioned that the Government had not taken any decision on the cost reports by September, 1975.”

Cash assistance on a number of engineering items was expiring on the 31st March, 1975. Since continuity of cash assistance is necessary in the interest of exports from the country, it was essential that the cash assistance rates were announced before the expiry of the circulars. For all the items however, cost studies had not been completed by the Cost Accounts Branch. A meeting of the Cash Assistance Review Committee was taken on the 7th April 1975, which examined the question of extension of Cash Assistance rates in respect of bicycles and bicycle components, among other items. There was not enough time for the Ministry to examine the cost studies received from the Cost Accounts before 31st March, 1975. A decision was therefore taken to extend the rates upto 30th September in respect of bicycles and bicycle components also, along with other engineering items.”

As regards the extension of the cash assistance beyond 30 September 1975 the Ministry is understood to have informed Audit, in December 1975, as follows:

“Certain cost study reports received from the Cost Accounts Branch had been examined by the Government and it had been found that the cost accounts branch had not taken the latest f.o.b. realisation in many cases. Since due to recessionary international market conditions, f.o.b. realisation had come down in case of many of the engineering items, the exports had been representing that the latest lower f.o.b. realization should be taken into account while doing cost study. In several reports also, the Cost Accounts Branch had mentioned this fact and had left it to the Commerce Ministry to take into consideration the latest figures of f.o.b. realization. In view of this, it was decided that the latest f.o.b. cost and f.o.b. realization should be taken into account while considering the question

of extension of cash assistance beyond the 30th September 1975.

While sending Cost data of different units to the Cost Accounts Branch, it was being noticed that data were not being furnished in a proper manner by the exporting units. In several cases, the Cost Accounts Branch has also returned the data sent to them, on the ground that these were defective/incomplete. In this connection, several letters were issued to the Engineering Export Promotion Council to send the cost data in proper form, complete in all respects. It was also decided to take a meeting of the exporters to explain to them the correct manner of compiling marginal cost data. Such a meeting was taken on the 14th July, 1975 and the same was attended by the Chief Cost Accounts Officer and the Joint Secretary, Ministry of Commerce.

In the meantime, certain other developments had taken place regarding the incentive schemes for exports. The question of extending cash assistance on different items was taken up in a meeting of the Marketing Development Fund held on the 24th September 1975 in which the following decision was taken:

“In regard to the procedure, it was decided that there should be a quick review of cases. The cases blatantly unsustainable or requiring assistance can be considered on merits by the Review Committee and the other cases where changes may be proposed can remain, unaffected, since the spirit of the decision of CCE is that the scheme may continue as it is and that pending formulation of the new scheme the rates need not be fiddled around with.”

As per the above decision, a meeting of the cash assistance Review Committee took up the question of extension of the Cash assistance rates beyond 30.9.1975. In the note submitted to this Committee, it was pointed out that the cost data submitted by firm showed a short-fall of 16 per cent and 18.85 per cent on the basis of marginal costing of two units manufacturing complete bicycle. Similarly, the cost data of a firm manufacturing bicycle parts showed a loss of 25.32 per cent on marginal costing basis. It was therefore recommended to the Committee that the present rates should continue. The Committee agreed with this recommendation and it was decided that the existing rates should continue upto 31.3.1976.”

The Ministry is further understood to have stated:

"The question of streamlining export benefits that were being made available was equally taken up by Government around August of this year. A proposal considered was to give import entitlements, over and above the present rates of import replenishment available according to the Import Trade Control Policy, for specific items, export promotion of which was considered necessary. It had also been felt at the time that the cash assistance scheme should be formulated taking into account relevant parameters and not merely the relationship between the f.o.b. marginal cost of the product and the f.o.b. price that was obtainable. So long as the new cash assistance scheme was not brought into force, it was also felt desirable that the existing rates should not be disturbed, unless they were wholly unjustified. The Cash Assistance Review Committee, in its meeting held on 30th September 1975, decided about the rates that should continue, in regard to products for which the terminal date of assistance was 30-9-1975, in the context of the views being held by Government at the time.

However, in early October, the import entitlement scheme under consideration was given up and in regard to products, the promotion of whose exports was considered necessary, additional cash assistance was decided upon. These rates were given effect to from 1st October 1975 and circulars addressed to the various Export Promotion Councils were issued during the middle of the month. The cash assistance scheme that would be in force from 1st April 1976 would really depend upon the decisions ultimately taken by Government on the basis of the recommendations of this Committee. Our endeavour is to complete the exercise, well ahead of time so that the new scheme is announced well before the close of the current financial year".

1.87. The Committee desired to know why it was not possible for Government to obtain proper cost data from time to time and have them examined by the Cost Accounts Branch at periodical intervals for regulating the cash assistance instead of resorting to *ad hoc* grant of assistance that had little or no relevance to the realities of the situation. In a note, the Ministry of Commerce stated:

"The entire process of calling for the cost data from the industry and getting them cost accounted by the Cost Accounts Branch was time consuming and it took months in several cases. By the time the cost reports were received and examined the data become out of date in the prevailing conditions. However,

efforts were always made to get data cost accounted in time for the Review Committee to consider as far as possible. Cash Assistance on *ad hoc* basis was granted only in exceptional cases and under special circumstances."

1.88. Since unit 'E' (Hero Cycles (P) Ltd.), which had been selected in lieu of 'D' (Hind Cycles Ltd.) on the recommendation of the Engineering Export Promotion Council, had not furnished the details and documents required by the Cost Accounts Branch, the Committee asked whether Government ascertained the reasons for this default from the Export Promotion Council and, if so, what were the reasons indicated by the Council. In a note, the Ministry of Commerce replied:

"Immediately on receipt of a communication from the Cost Accounts Branch to the effect that the Unit 'E' was not cooperating in the matter of getting their cost examined, the matter was taken up with the Engineering Export Promotion Council. The Council explained that the Unit 'E' had denied the allegation of non-cooperation. It was, however, explained by the Unit 'E' that the accounting year of the company being July to June, the company preferred to have their accounts pertaining to the period July 1974-June, 1975, being cost studied. Cost data pertaining to this period was later received from the Council on 26th September 1975. This was, however, not cost accounted in view of the change in policy."

1.89. According to the studies undertaken by the Cost Accounts Branch, the gap between f.o.b. cost and f.o.b. realisation expressed as percentage of f.o.b. realisation on exports of bicycles in respect of Units 'A', 'B' and 'C' was as follows:

|                                 | Roadster Bicycles |           |            | SLR Bicycles |          |            |
|---------------------------------|-------------------|-----------|------------|--------------|----------|------------|
|                                 | 1973              | 1974      | Early 1975 | 1973         | 1974     | Early 1975 |
| 'A'—T.I. Cycles India Ltd.      | (-)11.8           | (-)1.3    | (-)11.3    | (-)18.74     | (-)40.50 | (-)12      |
| 'B'—Atlas Cycle Industries Ltd. | ..                | (-)11.9   | (+)5.3     | ..           | (-)19.50 | (+)10.4    |
| 'C'—Sen Raleigh Ltd.            | (+)9.32*          | (+)8.93** | ..         | ..           | ..       | ..         |

\*For 1973-74

\*\*For 1974-75

In computing the loss on exports in the case of 'A' (T.I. Cycles India Ltd.), however, the benefit derived from import replenishment licences was not taken into account and the Audit paragraph points out that if this was also taken into account to the extent of average benefit of 'B' (Atlas Cycle Industries Ltd., which had sold its import replenishment in 1973 at premia ranging from 30 to 49 per cent), the loss incurred by the unit in 1973 would be insignificant (0.4 per cent) and result in a gain in the subsequent years. According to the Audit paragraph, the cost data/calculation submitted by 'C' (Sen Ralleigh Ltd.) in November 1974 in respect of 1973-74 also showed a premium of 50 per cent on import replenishment.

1.90. On the Committee drawing attention to the sale of import replenishment at a considerable premium, which ought to have been rightly taken into account while determining the need for and quantum of export incentives, the Commerce, Secretary stated in evidence:

"The word 'sold' is not proper. It is nominated and a nominee can be found and naturally, some consideration, it seems, is charged according to some kind of a market mechanism. What that premium is and what the market mechanism charges, depends on the availability of such licences. To-day, I am told the premium is very low. Nobody wants to buy these nominations. Nevertheless, the system does allow that an import replenishment can be given as a nomination to another party who is in the manufacturing business and feels that in the manufacturing business he can utilise that licence and import something for the purpose of manufacture and getting into higher production and better production for the purpose of exports. The basic meaning behind import replenishment schemes at present is not to restrict it only to the person who has exported. It is also to allow, if another person is able to utilise that licence, that person to utilise it provided he is in the same what is known as group. It is not possible, let us say, for a man in the engineering group to nominate a man in the chemicals group. An engineering group man can nominate another man in that group. This is basically the philosophy behind the import replenishment systems. It has worked fairly well and we have taken into account as to how many nominations were normally made. In the whole period we have found that only about 17 per cent of the licences are nominated and about 83 per cent are not nominated. People who get these licences use them to get better products or get things needed by them for their industry from abroad. It is true that about 17 per cent do get nominees."

He added:

"This point has been raised more than once in this august body itself during previous years. Here also quite some effort has been done in the Government also on this subject of import replenishments and their nomination system. We find that it is the shortage of foreign exchange which has led to a degree of abuses and if the shortages were made good, then no one will pay any value for any kind of licence. If he is to get his licence quickly and easily and without any difficulty, then the premium which is being paid for getting nominations will dwindle and let us say, wither away and that is exactly what is being done to-day. Many measures have been taken, quite a number of them, to make it easy and very easy for people who are in the exporting line to get their requirements."

Asked whether this policy of appeasement of the industry (which was usually controlled by big money interests) by various kinds of direct and indirect benefits was not dangerous in the long run, the witness replied:

"I do not see any appeasement in this. It is a question of a practical approach to the problem which otherwise the money market will never stop quoting in the market. Anything is saleable today in the market and unfortunately so. It is only a question of its availability. We had discussions and the decisions that have been taken have actually resulted in this money market, this money value being offered for nominations has gone down very sharply. I am sure it will disappear. If we were to make a law about it, then what will happen is that the price of this will probably go up instead of coming down."

1.91. Since it had been stated that about 17 per cent of the import replenishment licences were nominated to persons other than the actual recipients, the Committee desired to know whether any study had been undertaken by the Commerce Ministry, prior to 1973, to determine the premium thereon before arriving at the quantum of cash assistance necessary. In a note, the Ministry of Commerce stated:

"No study was made in the Commerce Ministry to determine the premium on import replenishment licences prior to 1973. However, exporters were required to indicate premium on import replenishment while requesting for determination of cash assistance, rate. Cost Accounts Branch whenever required<sup>d</sup> to undertake cost study, also took into account premium earned

by exporters on import replenishment licences transferred to his nominees.

Any consideration for nomination would depend on the commercial arrangement between the exporters and the manufacturers. If the manufacturer gives the product for export to the exporters at an international price, he will claim from the exporter the benefit of nomination without any consideration. If, on the other hand, the manufacturer gives the goods on domestic price to the exporter, the position may be different."

1.92. The Committee enquired into the basis on which cash assistance on SLR bicycles had been increased from 10 to 12½ per cent with effect from 1st April 1975. In a note, the Ministry of Commerce replied:

"The trade was representing that Cash Compensatory Support on the export of Special Light Roadster Bicycles (SLR) at 10 per cent was inadequate. As a result, they were suffering loss in exports. The matter was referred to Cost Accounts Branch of the Ministry of Finance for cost study of the industry. The Cost Accountant conducted the cost study of M/s T.I. Cycles and Atlas Cycles. The Cost Accountant came to the conclusion that there was a loss of 12.1 per cent in the exports of S.L.R. Bicycles made by M/s. T.I. Cycles.

The case was examined and placed before the Cash Assistance Review Committee in its meeting held on 7th April, 1975. The Committee decided that the Cash Assistance rate on S.L.R. Bicycles be raised from the existing rate of 10 per cent to 12½ per cent w.e.f. 1st April, 1975 upto 30th September, 1975, basing its decision on the Report of the Cost Accounts Branch in respect of M/s. T.I. Cycles where the loss shown was 12.1 per cent."

The Ministry also furnished a copy of the relevant extract from the Cost Accounts Officer's report, which is reproduced below:

"Before considering the benefit on the import entitlement licences only the shortfall worked out to 18.7 per cent on special model cycles and 11.8 per cent on Roadster model cycles in 1973; in 1974 exports, the average shortfall was 40.5 per cent in special model bicycles and 1.3 per cent in Roadster models. No firm orders pending execution for special and roadster models have been shown except the price enquiry mentioned in para 11. The shortfall for special model cycle based on

the price enquiry and current cost will be 12.1 per cent. Thus the latest shortfall in roadster model is 1.3 per cent and on special models is 12.1 per cent on f.o.b. If there is a change in duty drawback rates as mentioned in para (10), then again the shortfall will change. The excess import entitlement licence with the Company is 15 per cent on f.o.b. on special model cycles and 8.6 per cent on roadster models. The benefit on excess import licences could not be assessed. The Ministry of Commerce may take view on the benefit if any on the import entitlements in deciding the quantum of cash assistance.

1.93. Asked to indicate the basis on which the rate had been subsequently increased to 15 per cent with effect from 1st October, 1975, the Ministry in a note replied:

“The rate of Cash Assistance at 12.5 per cent sanctioned w.e.f. 1st April, 1975 was valid upto 30th September, 1975, after which a Review was to be done. The Cash Assistance Review Committee held its meeting on 30th September, 1975 in order to review the Cash Assistance rates on various items having the terminal date of 30th September, 1975. The S.L.R. bicycle was one of the items thus reviewed. The Cash Assistance Review Committee decided to continue the existing rate of 12.5 per cent upto 31st March, 1976.

The rate of 12.5 per cent was based on the marginal costing of M/s. T.I. Cycles.

In October, 1975, a decision was taken at the highest level that having regard to the export prospects, production capability in the country, the competitive strength of our products *vis-a-vis* the international prices and other relevant factors, it was necessary to provide additional Cash Assistance in respect of certain products. The list of such products and the rates of additional cash assistance were decided by a high-level Committee under the Chairmanship of Commerce Secretary which took decisions on 6th October, 1975.

In respect of S.L.R. Bicycles it was decided to increase the existing rate of Cash Assistance of 12.5 per cent to 15 per cent. The additional cash assistance was announced for the period 1st October, 1975 upto 31st March, 1976 and was decided to be continued thereafter upto 31st March, 1979.

While deciding upon the additional rates of cash assistance it was made clear that these rates were not related to the principle

of marginal costing. These rates were determined having regard to all the relevant factors including the promotional assistance which the commodities in question needed under the circumstances existing on the date of the decision."

Asked to furnish relevant extracts of the Notes in the relevant files of the Ministry leading to these decisions, the Ministry informed the Committee that disclosure of records pertaining to the determination of rates of cash assistance is considered to be prejudicial to the interest of the State" and were, therefore, not being furnished. However, according to information furnished by Government in August, 1977, this increase of cash assistance "was approved by the Commerce Minister alongwith other proposals for changes in the cash assistance rates."

1.94. In view of the fact that the basic raw material required for the manufacture of bicycles—steel—was being made available at controlled prices and the domestic availability of steel had also improved considerably in recent times, the Committee asked how the f.o.b. cost could be as high as had been claimed by the industry. A representative of the Directorate General, Technical Development replied in evidence:

"I agree that steel is available in plenty. There is no problem of its supply. But it is produced in the secondary sector which is an un-controlled sector. There is no price control while the integrated steel plants' prices are controlled. As far as the secondary sector is concerned, the Indian Tube Company is doing hot strip and reducing it to cold rolled strip. They are charging high prices."

He added:

"The bicycle industry is relying on the cold-rolled steel strips produced in the secondary sector. The main steel plants produce hot-rolled; steel strip; it is re-rolled; it is used for various parts, for forks, for other components which require cold-rolled strips. Cold-rolled steel strip sector is totally uncontrolled. If you compare this with the JPC controlled price of hot rolled strip, and the price charged by the secondary sector, you will see the wide disparity. When we asked the bicycle manufacturers to reduce the price they asked us: Why don't you ask the secondary producers to reduce the price? Why are they charging such high price? So, Sir, this is a matter which we have taken up with the Steel Ministry and it may be that your Committee may like to take it up with Steel Ministry. Nickel is a basic input for electro-plating of the bicycle. It is not produced in the coun-

try. There is the international cartel, Mond Nickel. Now the bicycle industry asks us, can you get nickel at such and such price, over a period of years. So, these are difficult and complicated problems and this does not admit of any simple inferences."

Since the secondary sector was admittedly charging high prices by taking advantage of the situation, the Committee enquired whether the Steel Ministry had ever been advised to move in the matter and to take necessary steps. The witness replied:

"We have brought it to their notice." Asked whether there was any communication in this regard, he replied:

"At various points of time representations were made at the various meetings."

He, however, added:

"There is too much raw-material purchased by the private producers where no doubt profit are being charged considerably. How can we control everything?"

1.95. The Audit paragraph also points out that the export of complete bicycles (Roadster) bears a relatively small proportion (about 8 per cent) to production of bicycles in the country. The following table indicates the share of export in the total output of bicycles: during the period 1965-66 to 1971-72:

| Year    | Output of bicycles | Exports  | Percentage of exports to total output |
|---------|--------------------|----------|---------------------------------------|
| 1965-66 | 15,82,000          | 53,206   | 3.4                                   |
| 1967-68 | 16,83,700          | 83,274   | 4.9                                   |
| 1968-69 | 19,90,000          | 1,25,644 | 6.3                                   |
| 1969-70 | 19,30,200          | 1,32,911 | 6.9                                   |
| 1970-71 | 20,46,200          | 2,02,904 | 9.7                                   |
| 1971-72 | 19,94,000          | 1,44,210 | 7.3                                   |

SOURCE :—Report of IIFT on Bicycles and Bicycle Parts.

1.96. Since exports of bicycles amounted to only 8 per cent of the production, the Committee asked whether it was worthwhile to promote

such a law quantum of exports with incentives like cash assistance. The Commerce Secretary replied:

"This is the view of the Government that incentive on a selected basis should be given for promoting exports. In the case of bicycles if we compare the figures right from 1960 we would have come a big way. The export of bicycles started with a very small figure but has reached a very sizeable figure now and each year we are improving on our performance. In the current year we will have an export of bicycles to the tune of 5 crores and next year 6 crores and thereafter 8 crores. It is also hoped that the export market will enable us to utilise the idel capacity which is there and it may happen that we may succeed more and more to set up more capacity and create more employment."

On the Committee pointing out that the policy of promoting exports at all costs did not appear to be sound and exports merely for the sake of exports was open to question, the Additional Secretary of the Ministry of Finance stated:

"The possibility of developing our export performance was one factor which was prominently kept in view when dealing cash assistance. If there was no potential at all, then we would not bother us about that. There is no point in going for any new product, unless it has a growth potential. If the cash assistance is to be given, this is the first criterion that we take into consideration."

The Commerce Secretary added:

"It is very unusual that Government has been faced with a very wide trade gap between its exports and its imports and the gap was of the order of Rs. 1100 crores by the end of March 1975 for the year 1974-75. Upto March 1976, there is likely to be another gap of the same order almost. The final figures are yet to be checked. The desirability of closing this gap by more and more exports has been emphasised in various quarters. The magnitude of the task has been recognised and an all-out effort is therefore being made to promote India's exports and so, a number of new strategies have been devised for the purpose and a few others are under consideration."

Asked whether any future projections in regard to bicycle exports had been made, the witness replied:

"We do make some kind of projections for ourselves. It is entirely for our own use. For complete bicycles, we have a target of 5 crores in 1976-77 which we expect will go to 6 crores next year and to 8 crores in 1978-79. This is a kind of very rough target which we have set for ourselves for the present. We are working towards these targets. We may reach them or exceed them or may not reach them. That is a different matter. We shall have to look into whatever difficulties or problems or any other matters that need to be looked into in this connection."

In a note furnished subsequently in this regard, the Ministry of Commerce informed the Committee that the Engineering Export Promotion Council had tentatively laid down the following export projections in respect of both complete bicycles and parts:

| Year    | Rupees in Crores           |    |
|---------|----------------------------|----|
|         | Estimated value of Exports |    |
| 1976-77 | .                          | 26 |
| 1977-78 | .                          | 28 |
| 1978-79 | .                          | 30 |

1.97. The Report of the Indian Institute of Foreign Trade points out, *inter alia*, that the burden of uncovered loss on exports was absorbed by the domestic market and that in view of the low percentage of export to the total output, which was less than 10 per cent, the absorption of the present uncovered loss had not been difficult. The Report, however, goes on to add that "to what extent this process can be continued has to be viewed from the angle of the overhead elements in the f.o.b. cost and capacity of the domestic market to bear the additional burden." Besides, the Report also adds that while bicycles in India provide the means of cheap and quick transport for the masses, bicycles in the western developed world were mainly in demand as a sports items or fast supplementary means of transport to be used over very short distances or for joy rides by a limited section of society. Drawing attention to the fact that the uncovered loss on exports of bicycles was being passed on to the domestic consumers who were mostly concentrated in the small towns and rural villages, the Committee desired to know the justification for maintaining export markets at the expense of the domestic consumer. The representative of the Directorate General, Technical Development stated in evidence:

"It is only 8 per cent of the production which is exported. It is rather difficult to say that subsidy on this 8 per cent is pushing up the cost of 92 per cent sale in the internal market. 92 per cent sale in the internal market at high price is for various reasons. There could be managerial inadequacies, there could be no cost consciousness, but there could be very serious difficulty of raw materials."

Asked whether any ceiling had been fixed on the domestic prices of bicycles, the Additional Secretary of the Finance Ministry replied:

"I can only mention that the prices of bicycles were controlled under the Essential Commodities Act. Now, the price control has been removed."

1.98. According to the Report of the Indian Institute of Foreign Trade, one of the reasons for the high f.o.b. cost per unit was the high proportion of fixed overhead to the f.o.b. cost, resulting from the under-utilisation of the total capacity available. On the basis of detailed cost figures obtained in respect of some units, the Institute had found that the proportion of the factory overheads to the f.o.b. cost varied from 9.7 to 16.7 per cent and that of office overheads from 1.2 to 3.1 per cent, while the percentage of variable factory overheads was between 3.6 and 5.5 per cent and that of variable office overheads between 0.6 and 1.3 per cent. The fixed overheads therefore, constituted about 6.7 to 13.0 per cent in respect of Units 'U' and 'V' as per details indicated below:

|  | 'U'  | 'V'  |
|--|------|------|
| Percentage of total factory overheads to f.o.b. cost . . . . . | 9.7  | 16.7 |
| Percentage of total office overheads to f.o.b. cost . . . . .  | 1.2  | 3.1  |
| Percentage of total overheads . . . . .                        | 10.9 | 19.8 |
| Percentage of variable factory overheads . . . . .             | 3.6  | 5.5  |
| Percentage of variable office overheads . . . . .              | 0.6  | 1.3  |
| Percentage of total Fixed Overheads to f.o.b. Cost . . . . .   | 6.7  | 13.0 |

The IIFT study, however, focusses attention on the fact that while the installed capacity of the bicycle industry had gone up quite substantially (in December 1971 the installed capacity was reported to have gone upto 33,32,000 bicycles while in 1972, when the IIFT study was commissioned, the installed capacity of all the units manufacturing complete bicycles had gone upto 36,42,000 per annum, according to the estimates of the Directorate General, Technical Development), the unutilised capacity represented a high proportion of the total available capacity, with

less than 50 per cent of the installed capacity being utilised on the whole. The Report goes on to observe:

“.....The production of the bicycles can, therefore, be almost doubled if the total installed capacity is fully utilised. Even from the angle of individual lead manufacturers the unutilised capacity varies from 1/3 to 1/2 of the total available..... *This large proportion of unutilised capacity indicates the possibilities of reducing the unit cost at least by distributing fixed overheads over much greater numbers* (emphasis added). According to the estimates based on cost data regarding the select units under study, the proportional fixed overheads to the f.o.b. cost is around 10 per cent. *If production increases by 50 to 100 per cent of the existing capacity, the incidence of fixed overheads on each unit of production will be reduced by 33.3 to 50 per cent* (emphasis added). This means that the proportion of fixed overheads to the total f.o.b. cost will go down from the present average of 10 per cent to 5 to 6.7 per cent and that gain of 3.3 to 5 per cent in f.o.b. cost can be anticipated. In addition, the scale economies may help in reducing the per unit incidence of the variable elements.”

1.99. The following table, compiled on the basis of statistics furnished, at the Committee's instance, by the Directorate General of Technical Development, indicates the installed capacity and actual production of the bicycle industry in the organised sector during the period 1970—75:

| Year           | Quantity in Lakh Nos. |                   |  |
|----------------|-----------------------|-------------------|--|
|                | Installed capacity    | Actual production | Production as percentage of installed capacity |
| 1970 . . . . . | 35.22                 | 20.94             | 59.5   |
| 1971 . . . . . | 37.32                 | 18.17             | 48.7   |
| 1972 . . . . . | 38.94                 | 22.73             | 58.4   |
| 1973 . . . . . | 40.19                 | 25.44             | 63.3   |
| 1974 . . . . . | 40.19                 | 25.13             | 62.5   |
| 1975 . . . . . | 40.19                 | 22.00             | 54.7   |

As stated earlier, in paragraph 1.43, there are more than 300 units in the small scale sector presently engaged in the assembly of bicycles and manufacture of bicycle parts and as against their estimated capacity of 5 lakh Nos. of complete bicycles per annum, their production in 1976 was about 4 lakh Nos. (80 per cent) only. The Directorate General of Technical Development also informed the Committee that the Planning Commission had estimated the demand for complete bicycles at 35 lakh Nos. by 1978-79 and that as against the present installed capacity in the organised sector of 40.19 lakh Nos., the additional capacity, which would mature by 1978-79 was estimated at 1 lakh Nos.

1.100. Since under-utilisation of the installed capacity pushed up the unit cost of production which in turn affected adversely the f.o.b. cost of exports, the Committee asked whether Government was not worried over the low capacity utilisation in the bicycle industry and what steps, if any, had been taken to improve the unsatisfactory performance of the industry. The Commerce Secretary replied in evidence:

"The capacity utilisation at present is certainly low. Fortunately we find that the capacity utilisation in the components sector has improved and is slightly better than in the complete bicycles sector. In the component sector—I do not have the latest figures; but I have figures—in the small scale sector, for the year 1972 the production comes to 28.52 lakhs as against 14.20 lakhs in the organised sector. It is almost double in the small scale sector. That is certainly one area in which some development has taken place. This is not a subject which is entirely under my charge; but since we are interested in the export of bicycles, we have had occasion to talk to some people. The components are being manufactured in a large measure in the small scale sector and only some parts (like those mentioned by the DGTD) viz. hubs, rims and chains are manufactured, mostly, in the large-scale sector. After manufacture, all these are given to the dealers or sub-dealers who keep them with them; and as the demand arises, they produce the bicycles."

The representative of the Directorate General of Technical Development added:

"The capacity utilization has also worried us very much. DGTD is studying the possibilities of improvement in technology also. We are interested in achieving reduction in costs of raw materials as well as in the process of manufactures. Recently, a panel for the bicycle industry has been formed, with all the manufacturers and some of the important consumers as members. This panel is engaged at present in studying the aspect

on better utilization of capacity in the industry, as also improvement in the technology and in the designs of various types of bicycles manufactured in the country.

Another important aspect which the panel will study is: to what extent could the component parts be standardized, so that they can lend themselves for better production techniques, thereby reducing the cost of manufacture. As Mr. (the Commerce Secretary) said, some of the items are not being manufactured exclusively by the small-scale sector. We will see how far they can be organized for mass production. Also, detailed studies are being undertaken regarding the facilities which exist in various factories and to see how far they can be modernized. This is done both in regard to the manufacturing cost as well as quality. These are the studies which are now under way. In the course of 6—8 months, we should be able to come out with some definite information.”

1.101. On the Committee enquiring into the reasons for the unsatisfactory utilization of the capacity available in the industry, the witness replied:

“The fall in production has been due to lack of demand. There has also been a gradual increase in the cost of production, because of the rise in the costs of the inputs *vid.* the various materials used in the manufacture of bicycles.”

He added:

“Probably, the marketing ability of the cycle manufacturers is holding them back from increasing the production. Cost of production has increased during the last 2 years; as a result, the sales have not picked up to the extent production could pick up. This is one of the reasons why the capacity utilization is rather low.”

On the Committee pointing out, in this context, that the estimates and projections made in this regard had apparently proved incorrect, resulting in unnecessary investment of capital, another representative of the Directorate replied:

“In all humility I submit that we are neither less efficient nor more efficient than anybody else. We licence the capacity on the basis of the demand projections but if the demand projections, on account of various factors, do not materialise, then you are faced with the problem of idle capacity.”

In a note furnished subsequently in this regard, the Directorate General of Technical Development stated that while the capacity utilisation in the complete bicycle industry taken as a whole ranged between 48 and 63 per cent of the installed capacity, unit-wise capacity utilisation showed on the one hand a very high rate of certain units like Hero Cycles (P) Ltd., Ludhiana and Atlas Cycle Industries Ltd., Sonapat and that the capacity utilisation in other units had been relatively low. The Directorate added:

“This would emphasise the difference in operating conditions as pertaining to the different units in the industry. Thus Sen Raleigh Industry were closed down for sometime owing to management and other problems. The operations of other major unit, TI Cycles of India were adversely hit by power shortages at certain periods. An over all constraint operating in the entire industry was the inflationary condition prevailing in the economy till 1974-75, which curtailed the purchasing power of rural communities, which account for nearly 80 per cent of the total demand in the country.”

1.102. The Committee asked whether instead of sustaining exports at all costs by means of various incentives for export promotion the idle-capacity available in the industry could not be utilised for export-oriented activities. The representative of the Directorate General of Technical Development replied:

“For this, you have to survey the foreign markets. The foreign markets are being surveyed and we find that the demand for complete roadster bicycles is not going to increase all the world over because many of the countries are putting up assembling plants. In Iran, Iraq, Sri Lanka, Indonesia, Nageria and other countries they are putting up assembling plants. So, the scope for export will be in the area of bicycle components because many of the friction components are difficult to manufacture in these developing countries in a short period of time; and if you look at the exports, you will find that it is accessories and components which have registered a growth factor. In the components sector the capacity utilisation is better than in complete bicycles. In so far as complete bicycles are concerned, there is a large market for a model known as Sports Light Roadster bicycles which are required mostly in Europe and USA. There is a demand for as much as 4-5 million bicycles a year but we have to keep up technologically abreast to be able to avail of this demand. We have been taking certain steps in this direction and one unit has already come up in the field and now it is a question of time

and we are organizing and this particular panel to which my colleague, (Mr. . . . . .) made a reference, is going into this question as to how we should diversify our production into sports model. It is being done, but this is something where you could not expect results in a very short period of time. But we hope to keep on working at it and we hope results will follow."

In a note furnished subsequently in this regard, the Ministry of Commerce have stated as follows:

"The progressive increase from year to year of export of bicycles and components would show that the capacities established in the industry are already being increasingly utilised for the purpose. Further utilisation of idle capacity for export and export generation, as already stated, is included in the terms of reference of the Development Panel, which is currently engaged in the study of this subject."

1.103. Elaborating further, in this context, on the measures taken to effect economics in the cost of manufacture, the representative of the Directorate General of Technical Development stated during evidence:

"In regard to improvement in the design, we are examining as how to reduce the weight of the bicycle by possibly using the better quality of materials. The frame of the bicycle is at present heavy. We are examining the possibility of arriving at a frame with better quality of steel and improving its quality, so that it could be lighter in weight. We are studying improving processes like fixing various parts to the frame and examining how best we can improve it and reduce its cost. We are also trying to standardise some of its parts. Three sub-committees have been constituted to go into its these aspects and their studies should result in some economics in the cost of manufacture."

Asked whether the industry itself had been entrusted with this R&D effort, the witness replied:

"This is being done under the direction of the DGTD. Most of the manufacturing units are fully conscious of this need and they are in the process of establishing R&D centre for improving quality of the bicycle."

**He added:**

“We are not fully satisfied. That is why we have given a little more thought to this. A panel has been set up to examine this aspect.”

The Committee desired to know how the R&D efforts were coordinated and monitored and whether any R&D centre had been set up by the industry. In a note furnished in this regard, the Directorate General of Technical Development informed the Committee as follows:

“The emphasis in earlier years has been on import substitution, which has resulted in bringing down the import content to less than 10 per cent. The cost of production was also maintained for several years and in house and out house Research and Development activity of the bicycles and components manufacturing units was primarily devoted to this aspect. In this, the Directorate General of Technical Development, the Indian Standards Institution and other concerned organisations had actively helped including on the aspect of standardisation of components. The emphasis is now shifting to both the updating of technology and further cost reduction aspects where however the current effort in relation to the total turnover of the industry is still far from adequate. A larger mounting of Research and Development effort in areas like material conservation, reduction of process waste, use of alternate light weight high strength materials subject to free and indigenous availability and other related areas has now been called for and it is in this context that the Development Panel has been formed. The panel would also consider as part of its work whether a separate Research and Development Centre for the bicycle and bicycle components industry is necessary and feasible. Preliminary indications reveal that the capital cost of production on account of such a Research and Development effort may not be large.”

1.104. Since it was stated that a Panel was engaged in studying the question of capacity utilisation in the bicycle industry, improvements in technology and designs, standardisation of parts, etc., the Committee required into the composition of the Panel, its terms of reference and the progress made by it in its studies. The composition of the panel intimated by the Directorate General of Technical Development is indicated in Appendix VI, and the functions of the Panel as notified by the Department of Industrial Development are as follows:

“(i) To consider the present stage of development of the cycle and cycle components industries and to recommend measures

necessary for consolidation and for further accelerated growth of these industries;

- (ii) To assess the future requirements of critical inputs of these industries inclusive of special types of plant and machinery, steel strips and wires, and electroplating salts and chemicals, and to recommend measures for the establishment of related industries to meet the requirements of cycle industry;
- (iii) To examine the present norms of consumption and levels of efficiency and to suggest measures for reducing wastage and achieving higher level of operations;
- (iv) To evaluate the present level of technology in the industry and to recommend steps for technological inputs and strengthening design development and research facilities for the cycles and the ancillary industries;
- (v) To examine the extent to which standardisation of specifications of components and raw materials has already been achieved, and to evolve specific programmes for value engineering and further standardisation, so as to reduce costs of production and stimulate demand;
- (vi) To take into account the present and future export market for cycles and cycle components with due regard to the requirements in terms of weight, styling, finish and safety regulations, and to suggest developmental programmes in order to achieve rapid growth of exports.
- (vii) To advise on any other matter relating to the industry, which may be referred to the Panel by the Central Government."

The Directorate informed the Committee that the Panel, constituted in April 1976, had met on 28 May 1976 and constituted working groups on the growth and restructuring of the industry covering aspects like technology development, modernisation, diversification, cost evaluation and reduction export generation and other related matters and that these working groups were currently engaged in these studies.

1.105. Another note furnished, at the Committee's instance, by the Directorate General of Technical Development indicating the steps taken in this regard between 1970 and 1976, i.e. prior to the constitution of the Panel, is reproduced in Appendix VII.

1.106. With reference to the under-utilisation of the installed capacity of the industry, the Committee drew attention to the poor performance of Sen Raleigh Ltd. necessitating its closure for sometime and subsequent

take-over by Government and desired to know the control exercised by Government over the unit to ensure that its capacity was fully utilised. The Additional Secretary of the Finance Ministry stated in evidence:

"It has been entrusted to the authorised controller under the IDR Act. After closure, it was taken over sometime in September last. It went into production soon after and production has increased. But it is faced with some problem which is related to the situation mentioned by the DGTD. It has become more difficult to increase the sales because it being a labour-intensive industry, the overheads in an organised sector are quite high. Therefore, Sen Raleigh has been asked to explore the possibilities of export markets. There has been a consistent increase in production. But after a certain stage, corresponding increase in sales has not taken place with the result that there is an accumulation of stock. That is the current position."

He added:

"There is one basic problem of the cycle industry as we see it in the organised sector. Being essentially a labour-intensive industry, compared to what is done in the decentralised sector, there is a clear increase in costs which Sen Raleigh till recently was able to mop up because of its brand name. The sale price of Sen Raleigh bicycle compared to other bicycles used to be more. But it is no longer possible to sell at that rate in competition with other brands of bicycles available in the market."

As regards the production of Sen Raleigh Ltd., enquired into by the Committee, the representative of the Directorate General of Technical Development stated in evidence:

"About the production of Sen Raleigh, during the first quarter of 1975, the production of cycles was 48,150. This has increased to 79,204 during the first quarter of 1976. There has been definitely a sizeable improvement in the performance of Sen Raleigh since certain operational problems have been sorted out. We have been having discussions with the Manager of the Company who is a Government representative and solving their problems."

1.107. In a note furnished subsequently, the Directorate General of Technical Development informed the Committee that the management of Sen Raleigh Ltd. was taken over by the Government of India under Section 18AA(1)(a) of the Industries (Development and Regulation) Act, 1951 by a notification dated 8 September 1975 and the Industrial Reconstruction

Corporation of India Ltd. was appointed as the Authorised Person to take over the management of the undertaking. However, by a further notification dated 12 September 1975, Shri M. K. Modwel was appointed as the Authorised Person in place of IRCI Ltd. Details of the financial assistance made available to the company since its take-over are as follows:

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|   |                                    |
|---|------------------------------------|
| State Bank of India                                 | Cash credit limit of Rs. 80 lakhs. |
| Industrial Reconstruction Corporation of India Ltd. | Rs. 185 lakhs                      |
| Government of West Bengal                           | Rs. 35 lakhs                       |

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As regards the performance of the company prior to its take-over and subsequently, the Directorate furnished two statements showing the performance from the date of take-over to July 1976 and its performance during the preceding three years. Relevant extracts from a study undertaken, in February 1975, by M/s. S. R. Batliboi & Co., a firm of Chartered Accountants, into the working of the company were also made available to the Committee to indicate the reasons for the company's poor performance prior to take-over. These are reproduced in Appendix VIII.

1.108. Since it had been stated that the company was facing a problem of stock accumulations on account of fall in sales, the Committee enquired into the steps taken to overcome this problem. In a note, the Directorate General of Technical Development replied:

“The Company have been facing a problem of accumulated stocks on account of fall in sales due to a combination of reasons one of which was perhaps the slack season in bicycle trade.

In order to overcome the problem, the company have now set up its own nucleus Sales Organisation which will directly handle sales in the Northern Region comprising Delhi, Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir, and Rajasthan, in addition to exports. In so far as sales in other areas are concerned their sales are proposed to be marketed through Sen and Pandit Ltd. The newly appointed General Manager (Sales) will, apart from directly supervising in the Northern Region, liaise with Sen and Pandit Ltd. in the Regions served by the latter—advising and co-ordinating as necessary. It is expected that with these changes sale of our products would definitely improve. In addition, efforts for higher volume of exports are being made.

The above strategy has already shown encouraging results and domestic sales in August, 1976 have been the highest since the take-over.”

1.109. Yet another bicycle unit which had run into difficulties and remained closed for long was Hind Cycles Ltd. The Committee enquired into the performance of this unit both in the production and export spheres. The information furnished in this regard by the Ministry of Commerce is indicated below:

## (a) Licensed capacity:

|                          | Lakh Nos. per annum |
|--------------------------|---------------------|
| Bombay Unit . . . . .    | 3.82                |
| Ghaziabad Unit . . . . . | 1.62                |

## (b) Production:

| Unit                | January to March 1975 | January to March 1976 | April to June 1975 | April to June 1976 |
|---------------------|-----------------------|-----------------------|--------------------|--------------------|
| Bombay . . . . .    | 18,166                | 47,749                | 32,360             | 38,006             |
| Ghaziabad . . . . . | 14,034                | 13,515                | 11,990             | 9,226              |

## (c) Export performance:

| Year           | Complete Bicycles |                      |
|----------------|-------------------|----------------------|
|                | Quantity (Nos)    | Value (Rs. in lakhs) |
| 1973 . . . . . | 15,381            | 23.03                |
| 1974 . . . . . | 15,688            | 36.01                |
| 1975 . . . . . | 56,302            | 152.50               |

The Ministry informed the Committee that in addition, the company had export orders on hand for 88,138 bicycles valued at Rs. 216.70 lakhs and for components valued at Rs. 58.48 lakhs.

1.110. Since it had been stated that there was a large market for Sports Light Roadster bicycles in Europe and USA, the Committee desired to know the extent of success achieved in this sphere of exports and who the main competitors were. The representative of the Directorate General of Technical Development, while informing the Committee that the United

Kingdom, Austria and Japan were the main competitors in SLR bicycles, stated:

“We are not in the show in a big way. We are exporting something like 10,000 SLR bicycles a year, mainly by TI Cycles.”

He added:

“The peculiar thing in these SLR bicycles is a three-speed hub which is an extremely complicated thing. We are examining whether we can organize the production of these three speed hubs. I got HMT to break down this hub into components and develop it and submit a project report. But we found that the cost is so high that the cost of this hub if we were to produce in India, would be Rs. 100—120. So, these are all technical factors which we have got to take into consideration.”

Asked how TI Cycles were able to compete in this area and whether they had the requisite know-how which was a closely-guarded secret, another representative of the Directorate replied:

“It is because they have been able to develop some of these cycle components like frames, lugs, etc. because it has also an associated company which produces tubes and thus they were able to develop a light-weight bicycle. They could develop the lugs for these, they could develop the right frames for these. All these they have been able to organize in India but they have been importing the three-speed hubs from abroad.”

To another question whether other manufacturing units could not succeed in this sphere, the witness replied:

“They have tried and failed to produce the sophisticated one.”

In this context, the Commerce Secretary added:

“We asked the Atlas and other Indian companies to go into the sports models. They also wanted to import the three-speed hubs in order to get into that market, but, unfortunately, they all suffered a loss and they were not able to make it. I would not call it a dent, it is not even a dent. 10,000 bicycles is all that TI Cycles have tried to introduce into the US market where millions of UK and Japanese cycles are plying on the roads. It is just a kind of trial thing that they are trying. Even otherwise the DGTD, I understand, are trying other industries to go into the market. I can tell you, this is going to be a very difficult market.”

On the Committee observing that it was difficult to understand why other bicycle units could not manufacture SLR bicycles if TI Cycles could do it successfully, he added:

"The answer to this is, the production facilities the other units have, have to be brought to the level of the TI Cycles. Now we are discussing with all these units whether they are prepared to put in this extra investment to sort of update their facilities. That is exactly what the Panel is doing now."

The representative of the Directorate General of Technical Development stated further:

"You have rightly said so and this is a matter about which we are really worried. We also want an Indian sector, a purely Indian sector, to get into the sophisticated cycles market. This is what the Panel is engaged in."

He, however, added:

"In this, sports light roadster bicycles, even TI Cycles is landed with several claims because the American importers have rejected them because of various factors like the reflector not being the right one or the weight not being the standard weight, etc."

Asked whether TI Cycles had been able to manufacture the 3-speed hubs for the SLR bicycles, another representative of the Directorate replied:

"We are importing three speed hubs for SLR bicycles. We tried to manufacture these hubs, but we failed because the cost of production was very high. There are four firms in the world who have monopolised it. We do not have the technology for three speed hubs."

1.111. The Committee enquired into the details of the firms which held the monopoly over the technology in respect of 3-speed hubs and whether any efforts had been made to acquire this know-how and also to transfer the know-how available with TI Cycles to other units, so as to enable the country to enter the SLR export market in a big way. In a note, the Ministry of Commerce replied:

"The four firms referred to in the evidence are all foreign based companies. They are Sturmia-Archer of U.K., Shimano of Japan, Fischer and Sachs of West German and an Austrian firm. Several Indian companies had approached according to our information Shimano of Japan and Sturmia-Archer of U.K. for establishing a joint venture in India with the collaboration of the latter for production of three-speed hubs for export but these efforts did not succeed. T.I. Cycles (India) does not have the technology for three-speed hubs; but the company has

the technology for SLR bicycles based on imported three-speed hubs. The question of transfer of technology from T.I. Cycles (India) to other bicycle companies for three-speed hubs does not, therefore, arise."

Asked about the details of the project report stated to have been prepared by the Hindustan Machine Tools Ltd. in regard to development of 3-speed hubs, the Ministry in a note, replied:

"On the initiative of the Trade Development Authority, the state-owned Hindustan Machine Tools did succeed in breaking down imported samples of three-speed hubs and prepared tentative feasibility study based on reverse engineering; but it is understood that the further pursuit of the proposal was given up on economic consideration."

1.112. The Committee desired to know what would be the extra investment necessary for updating the existing facilities in the bicycle industry so as to provide the necessary facilities for the manufacture of SLR bicycles. In a note, the Ministry of Commerce stated:

"It is not so much the investment in the bicycle industry itself that would be relevant to largescale production of SLR bicycles for export. What is material is investments in building up production facilities for the various critical materials and components in the steel and ancillary sectors for assembly of SLR bicycles. For example, production of Moly-bearing steel strip for high strength low weight frame tubing needs development in the steel sector. Components like three-speed hubs, special reflectors, special quality of paints and pigments also need development in the ancillary sectors. The development of an economic and viable unit for three-speed hubs alone would call for considerable capital investments."

1.113. Asked whether TI Cycles Ltd. was an Indian company or a foreign one and whether it was a FERA company, the representative of the Directorate General of Technical Development replied that the company was a "foreign entity", with foreign equity of more than 40 per cent, but the management was Indian. The Committee, therefore, desired to know the share of TI Cycles Ltd. in the export effort of the country and whether the company was deriving the lion's share of the incentives given for export promotion. The witness stated:

"We are exporting about two lakh bicycles. According to our information, the share of T.I. Cycles of India Ltd. to the total export, this is subject to verification—is very small. Most of the exports are being carried out by the three companies in

Punjab, that is, Hero Cycles Co., Avon Company and the Roadmaster. Then we have got two other Companies. One is the Atlas Cycles and the other is Hamilton Cycles in Bombay. In so far as the bicycle components are concerned, mostly 70 per cent of the total components comes from the small scale sector. There is one large export of bicycle components, that is, Metro Exporter. This exporter exports components worth of Rs. 4.0 crores and all these components worth about Rs. 4.0 crores are drawn from the small-scale sector."

1.114. The Committee called for details of the quantity and value of the 3-speed hubs for SLR bicycles imported by the company and its export performance during the period from 1973-74 to 1975-76. Information furnished in this regard by the Ministry of Commerce is tabulated below:

(a) Imports of 3-speed hubs:

| Year    | Quantity (Nos.) | Value (Rs.) |
|---------|-----------------|-------------|
| 1973-74 | 23,500          | 8,05,195    |
| 1974-75 | Nil             | Nil         |
| 1975-76 | Nil             | Nil         |

(b) Export Performance:

| Year    | Bicycles    |             | Bicycle Components | Total Value (in Rs.) |
|---------|-------------|-------------|--------------------|----------------------|
|         | Qty. (Nos.) | Value (Rs.) | Value (Rs.)        |                      |
| 1973-74 | 17,609      | 34,22,118   | 15,29,351          | 49,51,469            |
| 1974-75 | 13,534      | 35,56,393   | 32,48,648          | 68,05,041            |
| 1975-76 | 9,716       | 23,07,064   | 19,630             | 23,26,49             |

1.115. Details of the export incentives allowed to the company on its export performance furnished, at the Committee's instance, by the Ministry of Commerce are indicated below:

| Year    | Import Replenishment (Rs.) | Cash Assistance (Rs.) |
|---------|----------------------------|-----------------------|
| 1973-74 | 5,32,986                   | 10,66,135             |
| 1974-75 | 8,34,094                   | 4,03,477              |
| 1975-76 | 3,47,488                   | 1,84,176              |

1.116. As regards the details of equity participation in the company and repatriations outside India, also enquired into by the Committee, the Ministry, in a note\* have stated as follows:

"M/s. T.I. Cycles India Ltd., Madras was originally incorporated on 9th September, 1949. They entered into a Technical Assistance Agreement with M/s. Tube Investments Ltd., U.K., on 30th October, 1950, for the manufacture of cycles, component parts of cycles, etc. The duration of the agreement is without any time limit. As per clause 7(a) of the agreement, technical know-how, drawings etc. were supplied by the foreign collaborators free of cost. No royalty is also required to be paid to them under the collaboration agreement.

Subsequently, by a special resolution dated 12th September, 1959, the name of the Indian company was changed from 'T.I. Cycles India Ltd.' to 'Tube Investments of India Ltd.' and a fresh certificate of incorporation consequent on change of name was issued by the Registrar of Companies, Madras, on 15th September, 1959.

The issued and subscribed capital of M/s. Tube Investments of India Ltd., Madras, is 3,75,000 equity shares of Rs. 100 each fully paid up out of which 1,96,875 shares are held by their collaborators, M/s. Tube Investments Ltd., U. K. The total non-resident participation in the company is 52.6% of the equity capital.

M/s. Tube Investments of India Ltd., do not have any equity participation in companies abroad (i.e., joint ventures in foreign countries). The company have, however, provided technical know-how on behalf of M/s. Murugappa & Sons, Madras, to their joint-venture unit in Malaysia, set up in March 1971 for which the Indian company are entitled to receive initial technical know-how fee of Rs. 50,000/- and royalty of 2½% on the net sales of the products of the Malaysian company, for a period of five years. No payment has so far been received by the Indian company in this regard, as the overseas joint venture unit has not reached the profit-earning stage. In view of the continuous losses incurred, their request for time till 31st December, 1976, for payment by the overseas company of royalty and know-how fee has been accepted by the Board of Directors of the Indian Company.

Details of dividend remitted by M/s. Tube Investments of India Ltd., Madras, with the prior approval of the Reserve Bank

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\*Not vetted in Audit.

of India to their Collaborators M/s. Tube Investments Ltd., U.K., in respect of the shares held by them for the last 10 years are as follows:

| Sl. No. | For the year ended | Amount of Dividend (Rs.) | Remarks          |
|---------|--------------------|--------------------------|------------------|
| 1.      | 31-7-1966          | 14,06,250.00             |                  |
| 2.      | 31-7-1967          | 16,98,750.00             |                  |
| 3.      | 31-7-1968          | 13,59,000.00             |                  |
| 4.      | 31-7-1969          | 16,98,750.00             |                  |
| 5.      | 31-12-1970         | 11,89,125.00             | Interim Dividend |
|         |                    | 13,59,000.00             | Final Dividend   |
| 6.      | 31-12-1971         | 15,59,775.00             |                  |
| 7.      | 31-12-1972         | 1,35,403.50              |                  |
| 8.      | 31-12-1973         | 16,08,518.60             |                  |
| 9.      | 31-12-1974         | 14,62,289.00             |                  |
| 10.     | 31-12-1975         | 14,76,562.00             |                  |

As already stated above, no technical know-how fee or royalty is required to be paid under the collaboration agreement and the company have not made any remittance to their U.K. Collaborators on this account.

It may be added that in response to the Company's application for continuing its activities in India under Section 29 of the Foreign Exchange Regulation Act, 1973, the Company has been advised by the Reserve Bank of India to reduce its non-resident equity to 40% by 1st week of May, 1977."

1.117. The Committee desired to know whether another foreign company operating in India, Dunlop India Ltd., had also been monopolising the bicycles market for a number of years and, if so, its share in the exports of bicycles and components and the quantum of export benefits given to the company. The Commerce Secretary stated in evidence:

"Dunlop has not figured anywhere in the cycle industry export trade so far. Their name has not really been mentioned anywhere uptill now. . . . The information given to me is that probably they function in the export market for rims only, but accurate information is not available just now."

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

“Official statistics of exports are not maintained Company-wise. It is, therefore, difficult to correlate Dunlop's share in the total exports of bicycles and bicycle components of the country as a whole. However, the value of total exports and the Import Replenishment granted as well as the value of exports and the Cash Assistance granted are tabulated below. It will be seen from the tables that value of exports for different years do not tally. The reasons could be that some exports admitted for Import Replenishment in one year might have been admitted for Cash Assistance in the next year or *vice-versa*. Therefore, the value of exports shown against the Import Replenishment or the Cash Assistance in respective years may not actually reflect the correct value of exports made by the firm during that particular year to which the Cash Assistance or the Import Replenishment granted relate.”

*Value of Import Replenishment licences granted to M/s. Dunlops India Limited on Exports of Bicycles and Bicycle components during 1970-71 to 1975-76 and the f.o.b. value of exports admitted.*

| Year              | Value of Import<br>Replenishment | F.O.B. Value of<br>Exports Admitted |
|-------------------|----------------------------------|-------------------------------------|
|                   | (In Rs.)                         | (In Rs.)                            |
| 1970-71 . . . . . | 1,90,721                         | 5,75,767.00                         |
| 1971-72 . . . . . | 3,91,641                         | 13,05,476.30                        |
| 1972-73 . . . . . | 1,02,542                         | 9,70,500.38                         |
| 1973-74 . . . . . | 1,27,704                         | 8,46,271.00                         |
| 1974-75 . . . . . | 3,74,418                         | 32,18,921.00                        |
| 1975-76 . . . . . | 71,304                           | 4,08,390.00                         |

\*Not vetted in Audit.

*Value of Cash Assistance granted to M/s. Dunlops India Limited on Exports of Bicycles and Bicycle components during 1970-71 to 1975-76 and the f.o.b. value of exports admitted.*

| Year    | Value of Cash Assistance | F.O.B. Value of Exports Admitted |
|---------|--------------------------|----------------------------------|
|         | (In Rs.)                 | (In Rs.)                         |
| 1970-71 | 1,56,278                 | 5,21,349                         |
| 1971-72 | 2,50,167                 | 8,33,891                         |
| 1972-73 | 3,85,791                 | 13,58,698                        |
| 1973-74 | 4,79,798                 | 12,60,299                        |
| 1974-75 | 3,84,185                 | 19,20,936                        |
| 1975-76 | 2,56,798                 | 12,83,950                        |

1.118. When the Committee pointed out that apart from the SLR bicycle, acquisition of know-how in respect of which appeared to be difficult, it should be possible to produce more sophisticated models than the ordinary Roadster like the folding bicycles produced in Japan, which might not require extraordinary know-how, and asked whether necessary technical knowledge could be developed in this regard, the representative of the Directorate General of Technical Development replied:

“It should be possible. As I have pointed out earlier, a panel has been established recently for studying this problem, and some of the manufacturers have facilities for doing this job. I expect that it should be possible to produce most sophisticated bicycles at cheaper costs. Some of the manufacturers have expressed a view that even for undertaking basic research, it will cost a lot in the form of capital equipment. We are examining as to how best with the available facilities the quality of bicycles could be improved, by the manufacturers so that they could manufacture bicycles which could be comparable with the bicycles which are being manufactured in some of the Middle East countries and can compete with other competitors like Japan. U.K. etc.”

1.119. On the Committee pointing out that one of the reasons for the inability of the Indian cycle manufacturers to compete with countries like the United Kingdom and Japan appeared to be the poor standards of the Indian bicycle and enquiring what improvements in quality had been

effected to match the requirements of sophisticated markets, the Commerce Secretary replied in evidence:

"As regards the quality, I am quite sure what the hon. Member has said is true. It is true that in certain markets as compared to certain models we are not matching up to them. But I may state that our quality is more and more going up and we are now supplying to very sophisticated markets also. Several markets where we send our components are quite sophisticated. And they would not have taken our goods, but for the fact that they have approved of our designs, our specifications and our quality. Also, the total quantum of the components both in Kgs. and in value, has been going up steadily, over the years. In 1971-72 the value of the bicycle parts was Rs. 6.2 crores; next year it went up to Rs. 7.97 crores; then to 12.46 crores; in 1974-75 to Rs. 17.8 crores and during 1975-76 it is estimated as Rs. 18.2 crores. So, it is not as if we are not progressing; we are progressing. Our quality is improving. It is the exposure, in fact, in the foreign market that will bring about a better quality product in our own country and any kind of shying away from foreign exposure will not be to the interest of the country."

Since it appeared that the large-scale manufacturers of bicycles in the organised sector bought out components from the small scale sector and marketted the cycles under well-known brand names, the Committee desired to know how it was ensured that the quality of such components fulfilled the prescribed specifications and standards. The Commerce Secretary stated in evidence:

"We certainly have a quality inspection system for bicycle; and all the bicycle manufacturers are subject to that quality control scheme. But if the question is whether they keep up their quality according to the brand names which they have established, I would say that we do not have any quality control system based on brand names. We have certain specifications by which we test and see whether the quality of the component parts which they put in into their bicycles conform to those specifications. I am sure we will improve our quality gradually. We are taking many measures. We call upon them to attend some meetings. You are right in saying that this kind of comparative disadvantages have been pointed out by foreign countries. We are aware of this, and we feel that we should improve our quality. In the matter of components, each consignment has to be opened up and inspected; and

then only it will be passed, although it is quite a dilatory process and involves a lot of harassment to the party himself sometimes; but it cannot be helped. We have told them that we will allow nothing to go out, unless it passes our strict standards."

In this context, a representative of the Directorate General of Technical Development added:

"What the hon. Member said about brand names and all is quite true. But even in regard to domestic production and sales, that picture is not true any longer. For example, Atlas and Hero are purely in the Indian sector. They are purely Indian, unlike Sen-Raleigh and T. I. The former are able to sell much more than the latter. The former have no sales problem, whereas Sen-Raleigh and others have it. In regard to quality, I would like to qualify what the Commerce Secretary said. There are two points here: functional quality and the designs of the bicycles. Insofar as the Roadster bicycles are concerned, functionally they have proved their worth. This is true by and large. In fact, many of the developing countries which go in for our cycles have to face the same kind of condition. They have also got to carry heavy things like milk cans, additional passenger etc. We have reports that the Indian bicycles without these brand names have won consumer acceptance. But when it comes to designs and looks, we would certainly say that the Japanese bicycles are far superior. They have advantages in materials which we do not have. They have melamine finish; and they are doing brazing work, I mean in Japan, with jigs and fixtures, whereas in India we are doing it manually. When we talk about basic road conditions, we should talk about functional quality as well as about looks and designs."

1.120. The Committee desired to know the stage of production in both the organised and small scale sectors at which control over the functional design quality was exercised and the machinery available, both at the production and export levels, for exercising effective quality control. A note furnished in regard to the organised sector by the Ministry of Commerce is reproduced below:

"The functional design quality control is exercised by the Units themselves. Panels of experts under the auspices of Export Inspection Council had checked the process quality control exercised by various bicycles and bicycle components manufac-

turing units and graded some of them as export worthy. The Sector, which is not covered by this export worthiness certification, has been put on consignment inspection by the Export Inspection Council. This consignment inspection is carried out to certain minimum standard notified by the Export Inspection Council. Under the present notification, the packages are to be subjected to drop rolling and water spraying test before shipment of the consignment. A number of bicycle components manufacturers, especially in the small scale sector, have represented about the rigidity of even these minimal standards. The whole question of quality control on engineering export including exports of bicycles and components is currently being gone into by a Committee headed by Secretary (Technical Development).”

As regards the small scale sector, the Ministry have informed the Committee as follows:

“In the Small Scale Sector no regular quality control exercise is carried on by any authorised agency for the production of bicycle and Bicycle components. However, there are quality marketing schemes with some of the State Governments which are voluntary in nature and the Small Scale Units can approach the authorities for getting the quality marketing from the centres set up for the purpose.

Bicycle and Bicycle parts are already notified for ‘in process quality control’ under the Act. In so far as export of this product is concerned ‘in process quality control’ as well as ‘consignment-wise inspections’ are in operation simultaneously in respect of small scale Units. The Export Inspection Council is the appropriate agency who draws up sample from the consignments to be exported and certifies the export worthiness of the firm. For those units which have built up “in process quality control” the same agency is regularly monitoring the inspection from time to time. The agency normally follows either the national or international standards for any product while making an assessment about the quality. In case these are not available they also follow the contractual specifications of the buyers or the company standards, if there is any.”

### C. BICYCLE COMPONENTS

1.121. The following table, compiled from relevant data in the Audit paragraph and information furnished subsequently by the Ministry of Com-

merce, indicates the value of exports of bicycle components and the percentage of components exports to the total exports of bicycles and bicycle components:

| Value in crores of Rupees |                  |   |   |
|---------------------------|------------------|---|---|
| Year                      | Value of exports | Total value of exports of bicycles & components | Percentage of components exports to total exports |
| 1                         | 2                | 3   | 4   |
| 1970-71                   | 4.62             | 7.06  | 65  |
| 1971-72                   | 5.62             | 7.29  | 77  |
| 1972-73                   | 7.33             | 10.38   | 70  |
| 1973-74                   | 11.98            | 14.63   | 82  |
| 1974-75                   | 17.70            | 21.22   | 83  |
| 1975-76                   | 18.19            | 24.31   | 75  |

1.122. The trend of production of bicycles components in the organised sector\* during this period, compiled from data furnished by the Department of Industrial Development, is indicated in the following table:

| Rupees in Lakhs |            |
|-----------------|------------|
| Year            | Production |
| 1970            | 1026.0     |
| 1971            | 1066.4     |
| 1972            | 1421.0     |
| 1973            | 1670.8     |
| 1974            | 2225.3     |
| 1975            | 2301.0     |

In addition, as already indicated in paragraph 1.42, more than 300 units in the small scale sector are also engaged in the manufacture of bicycle parts.

\*The Department informed the Committee that the installed capacity in the organised sector for the manufacture of components was not available. There are also some minor variations between the figures of production furnished by the Department and these indicated in the Audit paragraph.

1.123. The various changes introduced, from time to time, in the rates of cash assistance (expressed as a percentage of the f.o.b. value) for the export of bicycle components are briefly indicated in the following table:

| Bicycle Components |                         |
|--------------------|-------------------------|
| Date               | Rate of Cash Assistance |
| 6-6-1966           | 20%                     |
| 1-6-1967           | 25%                     |
| 1-3-1968           | 30%                     |
| 14-3-1974          | 20%                     |

1.124. As pointed out earlier [Vide paragraphs 1.51 to 1.57], after some anomalies in the operation of the cash assistance scheme in respect of engineering goods had come to light, cost studies had been commissioned through the Indian Institute of Foreign Trade for the first time in 1972 in respect of some items which included bicycles and bicycle components. While the Indian Institute of Foreign Trade, in its report submitted in November, 1972, had recommended continuance of the cash assistance at the rate then prevailing (30 per cent in the case of bicycle components), a Committee set up, in January, 1973 under the Chairmanship of the Chief Controller of Imports & Exports, to review the Registered Exporters' Policy for 1973-74 had suggested, *inter alia*, that cash assistance on exports of bicycle components might be reduced to 20 per cent as against the then prevailing rate of 30 per cent which was not, however, accepted by Government. Subsequently, in January, 1974, after various proposals and counter-proposals made by the Ministries of Commerce and Finance had been considered, the Main Committee of the Marketing Development Fund had proposed, *inter alia*, that cash assistance for bicycle components might be reduced from 30 to 20 per cent and for bicycles (complete) also at 20 per cent. Before these proposals could be given effect to, the Directorate General of Technical Development had drawn attention to the fact that f.o.b. realisations from export of Roadster bicycles had gone up, which necessitated a close second look on the level of cash compensatory support leading to the withdrawal of cash assistance on bicycles (complete) with effect from 22 February, 1974.

1.125. While taking a decision to abolish cash assistance for bicycles (complete), no change was, however, made in the decision of the Marketing Development Fund (Main Committee) of January, 1974 in regard to bicycle components on the ground that no separate costing in respect of

components had been made nor had the Director General of Technical Development intimated any higher unit value realisation from their exports. The Audit paragraph, however, points out that when the proposal for reduction of cash assistance from 30 to 20 per cent was sent to the Ministry of Finance in February 1974, that Ministry had suggested that cash assistance on bicycle components might be withdrawn which was, however, not accepted by the Ministry. From the relevant notes in the Ministry's files on the subject furnished by the Ministry of Commerce at the Committee's instance [*Vide Appendix II*], the Committee found that the Finance Ministry's suggestion was based mainly on the consideration that if export realisation was much more than the cost of production for complete bicycles, the same position would hold good for bicycle components also. On the other hand, the Ministry of Commerce had taken the view that as more than 75 per cent of the exports was accounted for by components and the manufacturers of components were mostly in the small scale sector their economics of production and export could not be compared with that of the cycle manufacturers who were mostly in the organised sector and that exports of components would have a setback if the cash assistance was withdrawn completely as suggested by the Ministry of Finance. The Ministry had also observed that this was one area where the small scale sector had "really been contributing to export earnings in spite of all difficulties in the matter of procurement of raw material, etc." and it, therefore, stood to reason that no jolt should be given to the industry which was performing rather satisfactorily.

1.126. Both these arguments had, however, been refuted by the Ministry of Finance in their notes on the subject dated 5 March, 1974. In regard to the contention of the Commerce Ministry that exports of components would have a setback if the cash assistance was withdrawn, the Finance Ministry had pointed out that if the withdrawal of the assistance on complete bicycles could not have a setback, the position should not be different for bicycle components. As regards the distinction sought to be made by the Commerce Ministry between the organised sector and the small scale sector, the Finance Ministry had drawn attention to the fact that the rates of cash assistance were decided only on the basis of cost of production and f.o.b. realisation and no distinction was made between the small scale sector and the large scale sector. That Ministry had, however, not pressed the issue further and had agreed to the grant of cash assistance for bicycle components at the reduced rate of 20 per cent till 31 December 1974. Relevant extracts from the Ministry's Notes in this regard are reproduced below:

"However, having regard to the large number of components which are exported, the fact that the unit realisation is generally by weight and not by nos, and that proper cost data is not readily

available for an objective analysis to determine the higher rate of cash assistance, we may not, for the present press for the withdrawal of cash assistance on export of bicycle components, though the argument of higher f.o.b. realisation will still be valid. Cash assistance of 30% is being reduced to 20% on the basis of the report of the IIFT given in 1972. Since then f.o.b. realisation has gone up considerably though the precise figure is not available, normally, as suggested by us earlier, there should be withdrawal or further reduction of CA on components. However, for the reasons indicated above, we may agree to the reduced rate of cash assistance of 20% being given effect to till 31st December, 1974 before which the position may be reviewed. The Engineering EPC, the TDA and the M/Commerce may please obtain proper data during this period for decision on the question of continuance of cash assistance beyond the above period and the rate at which it should be continued."

1.127. However, as indicated earlier in paragraph 1.72, on reconsideration of the question, the Ministry of Finance had pointed out, on 7 June, 1974, that even without waiting for a detailed cost study, there was "clear justification" for reducing cash assistance on export of bicycle components to prevent malpractices and had suggested that, pending reference to the Cost Accounts Branch for cost study, either the cash assistance on bicycle components be reduced from 20 to 10 per cent or cash assistance on complete bicycles as well as components may be allowed uniformly at 10 per cent. The following reasons had been indicated by the Ministry of Finance in support of their suggestion, in their Notes dated 5 June, 1974:

- "(i) (while the producers of bicycle components are mainly in the small scale sector, it is not necessary that exporters are the same who are the producers of components. Exporters are different from the producers. They will be purchasing the components from the producers and then exporting. This may add to the ultimate cost of export on account of cost of export overheads and other expenses. Continuance of cost assistance will only help such middle man exporters in quoting lower prices.) Further the item is of a labour intensive nature and Indian prices should be competitive in view of the high cost of labour in other developed countries. While the economics of scale may not be available to the small scale sector, it has also to be conceded that overheads and other fixed expenses are much less in the case of small scale units as compared to large scale sector.

- (ii) Cash assistance on complete bicycles and SLR bicycles has been withdrawn/reduced after taking into account the increase in unit realisation in International Market. The unit realisation for components would also have gone up in line with similar buoyancy for all other products. The argument for complete bicycles will be equally valid for components.
- (iii) Continuance of cash assistance of 20 per cent on components may result in misuse of the facility in as much as complete bicycle may be sent in semi-assembled condition for the purpose of claiming cash assistance. The country will lose foreign exchange on account of higher unit realisation for a finished product and also will have to pay cash assistance even though it has been withdrawn.
- (iv) DGTD had suggested that bicycle components may be defined by making it clear that only a few major items of export will be eligible for cash assistance. This will also ensure that cash assistance will not be obtained by exporters of complete bicycles by exporting in an unassembled form. This suggestion was not accepted by the Ministry of Commerce.
- (v) Out of total exports of bicycles and components of about Rs. 16 crores, export of components alone is Rs. 11 crores. It seems illogical to continue cash assistance on components when it has been withdrawn on complete bicycles. The bulk of exports has been left ineffective. In the absence of detailed cost data to justify continuance of cash assistance at the increased rate of 20 per cent on export of components in the face of withdrawal of cash assistance on complete bicycle, may be objected to by the Audit. It is, therefore, desirable to take timely remedial action."

In spite of all the reservations expressed by the Ministry of Finance, cash assistance for bicycle components continued to be allowed at 20 per cent while cash assistance for complete bicycles, withdrawn with effect from 22 February, 1974, was reintroduced at 15 per cent with effect from 1 September 1974.

1.128. The Audit paragraph also points out that in March, 1974, the Director General, Technical Development, had informed the Ministry of Commerce that as conventional roadster bicycles were almost always shipped in a knocked down condition, there was a risk, consequent on the abolition of cash assistance on the export of complete bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of bicycle components and walk away with 30 per cent cash assistance prescribed for components. The Ministry of Commerce furnish-

ed, at the Committee's instance a copy of this communication dated 12 March 1974 from the Development Officer in the Directorate General, Technical Development, which is reproduced in Appendix IX. The Committee learnt from Audit that the Ministry of Commerce had stated (December 1975) in this context as follows:

"It is correct that Bicycles are exported mostly in unassembled knocked down packing as it is not feasible nor possible to ship bicycles in completely fitted form. However these exports remain exports of "Bicycles complete" and not exports of "bicycle components and accessories" as the audit seem to infer. Total value of exports of components and accessories have always been more than the value of exports of complete bicycles as is obviously clear from the export statistics shown by audit in sub-part 3. The rise in the exports of bicycle components during the years 1973-74 and 1974-75 is owing to increasing international demand for the same and increased participation of Indian Exporters in the world market."

1.129. It would appear from the statistics of exports of bicycles and bicycle components during the period when the cash assistance on complete bicycles stood abolished as well as two specific cases of exports of bicycles and components to countries 'P' and 'Q' cited in the Audit paragraph that these fears were not entirely unfounded. The Committee were, however, informed by Audit that their conclusions had been disputed by the Ministry of Commerce who had stated (December 1975) as follows:

"In support of their argument that cycles were being exported in CKD/SKD condition as "components" the audit have quoted two instances of country 'P' and 'Q' which imported 7500 and 1060 cycles respectively in April—September, 1973 but did not import any cycle during April—September, 1974. In this connection, it may be pointed out that during the corresponding period of the preceding two years, viz. 1971 and 1972, the country 'P' imported 12248 (Rs. 16.38 lakhs) and 21700 (Rs. 29.49 lakhs) cycles respectively. It would be seen that there was an increase of 59 per cent in cycle exports to that country in the April—September 1972 as compared to the corresponding period of 1971. Again in the same period in 1973, there was a decline of 65 per cent. In view of this erratic performance, Nil exports during April—September, 1974 against 7500 cycles in April—September, 1973 cannot be attributed to any particular reason. Similar is the case with country 'Q'. Exports to that country during April—September, 1971 and April—September, 1972 were 1496 cycles (Rs. 187

thousand) and 335 bicycles (Rs. 56 thousand). Nil exports in April—September, 1974 against 1060 bicycles in April—September 1973 cannot be considered abnormal taking into consideration its performance in the corresponding period of 1971 and 1972.

Moreover in the case of both the countries there has been a significant increase in the export of component even in the previous years and there has not been any spectacular spurt in the growth rate in 1974 compared to 1973. Exports of components to country 'P' were 3.87 lakh kgs. during the period April to September 1971 and increased in 1972 to 9.29 lakh kgs. and to 12.23 lakh kgs. in 1973. In 1974 these exports were 14.97 lakh kgs. Similarly, exports of components to country 'Q' during the periods April—September 1971, 1972, 1973 and 1974 were 1.15 lakh kgs., 1.16 lakh kgs., 2.74 lakh kgs. and 4.59 lakh kgs. The table showing the quantity exported and the percentage increase in the succeeding years compared to the previous year in respect of the two countries is given below:

*Exports of bicycle components*

*Country 'P'*

| Period               | Quantity exported | Percentage increase over the previous years |
|----------------------|-------------------|---|
| April-September 1971 | 3.87 lakh kgs.    | —   |
| April-September 1972 | 9.29 lakh kgs.    | 140%  |
| April-September 1973 | 12.23 lakh kgs.   | 32%   |
| April-September 1974 | 14.97 lakh kgs.   | 22%   |

*Country 'Q'*

| Period               | Quantity exported | Percentage increase over the previous years |
|----------------------|-------------------|---|
| April-September 1971 | 1.15 lakh kgs.    | —   |
| April-September 1972 | 1.16 lakh kgs.    | 1%  |
| April-September 1973 | 2.74 lakh kgs.    | 136%  |
| April-September 1974 | 4.59 lakh kgs.    | 67%   |

1.130. In this context, the Commerce Secretary stated during evidence as follows:

“The question of components going into the form of broken parts of bicycles has been disapproved by us in our statement which we have given to the Audit. Although I find that in the paragraph there is an indirect reference to this, still I think that we will be able to show to you with the assistance of our officers in DGTD that this kind of a conclusion has been made hastily. Of course, one can say that this might happen but, in fact, what happened is also known to us and we will be able to show that.”

The representative of the Directorate General of Technical Development added:

“We have taken up this question for consideration. The components are forming part of the bicycles. During 1973-74 and 1974-75 items like Chains, Free Wheels, Hubs, Rims, Saddles, Spokes, etc. were exported as component parts of the bicycles. For example, if you take one of the items like Hubs, the quantity in terms of ‘thousands of Kgs.’, in 1974-75 exports dropped down from 294 in 1973-74 to 273. Similarly in respect of other items like Rims, the quantity exported went up marginally to 499 in 1974-75. Again in respect of Saddles, the export came down from 352 in 1972-73 to 199 in 1973-74 and 219 in 1974-75. So, the argument that the bicycles were exported in knocked-down condition is not borne out by the information that is collected by the Commercial Intelligence and actually exports of components have not been to our advantage.”

On the Committee drawing attention in this connection to the communication received from the Development Officer in the Directorate and enquiring whether this did not imply that the Directorate General, Technical Development, in fact, had some apprehensions in this regard, the witness replied:

“This word of caution was given by us—since we wanted to see that malpractices do not occur—on the basis of the anticipation of a contingency that the bicycles might be exported in knocked-down condition under the guise of components. This was not borne out by the export performance later *i.e.* in subsequent years, as I have just now read out. Naturally, some of these parts do constitute very important items; but with these parts

it is not possible for them to assemble the bicycles, unless matching parts are available.”

1.131. Though it had been contended by the Commerce Ministry that these apprehensions were unfounded, the Committee, however, found from the representation dated 19 June 1974 from the Engineering Export Promotion Council [*Vide* Appendix III] pleading for the reintroduction of cash assistance for complete bicycles, that the Council themselves had pointed out that in the absence of cash assistance for complete bicycles, “the tendency would be to increase export of components and even declare the complete bicycles which are always exported in CKD (completely knocked down) as export of components with a motivation to get cash subsidy of 20 per cent.” Besides, the Ministry of Commerce had also conceded the possibility of abuse of the cash assistance on components in their notes [*Vide* Appendix IV] on the suggestions of the Finance Ministry referred to earlier in paragraph 1.125. Thus, the Under Secretary in the Ministry had observed that “the diversion through exports in un-assembled condition of bicycles for the purpose of claiming assistance on components and parts is possible.” He had further observed that “the identical treatment of components and complete bicycles appear to be essential since it is easy to export complete bicycles in CKD condition under the name of components.” The Director in the Ministry, in his note dated 25 July 1974, had gone on to observe as follows:

“At present, there is no cash assistance on ‘complete bicycles’ whereas there is a 20 per cent cash assistance on bicycle components. It has been pointed out by the Audit and confirmed by D.G.T.D. that there is a possibility of complete bicycles being exported as bicycle components for availing cash assistance. In view of this, it is necessary to have the same rate of cash assistance both for complete bicycles and bicycle components.”

1.132. One of the reasons indicated by the Ministry of Commerce for not making any change in the January 1974 decision of the Main Committee of the Marketing Development Fund was that the Directorate General of Technical Development had not intimated any higher unit value realisation from exports of bicycle components. The Committee, therefore, desired to know whether any enquiry was made from the Director General, Technical Development, at that stage about the increase, if any, in the unit value realisation of components. In a note the Ministry of Commerce stated:

"No reference to D.G.T.D. was made from this Ministry at that stage on the subject of unit value realisation of bicycle components."

1.133. Yet another reason for the Ministry of Finance reiterating its earlier views in regard to the grant of cash assistance for components was that no data in regard to components were available in proper form. Asked to indicate the reasons for the failure of the industry to furnish reliable, acceptable data, if its claim for cash assistance was indeed justified, the Ministry of Commerce, in a note, replied:

"Most of the exports of bicycle components are from the small scale sector. Most of them are not cost conscious and as such, not maintaining cost account details of their production. They do not also employ auditors for examination of their costing or books of accounts as they are really small scale units having limited resources and finance at their command."

However, cost data in respect of certain components was received from 11 units which was sent to the Cost Accounts Branch. Some of the units, however, could not furnish details required by the Cost Accounts Branch. The Cost Accounts Branch, therefore, could finally conduct cost study in respect of 5 units, out of which three Cost Reports were received in the Ministry. This itself explains that costing of about 75 items of bicycle components mostly in the small scale sector is physically not possible."

1.134. While drawing the Commerce Ministry's attention to the possible misuse of the cash assistance on bicycle components, the Director General, Technical Development had also suggested that to prevent abuses, cash assistance might be restricted only to eight important bicycle components (*viz.*, Free Wheels, Chains, Hubs and hub parts, Chain Wheels and cranks, rims, Spokes and Nipples, Dynamo Lighting sets and B.B. Shells) which constituted the bulk of the exports from the country. According to the Audit paragraph though the Ministry of Commerce had stated (March 1974) that as there were more than 75 components of bicycles "some more thought" could be given to this problem" and perhaps the components could be put into two groups, one for which cash assistance would be admissible and the other for which cash assistance would not be available, while announcing the Registered Exporters' Policy and cash assistance effective from April 1974, such grouping had not been made even till November 1975. In this context, the Committee learnt from Audit that the Ministry had stated in December 1975 as follows:

"The D.G.T.D.'s advice and suggestions of their Ministry mentioned in earlier part of this sub-para are admitted. It is, however, not correct to say that the matter was not pursued further. Efforts were continuing to secure cost data in respect of major items of components."

1.135. The Committee, therefore, enquired into the steps taken in this regard since March 1974 and the reasons for the delay in the grouping of components. In a note,\* the Ministry of Commerce have stated:

"On the basis of the I.I.F.T. Cost Study Report which was considered by the M.D.F. Committee, Cash Assistance on bicycle components was reduced from 30 per cent to 20 per cent w.e.f. 14.3.1974. These rates were sanctioned upto 31.12.1974.

Action to review the rates of Cash Assistance on Bicycle Components was initiated in the month of September 1974. The following chronology will indicate the action taken in getting the bicycle components cost audited:

- (1) The Engineering Export Promotion Council was asked to furnish the cost data in respect of various bicycle components and parts . . . . . 11-9-1974
- (2) The Engineering Export Promotion Council issued circular to all Panel Members for supplying cost data . . . . . 12-9-1974
- (3) The Engineering Export Promotion Council wrote to all Regional Officers for collecting and supplying cost data . . . . . 18-9-1974
- (4) In the meantime cost data in respect of certain export units were received direct. They were asked to submit such Reports through the Engineering Export Promotion Council. . . . . 3-10-1974
- (5) The Engineering Export Promotion Council was reminded to expedite the cost data . . . . . 19-10-1974
- (6) Cost data in respect of 10 firms was received from the Engineering Export Promotion Council . . . . . 6-11-1974
- (7) The cost data received from the Engineering Export Promotion Council was referred to the Cost Accounts Branch . . . . . 11-11-1974
- (8) The Cost Accounts Branch reminded through the Ministry of Finance for completion of cost study early . . . . . 22-11-1974
- (9) The Cost Accounts Branch intimated that Cost Reports not likely to be available before 31-12-1974 . . . . . 4-12-1974
- (10) The Cost Accounts Report in respect of bicycle Rims received from the Cost Accounts Branch . . . . . 25-2-1975

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\*Nor vetted in Audit.

In the meantime, as a review was due in March 1975, a meeting of the Cash Assistance Review Committee was convened on 20-3-1975. As will be seen from the above table, only one Cost Report namely, for Bicycle Rims had been received till that date. It was pointed out to the Committee that in certain cases, the Cost Accounts Branch had stated that the Ministry of Commerce should take into account the latest position of the f.o.b. realisation. As the f.o.b. prices had further come down since the time of cost examination, this aspect assumed importance. Further, the Reports were prepared on the basis of marginal costing. It was, therefore, felt that if Cash Assistance were to be decided on the principles of marginal costing, there would be little incentive for manufacturers to export. The Committee, therefore, decided that these Reports when received be studied with a view to find out if the products require Cash Assistance on the basis of total cost principle applied to the Cost Data already available. The scale of 20 per cent Cash Assistance was, therefore, decided to be continued after 1-4-1975.

- |   |           |
|---|-----------|
| (11) The Cost Report for dynamo lighting sets was received.   | 7-4-1975  |
| (12) The Cost Report for Caliper Brakes was received  | 16-4-1975 |
| (13) Letter from Cost Accounts Branch stating that Cost Study on 5 items was completed and Reports had been sent/were being sent. Others were not cooperating | 16-4-1975 |
| (14) The Engineering Export Promotion Council was addressed to persuade the non-cooperating Units to make available the desired material for cost study       | 5-5-1975  |

The required material was not, however, made available by the Units concerned. In view of the revised criteria adopted for the grant of Cash Assistance, the matter regarding cost studies of these units was not pursued."

1.136. Asked whether bicycle components had since then been grouped for the purpose of cash assistance, the Ministry, in a note,\* replied that "the matter regarding grouping of bicycle components was not pursued."

1.137. The Committee called for details of the quantity and value of the exports of (a) Free Wheels, (b) Chains, (c) Chain Wheels and Cranks, (d) Rims and (e) Spokes and Nipples, exported, year-wise, during the period from 1970-71 to 1975-76. Relevant information furnished in this regard by the Ministry of Commerce is tabulated below:

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\*Not vetted in Audit.

*EXPORT OF BICYCLE PARTS*

Q : Quantity

V : Value (Rupees in lakhs)

| Unit                              | 1970-71                          |       | 1971-72 |       | 1972-73 |       | 1973-74 |       | 1974-75 |        | 1975-76 |        |
|-----------------------------------|----------------------------------|-------|---------|-------|---------|-------|---------|-------|---------|--------|---------|--------|
|                                   | Q                                | V     | Q       | V     | Q       | V     | Q       | V     | Q       | V      | Q       | V      |
|                                   | 1. Bicycle free wheel . 000 kgs. | 313.7 | 31.6    | 473.9 | 52.6    | 668.8 | 70.8    | 854.4 | 103.8   | 932.6  | 155.9   | 174.5  |
| 2. Bicycle Chain . 000 kgs.       | 527.8                            | 33.2  | 605.3   | 46.9  | 954.2   | 76.9  | 1079.1  | 97.0  | 860.8   | 101.6  | 355.3   | 41.6   |
| 3. Bicycle Rim . 000 kgs.         | 497.8                            | 25.7  | 429.8   | 26.0  | 611.8   | 37.7  | 482.9   | 32.5  | 499.1   | 48.1   | 40.4    | 43.7   |
| 4. Bicycle Spoke . 000 kgs.       | 370.4                            | 14.9  | 265.0   | 13.0  | 466.3   | 24.1  | 554.3   | 40.4  | 449.9   | 48.8   | 224.2   | 21.2   |
| 5. Bicycle other parts . 000 kgs. | 6737.5                           | 339.9 | 5315.0  | 399.0 | 8634.2  | 499.9 | 13194.5 | 903.6 | 14425.6 | 1595.1 | 16556.4 | 1524.0 |

The Ministry also informed the Committee that since separate export statistics for Chain Wheels and Cranks and Nipples were not published in the official publication, export figures for 'Bicycle Other Parts' had been furnished.

1.138. The Audit paragraph points out that as in the case of bicycles (complete), subsequent examination (November 1974—April 1975) by the Cost Accounts Branch of the cost data furnished by three manufacturers of components disclosed that the cash assistance allowed, from time to time, on exports of components which were studied (viz., Rims Caliper brakes and Dynamo Lighting sets) was not justified or was hardly justified. Thus, in respect of one manufacturer of Rims, the following position emerged on the basis of the cost study:

| RIMS     |                            |  |                   |             |
|----------|----------------------------|--|-------------------|-------------|
| UNIT 'X' |                            |  |                   |             |
| Year     | Cash assistance admissible | Gap between f.o.b. cost and f.o.b. realisation |                   |             |
|          |                            | West wood CP/DC Rim                            | West wood Raw Rim | Endrick Rim |
| 1973     | 30%                        | —26.63%  | (+ )9.00%         | —           |
| 1974     | 30%*<br>20% <sup>@</sup>   | (+ )7.5%                                       | (- )11.10%        | (+ )11.4 %  |

\*Upto 13 March 1974.

@From 14 March 1974.

Though there appeared to be a loss on the exports of westwood CP/DC Rim during 1973, in view of the fact that the excess import entitlement (actual import content of rims manufactured by 'X' was 10 per cent during 1973 as against 20 per cent Import Replenishment admissible) was used by the unit in the manufacture of rims for the domestic market, the loss on export would turn into an average profit of Re. 0.71 per rim or 11 per cent of f.o.b. realisation from export of rims of all varieties if the benefit derived by 'X' in production for domestic sales was taken into account. Similarly, since the excess import replenishment was also used during 1974 by 'X' in the manufacture of rims for the domestic market, the average profit would be stepped upto about 41 per cent of f.o.b. realisations from export of rims of all varieties.

1.139. Though the Report of the Cost Accounts Branch relating to Caliper brakes manufactured by Unit 'Y' disclosed that the uncovered gap

between f.o.b. cost and f.o.b. realisation, expressed as a percentage of f.o.b. realisation, was respectively (-)33.24 and (-)47.12 in 1973 and early 1975, the usual import replenishment had also been allowed to 'Y' in spite of the fact that there was no import content in caliper brakes. Besides, 'Y' mainly produced only industrial gas valves and regulators and the production of caliper brakes was hardly 8 per cent of its total production in respect of which most of the parts were either bought from or machined through sub-contractors and only a few machine operations and assembly were done by 'Y'. The unit had also not followed any system of cost accounting and no reliable data of stores consumption were available. The conversion cost paid to the sub-contractors (some of whom also had a substantial interest in Unit 'Y') was also considered to be very high.

1.140. The position that had emerged as a result of cost study of Unit 'Z' producing Dynamo Lighting Sets was as follows:

| Year | Cash Assistance admissible | Gap between f.o.b. cost and f.o.b. realisation (Percentage of f.o.b. realisation) |
|------|----------------------------|---|
| 1973 | 30%                        | (-)22.78  |
| 1974 | 30%*<br>20% <sup>@</sup>   | (-) 3.82  |
| 1975 | 20%                        | (-) 3.37  |

\*Upto 13 March 1974

<sup>@</sup> From 14 March 1974

1.141. In this context, the Committee learnt from Audit that the Ministry of Commerce stated in December 1975 as follows:

"Data extracted from Cost Reports is confirmed. However, these data related only to 3 components, viz. Rims, Caliper Brakes and dynamo lighting sets. It is difficult to generalise conclusions reached in 3 cases to all the components (more than 75). Moreover, the Reports had just been received when the Review Committee on Cash Assistance met (on 7-4-75 and 8-4-75) and had not, till then, been examined."

1.142. Asked, during evidence, why cash assistance for components was persisted with when even the Cost Accounts Officer's reports appeared to indicate that there was little justification therefor, the Commerce Secretary replied:

"There are three types of components, rims, brakes and dynamo sets. There are a large number of items, about 75 or so. So,

this is not a very representative type of thing on which to depend on this question of cash assistance."

1.143. The Audit paragraph points out that out of five units manufacturing components studied by the Cost Accounts Branch, reports on only three units were finalised in February and March 1975. The Committee, therefore, asked whether the reports on the two remaining units had since then been received and, if so, what they disclosed. In a note, the Ministry of Commerce replied:

"The Cost Reports in respect of the remaining two units were not received in this Ministry. The matter was not pursued in view of the changed criteria for the purpose of grant of Cash Assistance."

#### D. Import Replenishment

1.144. The following table indicates the changes introduced, from time to time, in the quantum of Import Replenishment for Roadster bicycles, SLR bicycles and bicycle components:

| Date     | Import Replenishment Admissible<br>(Percentage of f.o.b. value) |                 |                       |
|----------|---|-----------------|-----------------------|
|          | Roadster<br>bicycles  | SLR<br>bicycles | Bicycle<br>components |
| 1-4-1970 | 20  | 47              | 30                    |
| 1-9-1970 | 20  | 30              | 30                    |
| 1-4-1974 | 10  | 30              | 20                    |
| 1-4-1975 | 10  | 30              | 20                    |
| 1-4-1976 | 10 + 5*   | 30 + 5*         | 10 + 10*              |

\*Additional IR granted for import of certain items specified in Import Trade Control Policy for Registered Exporters (Vol. II).

1.145. The Committee enquired into the basis on which it had been decided to reduce the Import Replenishment on Bicycles (Roadster) and Bicycle components with effect from 1 April 1974. In a note furnished in this regard, the Ministry of Commerce have replied:

"Reduction in the Import Replenishment percentage on exports of bicycles and bicycle components effective from 1-4-1974 was decided at the meeting of Policy Group while finalising the Registered Exporters Policy for engineering goods for 1974-75.

The then existing import replenishment of 20 per cent and 30 per cent on complete bicycles and bicycle components respectively, were on examination found to be much higher than the actual import content in these two products (import content being defined as the ratio of the total c.i.f. value of imports of inputs to the f.o.b. value of the related export product) as per the norms adopted for the actual users licensing. Indigenous production of certain materials, notably cold rolled steel strips, steel wires, etc., and consumables like certain ranges of electroplating salts and brighteners had picked up and there was therefore, a clear need to review the import replenishment percentage on both complete bicycles and bicycle components."

1.146. Though an import replenishment of 10 per cent had been allowed in respect of conventional Roadster bicycles with effect from 1 April 1974 [In this context it is also significant that as early as in February 1973, the Committee appointed to examine the Registered Exporters' Policy for 1973-74, had proposed the reduction of the existing rates of IR by 10 per cent, i.e. from 20 to 10 per cent for complete bicycles (Roadster) and from 30 to 20 per cent for components], the Reports of the Cost Accounts Branch (February-March 1975), after a study of the costs of three units manufacturing complete bicycles, had disclosed that the actual import content in the bicycles exported by the respective units was very small compared to the entitlement (the import content was between 0.5 to 2.27 per cent of f.o.b. realisation for various brands of complete bicycles (Roadster against entitlement of 20 per cent in 1973-74 and 10 per cent in 1974-75, and about 15 per cent of f.o.b. realisation in the case of SLR bicycles against the entitlement of 30 per cent). On the Committee pointing out that it, therefore, appeared that the IR entitlements had been allowed on a larger scale than was necessary, the representative of the Directorate General of Technical Development stated in evidence that the current IR entitlement of Roadster bicycles was 10 per cent and added:

"We are not aware of the basis on which the Cost Accounts Branch has come to the conclusion that the import content in the bicycle is up to a maximum of 2.25 per cent. So, we would not really be able to comment on their observations. But we do know our technical calculations and earlier I have said that it comes to 10 per cent. We have the actual calculations. We just take into account all these materials which are used, which are permitted for import and we will prove it to you that it is 10 per cent. In this connection, I may state that it

is quite possible that the Cost Accounts Branch might have only gone into the utilisation of only the R.F.P. licence. So, I do not know on what basis this 2.25 per cent has been arrived at."

He stated further:

"In domestic production, it is Rs. 8 per bicycle which consists of items notified in appendix 83 of import trade control policy. There are certain raw materials permitted. Nickel is permitted, Heat-treatment salts of certain specifications were there CR/HR steel sheets, free-cutting steel bars, alloy-steel nipple wire, etc. are there. For export we allow additional heat treatment salts, electro-plating brighteners etc. The import content would come to 10 per cent."

1.147. The Chief Cost Accounts Officer of the Finance Ministry, however, informed the Committee in this connection as follows:

"In computing the import content in an item exported, all imports are taken into account. These are derived with reference to the particular items utilised in the manufacture of a product that is exported with reference to the material imported was on account of the import entitlement licence or an actual users licence, it is immaterial. So long as it is imported, that is material and that has gone into the export order. They have been reckoned with and taken note of in our reports."

1.148. The Committee, therefore, desired to know the basis on which the import content in respect of Roadster bicycles was determined by the two agencies. The Ministry was also requested to reconcile the discrepancy between the two sets of figures. In a note, the Ministry of Commerce have stated:

"The findings of the Cost Accounts Branch on imported materials in their reports under question were based on actual imports recorded in the books of accounts of the two companies in respect of the relevant periods as verified by their Investigating Officer.

The basis on which the DGTD had assessed the import content of bicycle at 10 per cent is as follows:

**"(a) Import of raw materials allowed as per policy for production for both domestic and export markets:—**

| Items of Raw Materials                               | Qty     | CIF Value         |
|--|---------|-------------------|
| 1. CR Steel Strips for mud-guard, fenders and chains | 4,100KG | }<br>Rs.<br>10.50 |
| 2. Cold heading quality spoken pipe wire             | 0.125 " |                   |
| 3. Primary nickel                                    | 0.104 " |                   |
| 4. Sodium Cyanide                                    | 0.017 " |                   |
| 5. Copper  | 0.015 " |                   |
| 6. Zinc  | 0.010 " |                   |
| 7. Tool and Alloy Steel                              | 0.035 " |                   |

**(b) Items specially allowed for export production:**

| Items of Raw Materials  | CIF Value        |
|---|------------------|
| 1. Consumables like electro-plating salts and brighteners, bronze powder, felt bobs/discs, brazing pans, cutting tools, and other items as per col. 4 of the shipping list in the Registered Export Policy. | }<br>Rs.<br>7.50 |
| 2. Decorals and decoral stickers.   |                  |
| 3. Tinplate waste waste.  |                  |
| 4. Spring steel wire/wire rods.   |                  |
| 5. Electrically treated chromium coated mild steel sheets and cuttings.   |                  |

|   |                                     |
|---|-------------------------------------|
| (c) Total c.i.f. value of permissible imported raw materials, consumable toolings, etc., for export generation. | Rs.<br>10.50<br>7.50<br><hr/> 18.00 |
|---|-------------------------------------|

In relation to the then existing f.o.b. value of around Rs. 200 per complete bicycle exported, the c.i.f. value as given above constitutes 9 per cent. It is a practice under the Registered export Policy to round-off to the nearest multiple of 5 per cent, recommendation was, therefore, made for a 10 per cent import replenishment per bicycle.'

The difference between the two appears to be due to the fact that the manufacturers might have used material imported against

A.U. quota and not against REP. Moreover, the DGTD formula takes into account the industry as a whole. There may be units in whose case import content may be very high, while in the case of some it may be much less."

1.149. Even in respect of components, the reports of the Cost Accounts Branch appeared to suggest that the actual requirements of imported materials were much less than the IR entitlements allowed. The Committee learnt from Audit that the Ministry of Commerce had stated (December 1975) in this context as follows:

"A point made is about higher rate of import replenishment having been given in cases where actual requirement of imported materials were much less. It may be pointed out that the percentage of import replenishment is sometimes calculated on group of products, where it is not possible to fix a separate IR rate in respect of individual items. In the Import Trade Control Policy, it has been the practice for several years now to show bicycles components as a single product group and to allow the same import replenishment percentage for all items coming under this group. It is not possible to give a separate import replenishment for each item under such a system whereas some items enjoy unintended benefits, some other items may be getting less than their requirement."

1.150. Since this appeared to be a special advocacy for an industry which was taking advantage of the excess Import Replenishment entitlements by selling them at a premium, the Committee asked whether these entitlements should not be allowed only to the extent actually needed. The Commerce Secretary replied in evidence:

"Import replenishment is, generally speaking, fixed on each item of complete bicycles. Of course this import replenishment is fixed on the advice of the DGTD. But the components are so many that it was thought fit to lump them together and fix a kind of general import replenishment on this. This is not something peculiar to bicycles; it is a feature which repeats itself in respect of many other commodities where they have to be lumped because it is physically impossible to give import replenishment for each item and to judge the kind of product base. For example, in the case of chemicals, we may have thousands of chemicals, which may otherwise have to be given import replenishment separately. It is not practicable to give import replenishment in that manner, it is always practicable and proper to give them only a kind of lump import replenishment. That is what I was trying to point out. Probably, when the scheme started,

at that time also certain fixed import replenishments were given on a flat basis. And this is what is actually done; it is always expressed in terms of a percentage of the f.o.b. value and rounded off to the nearest level—i.e., 15 per cent or 20 per cent or something like that. In this case also it was always thought proper that the entire range of all bicycle parts and components should be lumped together under one title and given an import replenishment of 20 per cent.”

He added:

“As I said, import replenishment is certainly based on a kind of a general average particularly in commodities which have to be lumped together. It is quite possible, as you say, that on some commodities the import replenishment may be a little more and on a particular item it may be less, depending upon the value of what he is importing or what he would like to import. These are all matters on which no firm view could be taken except the general view which is true, that import replenishments can be sold.”

In a note\* furnished subsequently in this regard, at the Committee's instance, the Ministry of Commerce stated:

“The import replenishment is arrived at on the basis of f.o.b. export to c.i.f. value of imported raw material on all industry basis and not unit to unit basis which is not practicable in component oriented industries like bicycles, automobiles, etc. Depending on the technology of production, the process of manufacture, the number of total components produced, etc. by different units, the replenishment in certain cases may be less and in some case may be more.”

1.151. The question of restricting the benefits of Import Replenishment only to those items for which they were actually required had also been considered earlier by the Public Accounts Committee (1974-75) who, in paragraph 1.14 and 1.15 of their 164th Report (5th Lok Sabha), had observed, *inter alia*, as follows:

“The Committee had also observed that “Arising out of this case is the basic question how import replenishment could be allowed for an item of export which does not have any import content. It is obvious that such items should be altogether

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\*Not verified in Audit.

excluded from the purview of the import replenishment schemes". The Committee had desired the Ministry of Commerce "to take steps to ensure that export incentive is not abused in any manner. Economic offences should be curbed ruthlessly and none should be spared". The Committee note that the Government have taken the following "steps to minimise opportunities for abuse" of export incentive:

- (i) Import of a number of items, considered to be sensitive, have been disallowed under the provision of flexibility;
- (ii) items are allowed to be imported against a REP licence on the basis of the actual user licence, only where the actual user licence pertains to the same Product Group to which the REP licence belongs;
- (iii) face value restrictions have been imposed on the items where indigenous production has developed to meet a sizeable part of the domestic demand; and
- (iv) a value limit has been imposed up to which only the manufacturer can obtain nominations."

The Committee, however, do not understand why the Government has not found it possible to go the whole way and declare that no import replenishment licence would be granted against the export of those commodities which do not have any import content and also that such licences would not be allowed to be transferred or utilised for import of machinery, instruments, tools, fixtures and spare parts which are not required for the production or processing of export commodities. The Committee desire that the Government should re-examine the question and take action along lines recommended by the Committee unless there are overwhelming reasons against it. It should be reflected in the Annual Report of the Ministry."

#### E. General Observations

1.152. The Audit paragraph points out that the total amount of cash assistance admissible on bicycle exports from 1970-71 to 1974-75 was about Rs. 3 crores, and that on bicycle components about Rs. 12 crores, and that during the same period, import replenishments of about Rs. 2 crores and Rs. 12 crores had been allowed for exports of bicycles and bicycle components. As against this total subsidy of about Rs. 15 crores and import replenishments worth about Rs. 14 crores, the total value of exports of bicycles and bicycle components during this period was about Rs. 60.58 crores. A number of shortcomings and deficiencies in the operation of the

cash assistance and Import Replenishment Schemes have also been highlighted in the Audit paragraph. Since nearly 25 per cent of the export earnings appeared to have been returned to the exporters in the form of cash assistance and IR benefits to the extent of about 22 percent were allowed in addition, the Committee desired to know whether the promotion of exports at such cost was worth continuing, particularly in view of the fact that one of the leading exporters (TI Cycles India Ltd.) was also essentially a foreign-owned concern. The Commerce Secretary stated in evidence:

"I may clarify some points. It is true that Rs. 15 crores were paid out in cash during the period 1970-71 to 1974-75. This was in exchange of foreign exchange earning of Rs. 60.58 crores. The net is about Rs. 45 crores. Now, this is the foreign exchange earnings. Now, Rs. 15.0 crores which was given as import replenishment were not given out in the shape of money. It was a sort of title to import something of whatever the exporter liked for further building up of exports. As I had already mentioned, he requires a lot of components and materials for manufacture of bicycles and for the manufacture of quality bicycles that are required in the foreign market and this requirement is slightly more than what would be required even for the Indian market. So, this import replenishment to the extent of 10 per cent and 20 per cent earlier was given in order to allow him to build up the market to manufacture more bicycles from his imported material. It was not given in cash. Government did not give them any cash. This was only a title and it was not as if Rs. 15.0 crores were given out as a complete cash."

1.153. Asked whether instead of subsidising exports on such a large scale, suitable export obligations could not be imposed, as was being done in the United Kingdom in the past, and Government assistance extended only when considered absolutely inescapable, the Commerce Secretary replied:

"There has been a lot of re-thinking in the Government on this structure of incentive for promoting exports and among these, the idea of export obligations and asking the parties to take on themselves an export commitment is one idea which is already under consideration. So far as new industries are concerned which can be export-oriented, whenever they come up for an industrial licence, there is usually the requirement given to them that they must export a part of their product which is suitably mentioned in terms of a percentage of their production.

There is another thinking going on at present in the Ministry of Industry that the Industries Development and Regulation Act should be amended and, in suitable cases, particularly of course in the cases of big companies-foreign-owned companies, multi-national, it might be possible even to give an export obligation to them. But, sir, since this is only in the stage of an idea where a lot of thought has to be given, I would not therefore expound it further except to say that the Industry Ministry, I understand, has gone ahead with this idea to a considerable extent."

1.154. The Committee enquired into the steps, if any, taken to tap new markets for the export of bicycles and bicycle components and the success achieved in this regard. In a note\*, the Ministry of Commerce replied:

"The Engineering Export Promotion Council have always been striving, on a continuous basis, to take such steps as are considered necessary for developing new markets for various engineering items including bicycles and bicycle components as well as for bringing about an overall improvement in the exports of various engineering goods. The more important steps taken in this direction are:

- (1) Sponsoring of Trade Delegations and Study Teams;
- (2) Conduct of Market Surveys abroad;
- (3) Dissemination of Information of Trade interest amongst exporters;
- (4) Participation in International Exhibition and Trade Fairs, etc. etc.

Specifically in regard to bicycles and bicycle components the Engineering Export Promotion Council participated in the International Bicycle and Motor Cycle Fair held in Koln in September, 1976. The participating firms booked orders for Rs. 8 crores at the Fair.

The exports of bicycles and bicycle components have been increasing over the years as may be seen from the following figures:

| Year    | F.O.B Value of Exports    |  |
|---------|---------------------------|--|
|         | Bicycles<br>(In lakh Rs.) | Bicycle<br>Components<br>(in lakh Rs.) |
| 1970-71 | 243 88                    | 461 77                                 |
| 1971-72 | 166 66                    | 984 45                                 |
| 1972-73 | 305 22                    | 732 86                                 |
| 1973-74 | 264 99                    | 1384 43                                |
| 1974-75 | 352 24                    | 1770 07                                |
| 1975-76 | 611 69                    | 1818 98                                |

\*Not vetted in Audit.

**F. Revised criteria for the determination of the need for and quantum of cash assistance and import replenishment**

1.155. The Audit paragraph also points out that the Ministry of Commerce had stated that "the entire structure of export benefits including import replenishment and cash assistance, is at present being reviewed by a fairly high level Committee. The Committee, therefore, enquired whether this review had since been completed and, if so, what action, if any, had been taken in pursuance thereof. In a note\* furnished in this regard, the Ministry of Commerce have stated as follows:

"The policy for the grant of cash assistance on exports has been modified and the Government have decided to have a fairly wide ranging system of cash compensatory support to improve our competitiveness and to make export activity reasonably profitable. Further, it has been decided that the cash assistance scheme should be used as a means of boosting our export effort. Accordingly, it has been decided that the determination of the rates of cash assistance should not be based on any mechanical application of a rigid formula like the difference between the f.o.b. price realisation and the marginal cost of production. The rates of cash assistance should be determined by a balanced judgement of the following criteria:

- (a) export potential and domestic availability as well as supply elasticity of the products;
- (b) import content and domestic value added;
- (c) approximate implicit subsidy, if available, under the import replenishment scheme;
- (d) compensation for irrecoverable taxes and levies;
- (e) difference between the domestic cost and international price of indigenous inputs and raw materials; and
- (f) costs of entry into new market.

Cash assistance rates, determined on the basis of above criteria, will—

- (a) not exceed 25 per cent of value added;
- (b) be allowed at a uniform rate for a group of products;
- (c) be fixed for a period of one year;

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\*Not vetted in Audit.

- (d) continue to be eligible for protection available under the scheme for Registration of export contracts;
- (e) not be reviewed more than once in a year; and
- (f) be withdrawn or reduced, if it becomes necessary, making such withdrawal or reduction effective after giving at least a three months notice to the Trade.

These principles have been followed for the determination of cash assistance rates during the current year by the Inter-Ministerial Committee. In regard to fixation of import replenishment percentages, it has been felt necessary to remove the disadvantages on account of high cost of domestic raw materials and intermediates, by making available inputs at international prices. It has accordingly been decided that in respect of export products where availability of raw materials is restraint on export production and the competitive strength of export products, the import replenishment percentages may be adjusted by allowing imports of all the raw materials even though the item may be indigenously available. These decisions have also been taken into account while framing the Registered Exporters Policy for 1976-77."

1.156. Since it had been stated earlier that the collection of data in regard to f.o.b. cost and f.o.b. realisations proved to be a difficult proposition, the Committee desired to know how, in the absence of a suitable machinery for the collection of the relevant data, the Ministry hoped to determine what would be the value added under the revised policy for the grant of cash assistance. The Commerce Secretary stated in evidence:

"On the question of value added it is easy to calculate. Value added is given in the Red Book. Whatever is import replenishment the rest is value added out of hundred. As regards the international prices running at a particular time we do get information from the various sources. As regards our own production costs and f.o.b. costs we have to take a view. I am sure in a large number of cases even though the prices do vary from time to time we are not very much off the mark by working on a figure on which we think that f.o.b. cost should be based. The other matter relating to cost of entry into the new market has to wait in the light of the product concerned."

He added:

"Value added is the percentage of f.o.b. since cash assistance is percentage of f.o.b. They are relatable always to the same

figure. If the import content is shown 10 per cent then we know the value added is 90 per cent."

1.157. This question had also been examined generally by the Public Accounts Committee (1976-77) in their 236th Report (5th Lok Sabha), who had observed, *inter alia*, as follows in paragraph 1.11 of the Report:

"While certain decisions, aimed at making cash assistance an effective instrument for export promotion, have now been taken by Government, the Committee find it difficult to appreciate the Commerce Ministry's reluctance to act upon their recommendation that a suitable machinery should be devised for a concurrent evaluation and review of the market trends, f.o.b. realisations and other relevant factors which have an impact on the cash assistance scheme. In view of the fact that the criteria, such as export potential, domestic availability, domestic value added, international prices, etc., which are proposed to be taken into account for determining the rates and quantum of cash compensatory support, are variable factors, subject to fluctuation from time to time, the Committee are unable to understand how the impact of these criteria would be evaluated and quantified in the absence of an adequate machinery for the purpose. The Committee are thus constrained to reiterate their earlier recommendation in this regard and would ask Government to act upon it without loss of time."

1.158. Time and again, the Public Accounts Committee have adversely commented upon the indiscriminate grant of cash assistance and other incentives for export promotion on the basis of *ad hoc* and incomplete assessments that had little or no relevance to the realities of the situation at a given point of time. The Audit paragraph under consideration, which deals with the grant of Cash Assistance and Import Replenishment for export of bicycles and bicycle components is one more instance of formulation 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 anomalies in the operation of the schemes had come to light. While the Committee are not opposed, in principle, to the grant of incentives for boosting the country's exports they cannot help feeling, after a study of the Audit paragraph and the evidence tendered before them, that greater care and vigilance should have been exercised in allowing large payments out of the exchequer and the export promotion schemes extended in a more prudent and discriminating manner after formulating the policies in this regard on more precisely thought-out foundations. Some of the more conspicuous deficiencies and defects in the schemes in respect of bicycles and bicycle components are discussed in the following paragraphs.

1.159. According to the Report of the Indian Institute of Foreign Trade the main consideration for the grant of an export subsidy is the "removal of price disadvantage involved in export and making the export operation no less attractive than the domestic sale." Cash Assistance is, thus 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. Data in regard to f.o.b. cost and f.o.b. realisation are, therefore, of vital importance for a proper determination of the need for and quantum of cash assistance. The Committee are, however, concerned to find that for as long as eight years (1966—1974), cash assistance for the export of bicycles and bicycle components had been extended, as in the case of other engineering goods, not on the basis of any critical and scientific cost studies but on the basis of what has been described by the Commerce Secretary as "a more or less quick appraisal of the situation." Admittedly, when the decision to introduce the cash assistance scheme immediately after devaluation was taken in August 1966, it "was not based on any detailed calculation." It has also been admitted that "the basis on which these decisions were taken were not always definite" and that it was only in 1972 that the Commerce Ministry decided "to have a second look" in respect of certain items and ascertain, on the basis of marginal costing whether "these deserved the cash assistance that has always been enjoyed by them" and cost studies for the purpose were commissioned through the Indian Institute of Foreign Trade.

1.160. The Committee are concerned to note that even in the absence of relevant data and a cost-benefit analysis, the rates of cash assistance for bicycles and bicycle components had been enhanced from the post-devaluation rate of 20 per cent to 25 per cent with effect from 1 June, 1967 and to 30 per cent with effect from 1 March, 1968 and remained undisturbed thereafter till 21 February, 1974 in the case of complete bicycles (Roadster) and till 13 March, 1974 in respect of components, despite the fact that certain perceptible changes had taken place during this period in regard to the indigenous availability of raw materials required for the manufacture of bicycles and bicycle components and in the behaviour of international prices. The Committee feel that the position should have been kept under constant review and timely corrective action taken on the basis of data relating to cost of production and f.o.b. realisations instead of extending the scheme from year to year in what appears to be an injudicious manner. Since devaluation should not have ordinarily warranted further assistance and incentives for export promotion, the initial decision to extend cash assistance also ought to have been taken only after detailed cost studies. That these elementary precautions were not taken in regard to schemes involving considerable outgo from the public exchequer is regrettable.

1.161. Even after the introduction in 1972 (after some anomalies in the operation of the cash assistance scheme for engineering goods had been brought to the Ministry's notice by the Central Board of Excise & Customs) of the concept of determining the gap between the cost of production and f.o.b. realisations on the basis of a more scientific analysis of cost data, the question of making suitable adjustments in the rates of cash assistance for bicycles and bicycle component had been hanging fire, for one reason or the other, for nearly two years. Thus, the Indian Institute of Foreign Trade, in their Report submitted in November 1972, had assessed that the percentage of uncovered loss on exports to the f.o.b. cost in the case of complete bicycles (Roadster) manufactured by five representative units ranged between 1.9 per cent to 30.2 per cent after taking into account the then available cash assistance of 30 per cent and had recommended the continuance of cash assistance and other export assistance for bicycles and components at the rates then prevailing. It had, however, been decided that consideration of the Institute's Report might be held over on the ground that a Committee, appointed in January 1973 under the Chairmanship of the Chief Controller of Imports & Exports to review the Registered Exporters' Policy for 1973-74, had also been asked to review, inter alia, the need for and quantum of existing cash subsidies and import replenishment.

1.162. Surprisingly enough, though the Review Committee referred to above, had in an annexure to its report submitted in February 1973, proposed reduction of the rates of cash assistance for bicycles and bicycle components to 22.5 per cent and 20 per cent respectively of the f.o.b. realisations as against 30 per cent admissible for both then, and had also proposed reduction of the existing rates of import replenishment [from 20 to 10 per cent for complete bicycles (Roadster) and from 30 to 20 per cent for components] the proposed reductions were not given effect to. Explaining the reasons for the non-acceptance of these proposals, which would have resulted in a saving of Rs. 83 lakhs by way of cash assistance and Rs. 80 lakhs in foreign exchange by way of import replenishment during 1973-74, the Commerce Ministry have stated, inter alia, that there was a discrepancy between the main recommendation in the Report of the Review Committee and the figures shown in the annexure and that the recommendations had not been accepted as they involved an increase in the rates of cash assistance on many of the items, which was not considered possible without proper examination of cost data relating to the products. It is, however, not clear to the Committee why the alleged discrepancy was not got reconciled by reference to the Review Committee. Since the recommendations must have presumably been based on a study of data then available and of the then prevailing trends of f.o.b. realisations from exports of bicycles and bicycle components, it is also not clear to the Committee why items in respect of which reduction in rates of cash assistance had been recommended

could not have been viewed in isolation and cost data in respect of items for which increase in the rates of cash assistance had been proposed, examined separately so as to safeguard against the payment of larger amounts than was considered necessary.

1.163. That whatever studies were undertaken by the Indian Institute of Foreign Trade were only haphazard would be evident from the anomalies pointed out subsequently by the Cost Accounts Branch of the Finance Ministry to whom the Institute's Report had been referred for advice in May, 1973. While the Institute had assessed, after comparison of the manufacturing cost of two units ('U' and 'V'), that the uncovered loss, after taking into account the then admissible cash assistance of 30 per cent, would be respectively 2.8 per cent and 1.9 per cent, the Cost Accounts Branch had determined the loss in respect of these units, on the basis of marginal costing, as 24.65 per cent and 17.69 per cent respectively as against the then existing assistance of 30 per cent. Apart from pointing out certain anomalies in the method adopted by the Institute in working out the f.o.b. cost of bicycles, the Cost Accounts Branch had also drawn attention to a significant fact that the Institute's study had not taken into account the extra benefits accruing to the exporters from the import replenishment on export of bicycles and components which were normally sold at a high premium (one of the leading manufacturers of bicycles, Sen Raleigh Ltd., had themselves indicated later in November 1974 that they had obtained a premium of 50 per cent by giving their import replenishment as a nomination to other parties) or were utilised by importing directly raw materials or capital goods, as a result of which the exporters would derive considerable advantage in imports over indigenous cost. This position had also been confirmed in July 1973 by the Director General, Technical Development, who had pointed out that the actual import content in complete bicycles (Roadster) would work out to less than 10 per cent of the f.o.b. realisation as against the 20 per cent Import Replenishment then allowed.

1.164. It is significant in this context that while cost studies had been commissioned through the Indian Institute of Foreign Trade after the Central Board of Excise and Customs had drawn the Commerce Ministry's attention to certain anomalies in the operation of the cash assistance scheme for engineering goods, the Review Committee under the Chairmanship of the Chief Controller of Imports and Exports had been set up only in connection with the annual revision of the Import Policy and not in the context of the anomalies in the operation of the cash assistance scheme highlighted by the Central Board of Excise and Customs. In these circumstances, the Committee are unable to appreciate the rationale

for deferring consideration of the Institute's Report. After having specifically commissioned these studies, it would have been more appropriate to have referred the Report promptly to the Cost Accounts Branch or entrusted the cost studies to them ab initio, instead of having waited for more than six months. Better results might have ensued from adopting such a course of action. Unfortunately, the Commerce Ministry appear to have adopted a 'Heads I win, Tails you lose' attitude in dealing with this question.

1.165. After making yet another abortive attempt in August 1973 to reduce the rates of cash assistance for complete bicycles (Roadster) and bicycle components, a decision had been taken, in January 1974, by the Marketing Development Fund to reduce the cash assistance for complete bicycles (Roadster) and bicycle components from 30 to 20 per cent and for special model Sports Light Roadster (SLR) bicycles from 25 to 22½ per cent. However, while orders conveying these decisions were yet to be issued, the Director General, Technical Development had informed the Commerce Ministry, in February 1974 that the unit value realisations from complete bicycles (Roadster) had increased from £8.50 (Rs. 161) to £12.50 (Rs. 236) which might "necessitate a close second look at the level of the present cash compensatory support for this item." On fresh calculations being made by the Commerce Ministry, it was found that there was no loss in the export of complete bicycles (Roadster) and accordingly cash assistance on this item had been abolished with effect from 22 February 1974.

1.166. However, barely six months later, cash assistance for complete bicycles (Roadster) had been reintroduced on an ad hoc basis, though at a reduced rate of 15 per cent, with effect from 1 September 1974 to be effective till 31 March 1975, pending collection of relevant cost data and their examination by the Cost Accounts Branch. It appears that this decision had been taken on the basis of "a spate of representations" received from the industry in this connection and on the ground that f.o.b. realisations had not been "as high as they were originally" and that the realisations varied "from market to market". The Committee, however, find that the Finance Ministry had expressed a number of reservations in regard to this proposal and had pointed out, inter alia that having withdrawn cash assistance for complete bicycle (Roadster) completely, its reintroduction without a detailed cost study may not be justified and that the grant of cash assistance on an ad hoc basis without supporting details had been objected to by the Public Accounts Committee in the case of Audit paragraphs on Cash Assistance on some items included in the Report of the Comptroller and Auditor General of India for the year 1972-73. In fact, on 5 August 1974, the Additional Secretary in the Commerce

Ministry himself had suggested a lower rate of 12½ per cent for both bicycles (Roadster) and bicycle components, while the Under Secretary and Director in the Ministry had suggested, on the basis of the data available from the report of the Cost Accounts Branch prepared in connection with fixation of domestic prices for bicycles as well as data made available by the exporters in 1974 alongwith their representations, a rate of 10 per cent uniformly for complete bicycles (Roadster) and bicycle components.

1.167. It is also significant in this context that in arriving at the rate of 12½ per cent (later revised to 15 per cent by the Cash Assistance Review Committee) the Commerce Ministry had relied on unauthenticated data. Besides, while in the calculations for determining the loss on exports, the f.o.b. cost of Rs. 260 furnished, in July 1974 without any detailed break-up by the Chairman, Bicycle and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council [who was also connected with a leading bicycle manufacturing firm, Hero Cycles (P) Ltd.] had been adopted, the f.o.b. realisation of Rs. 200 had been assumed on the basis of data given by another manufacturer (Atlas Cycle Industries Ltd.), whose f.o.b. realisations from different exports to various countries during 1974 ranged from Rs. 179.85 to Rs. 293.31. The Finance Ministry had also gone on record, in no uncertain terms, that it had been the experience in the past that the data given by the Export Promotion Council/industry were inflated and "in a majority of cases where cost study was undertaken, the cash assistance was either not justified or recommended at a much reduced rate". While emphasising, therefore, the need for being "very cautious" in announcing the rate of cash assistance "which may prove to be liberal later on when a detailed cost study is undertaken," the Ministry had pointed out that it was difficult to agree to the grant of cash assistance at a rate higher than 10 per cent.

1.168. It has, however, been contended by the Commerce Ministry that while the Finance Ministry's suggestion for restricting the cash assistance for complete bicycles (Roadster) and bicycle components at 10 per cent was "totally an ad hoc proposal not based on any kind of data," the proposal for the grant of 12½ per cent (later 15 per cent) cash assistance for complete bicycles (Roadster) "was based on the available data and DGTD's advice." The Committee, however, find from the relevant note recorded by the Director in the Commerce Ministry after discussions with the Development Officer of the Directorate General, Technical Development on 25 July 1974, that the official of the Directorate had pointed out that as the exports of bicycles then being made related to contracts entered into sometime back, the f.o.b. realisation did not reflect present

prices and had suggested that information from the Commercial Representatives in different countries should be collected to find out the price at which these countries were importing Roadster bicycles. The subsequent discussions on 17 August 1974 between the Additional Secretary in the Ministry and the Director General, Technical Development also related not to complete bicycles (Roadster) but to the appropriate rate of cash assistance for bicycle components when the former had been informed that "from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent." In these circumstances and in view of the fact that the data made available by the industry was not entirely reliable, the Committee are unable to accept the Ministry's contention in this regard.

1.169. That whatever assessments were made by the Commerce Ministry in this regard had no relevance to realities would be evident from the subsequent (February-March 1975) findings of the Cost Accounts Branch after a cost study of three of the four bicycles manufacturers selected for the purpose as well as from the data relating to f.o.b. realisations compiled by the Director General, Commercial Intelligence and Statistics. Thus, while the Commerce Ministry had adopted the f.o.b. realisation as Rs. 200 on the basis of the data given by Atlas Cycle Industries Ltd., according to the statistics published by the Director General, Commercial Intelligence and Statistics, the f.o.b. realisations during April-July 1974 actually ranged between Rs. 188 and Rs 247 (average Rs. 219). Had this figure been taken into account, the loss on export would have worked out only to 6.7 per cent, as against 18 per cent assumed by the Commerce Ministry, even after assuming the f.o.b. cost of Rs. 260 as correct and without taking into account the benefit accruing from import replenishment. Though the correctness of assuming the average realisation to be Rs. 219 has been disputed by the Commerce Ministry, the Committee are of the view that as these data are indicative of the market trends prevailing at the relevant time, they are of some significance. In any case it would appear from the subsequent cost studies by the Cost Accounts Branch (details of which have been discussed earlier in this Report) that in respect of three leading manufacturers of bicycles (T. I. Cycles India Ltd., Atlas Cycle Industries Ltd. and Sen Raleigh Ltd.), the loss on export after taking into account the benefits derived from import replenishment licences, was insignificant and there had, in fact, been substantial gains in some cases. The Committee regret that cash assistance should have been restored to an ad hoc basis, without a scientific evaluation of the costs and f.o.b. realisations.

1.170. What causes greater concern to the Committee is the fact that in spite of the fact that the Finance Ministry had not agreed to the rate of cash assistance proposed by the Commerce Ministry and had, in fact, re-

peatedly drawn attention to the lack of adequate justification, in the absence of authenticated data, for the rates proposed, the Cash Assistance Review Committee should have overlooked these objections and decided upon a rate (15 per cent) which was more than what the Commerce Ministry themselves had proposed earlier (12½ per cent). The Committee cannot countenance this procedure whereby the Finance Ministry had been precluded from exercising its legitimate functions of careful scrutiny of expenditure of considerable magnitude sought to be incurred on an incentive scheme. Though the Committee have been informed in this connection that the Ministry of Finance (Department of Expenditure and Economic Affairs) were also represented on the Cash Assistance Review Committee, this does not, as has earlier been pointed out by the Committee in paragraph 1.112 of their 178th Report (Fifth Lok Sabha), obviate the need for obtaining the specific concurrence and approval of that Ministry to a scheme that appears to have been unjustified on all accounts.

1.171. Though the cash assistance of 15 per cent, granted on an ad hoc basis in August 1974, was valid only till 31 March, 1975, continuance of the assistance at same rate upto 30 September, 1975, and again upto 31 March, 1976 was sanctioned respectively on 30 April, 1975 and 1 October, 1975. The Committee find that the decision to extend the cash assistance upto 30 September, 1975 was not taken on the basis of any fresh examination of detailed data in regard to f. o. b. costs and f. o. b. realisations but on somewhat tenuous ground that continuity of cash assistance was necessary in the interest of exports from the country. In view of the fact that the reports of the Cost Accounts Branch on the cost study of leading manufacturers of bicycles had been received by then and these had also disclosed that the cash assistance earlier given was hardly justified, the Committee feel that the Commerce Ministry ought to have proceeded more cautiously and taken these reports into consideration instead of extending the cash assistance once again in an ad hoc and indiscriminate manner. Similarly, though it had initially been decided that the latest f. o. b. cost and f. o. b. realisation should be taken into account while considering the question of cash assistance beyond 30 September, 1975, it appears that no detailed studies had been conducted in this regard but the cost data submitted by a firm manufacturing complete bicycles, which disclosed a shortfall of 16 per cent and 18.85 per cent respectively in the case of two units, had been adopted. Since, according to the Finance Ministry, past experience had shown that the data made available by the industry were inflated, the Committee are not sure how far the excessive reliance placed on the data furnished by the industry could be considered justified.

1.172. The Committee find that even in the case of Sports Light Roadster (S.L.R.) model bicycles, the rate of cash assistance had been increased

from 10 to 12½ per cent with effect from 1 April, 1975 without taking into account all the relevant factors. It has been stated by the Commerce Ministry in this connection that the decision to enhance the cash assistance had been taken by the Cash Assistance Review Committee on the basis of representations received from the trade that the cash compensatory support of 10 per cent was inadequate and of the report of the Cost Accounts Branch in respect of T. I. Cycles India Ltd. which disclosed a loss of 12.1 per cent on exports of SLR bicycles. It is, however, seen that the Cost Accounts Branch had simultaneously pointed out that the company had an excess import entitlement licence of 15 per cent, the benefit from which could not be assessed and had, therefore, suggested that the Commerce Ministry may take a view on the benefits, if any, on the import entitlements in deciding the quantum of cash assistance. This aspect, unfortunately, does not appear to have been gone into. In view of the fact that the import replenishment on bicycles was admittedly found on examination to be much higher than the actual import content and the excess import entitlement could also be transferred at considerable premium, the Committee fail to understand why this important and vital question had been over-looked in determining the quantum of cash assistance necessary for SLR bicycles.

1.173. The manner in which the question of granting cash assistance for bicycle components had been handled causes even greater concern to the Committee. While taking a decision to abolish, with effect from 22 February, 1974, cash assistance for complete bicycles (Roadster), no change had, however, been made in the January 1974 decision of the Marketing Development Fund in regard to bicycle components (viz. to reduce the cash assistance from 30 to 20 per cent) on the ground that no separate costing in respect of components were made nor had the Director General, Technical Development intimated any higher unit value realisation from their exports. The Committee find in this context that when the proposal for reduction of cash assistance from 30 to 20 per cent was sent to the Finance Ministry in February 1974, that Ministry had suggested, on the consideration that if export realisation was much more than the cost of production for complete bicycles the same position would hold good for components also, that cash assistance on bicycle components might be withdrawn. This had not been accepted by the Commerce Ministry on the ground that as more than 75 per cent of the export was accounted for by components and the manufacturers of components were mostly in the small scale sector, their economics of production and export could not be compared with that of the cycle manufacturers who were mostly in the organised sector, and that exports of components would have a setback if the cash assistance was withdrawn completely.

1.174. Both these arguments had, however, been refuted in March 1974 by the Ministry of Finance. As regards the contention that exports of components would have a setback if cash assistance was withdrawn, the Finance Ministry had pointed out that if the withdrawal of the assistance on complete bicycles could not result in a setback to exports, the position should not be different for components. With reference to the distinction sought to be drawn between the organised sector and the small scale sector, the Ministry had drawn attention to the fact that the rates of cash assistance were decided only on the basis of cost of production and f.o.b. realisation and no distinction was made between the small scale sector and the large scale sector.

1.175. Though the Finance Ministry had not then pressed this issue further as proper cost data were not available for an objective analysis, subsequently, on reconsideration of the question in June 1974, the Ministry had pointed out that even without waiting for a detailed cost study, there was "clear justification" for reducing cash assistance for components to prevent malpractices. That Ministry had accordingly suggested that, pending reference to the Cost Accounts Branch for cost study, either the cash assistance on bicycle components be reduced from 20 to 10 per cent or cash assistance on complete bicycles as well as components be allowed uniformly at 10 per cent. The following valid reasons had been cited, inter alia, by them in support of their suggestion:

- (i) While the producers of bicycle components are mainly in the small scale sector, it is not necessary that exporters are the same who are the producers of components. Exporters are different from the producers. They will be purchasing the components from the producers and then exporting. This may add to the ultimate cost of export on account of cost of export overheads and other expenses. Continuance of cash assistance will only help such middle man exporters in quoting lower prices.
- (ii) As the item is of labour intensive nature, Indian prices should be competitive in view of the high cost of labour in other developed countries.
- (iii) Cash Assistance on complete bicycles and S.L.R bicycles has been withdrawn, reduced after taking into account the increase in unit realisation in International Market. The unit realisation for components would also have gone up in line with similar buoyance for all other products. The argument for complete bicycles will be equally valid for components.

- (v) Continuance of cash assistance of 20 per cent on components may result in misuse of the facility in as much as complete bicycle may be sent in semi-assembled condition for the purpose of claiming cash assistance. The country will lose foreign exchange on account of higher unit realisation for a finished product and also will have to pay cash assistance even though it has been withdrawn.

In fact, even as early as in March 1974, the Director General, Technical Development had informed the Commerce Ministry that as conventional Roadster bicycles were almost always shipped in a knocked down condition, there was a risk, consequent on the abolition of cash assistance for complete (Roadster) bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of components with a view to claiming the cash assistance prescribed for components.

1.176. The Committee are, however, surprised to find that in utter disregard of the reservations expressed by various official agencies, no positive steps were taken by the Commerce Ministry to prevent the possible abuse of the cash assistance available for bicycle components. It would appear, prima facie, from the statistics of exports of bicycles and bicycle components during the period when cash assistance on bicycles stood abolished as well as from the two specific cases of exports of bicycles and components to countries 'P' and 'Q' cited in the Audit paragraph that these fears were not entirely unfounded. Though the Commerce Ministry have attempted to prove that the apprehension that complete bicycles might be exported as components was not borne out by the actual export performance, the reasons for the somewhat drastic decline in the exports of complete bicycles and increase in exports of components to countries 'P' & 'Q', have not been satisfactorily explained. Besides, the Engineering Export Promotion Council themselves had pointed out, in their representation pleading for the reintroduction of cash assistance for complete bicycles, that in the absence of cash assistance for complete bicycles, "the tendency would be to increase export of components and even declare the complete bicycles which are always exported in CKD (completely knocked down condition) as exports of components with a motivation to get cash subsidy of 20 per cent." The officials in the Ministry of Commerce had also conceded, in their notes on the suggestions of the Finance Ministry referred to earlier, the possibility of abuse of the cash assistance on components.

1.177. As stated earlier, one of the arguments advanced by the Commerce Ministry for not withdrawing or at least reducing cash assistance for components is that while informing the Ministry of the increase in unit value realisations from complete bicycles, their Director General Technical Development had not indicated similar higher realisations from exports of components. No reference on this question was either made

at that stage to the Directorate by the Commerce Ministry. However, even in the absence of any communication in this regard, it should have been evident that if realisations from exports of bicycles had increased, it was only logical, as a natural corollary, that realisations from exports of components should have also increased at least relatively if not on the same scale as complete bicycles. It is also significant in this context that even in November 1972, while recommending cash assistance at the then existing rates for both complete bicycles and components, the Indian Institute of Foreign Trade had nevertheless pointed out, inter alia, that "the hope of bridging the gap between the f.o.b. cost and f.o.b. realisation through improved unit value realisation may be partially justifiable" in the case of bicycle components on the basis of data in regard to unit value realisations during the period from 1965-66 to 1970-71.

1.178. The Committee note that while the unit value realisation from exports of bicycles rose by 9 per cent in 1973-74 as compared to 1972-73, the corresponding rise for most of the components was 11 per cent or more, and that between April and July 1974, the unit value realisations from most components rose by 25 per cent or more whereas that of bicycles fell marginally by 3 per cent. That the unit value realisation from exports of components had, in fact, increased during the period in question is also evident from the data relating to exports of components to countries 'P' and 'Q'. Thus, while the export of bicycle components to country 'P' had increased only about 22 per cent during April 1974 to September 1974 as compared to the exports during the corresponding period in 1973 (from 12.23 lakh kgs. to 14.97 lakh kgs.), the value of the exports had risen by nearly 119 per cent (Rs. 138.38 lakhs as against Rs. 63.09 lakhs). Similarly, while exports of components (other than saddles) to country 'Q' had increased by 67 per cent (from 2.74 lakh kgs. to 4.59 lakh kgs.) during the relevant period as compared to the exports during the corresponding period in 1973, the value of the exports had gone up by nearly 171 per cent (from Rs. 17.48 lakhs to 47.44 lakhs). Significantly enough, the Engineering Export Promotion Council had also recommended cash assistance of 15 per cent for both components and complete bicycles.

1.179. The Committee find that while drawing the Commerce Ministry's attention, in February 1974, to the possible misuse of the cash assistance on bicycle components, the Director General, Technical Development had also suggested that, to prevent abuses, cash assistance might be restricted to only eight components which constituted bulk of the exports from the country. The Directorate had also pointed out that as these components did not add up to a complete bicycle, it would have been easy for the Customs authorities to identify consignments of these parts from those of complete bicycles exported in a knocked down condition.

Though the Commerce Ministry had felt, in view of the fact that there were more than seventy five components of bicycles, that "some more thought could be given to this problem" and that the components could perhaps be put into two groups, one for which cash assistance would be admissible and another for which such assistance would not be available, while announcing the registered exporters' policy and cash assistance effective from April 1974, the Committee are concerned to note that this question was not pursued to its logical conclusion for one reason or the other. As this decision, if implemented, would have imparted greater rationality to the cash assistance scheme and would have curbed at least partially the misuse of the scheme besides resulting in considerable savings to the exchequer, the Committee are inclined to take a serious view of this failure.

1.180. In these circumstances, the Committee are firmly of the view that the possibility, however remote, of the cash assistance for components being abused by unscrupulous exporters in the absence of similar assistance for complete bicycles should have been promptly taken notice of and necessary corrective action taken to plug the loophole. The Committee, however, regret that even the elementary precaution of ascertaining the f.o.b. realisations from exports of components had not been taken by the Commerce Ministry and cash assistance had been persisted with without reference to any cost data on the tenuous ground that exports of components would suffer a setback.

1.181. As in the case of complete bicycles (Roadster), subsequent examination (November 1974-April 1975) by the Cost Accounts Branch of the cost data furnished by three manufacturers of components had disclosed that the cash assistance allowed, from time to time, on exports of components which were studied (Rims, Caliper brakes and Dynamo Lighting sets) was not justified or was hardly justified.—It has, however, been contended by the Commerce Ministry that as the data studied by the Cost Accounts Branch related only to three components, these were not "very representative" and it was difficult to apply the conclusions reached in these three cases to all the components numbering about seventy five. Since, according to the Director General, Technical Development, bulk of the exports was accounted for by only eight components, the Committee are unable to appreciate why data relating to at least these components could not have been examined and the policies in this regard formulated on more precise foundations instead of indiscriminately and even irrationally extending the scheme from time to time.

1.182. It appears that in spite of the fact that the Finance Ministry had expressed a number of reservations in regard to the proposals made by the Commerce Ministry from time to time and various official in the Commerce Ministry also held different views on the subject, the Minis-

ter's approval had not been obtained at any stage to the decisions taken about the continuation and quantum of Cash Assistance at different points of time except while increasing the cash assistance rate on SLR Bicycles in October 1975. Since conflicting views had been expressed on the subject and the decisions also appear to have been taken on an ad hoc basis, the Committee are of the opinion that all the facts of the case ought to have been placed before the Minister who could then have had an opportunity to give his considered views on the entire question. The feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval, should be appropriately examined.

1.183. Apart from the somewhat indiscriminate extension of cash assistance for bicycles and bicycle components, import replenishment also appears to have been allowed on a larger scale than necessary and the Committee are concerned to observe that there had been avoidable delay in revising the rates of import replenishment. As pointed out earlier in paragraph 1.162, though the Committee appointed under the Chairmanship of the Chief Controller of Imports and Exports had proposed, in February 1973, reduction of import replenishment for bicycles (Roadster) and bicycle components to 10 per cent and 20 per cent respectively from the then existing rates of 20 per cent and 30 per cent, which would have resulted in a saving of Rs. 80 lakhs in foreign exchange during 1973-74 alone, the proposed reductions had not been effected to. Admittedly, prior to 1973 no study had been made in the Commerce Ministry to determine the premium on import replenishment licences. Subsequently, in May 1973, the Cost Accounts Branch, to whom the Report of the Indian Institute of Foreign Trade on 'Bicycles and Bicycle Parts' had been referred, had also drawn attention to the fact that the import replenishments on exports of bicycles were normally sold at a heavy premium. (Subsequent scrutiny of the cost data of leading bicycle manufacturers had also indicated that while Sen Raleigh Ltd. had sold their import replenishment at a premium of 50 per cent during 1973-74, Atlas Cycle Industries Ltd. had sold their import replenishment in 1973 at premia ranging from 30 to 49 per cent). As early as in July 1973, the Director General, Technical Development had also pointed out that the actual import contents in complete bicycles (Roadster) worked out to less than 10 per cent of the f.o.b. realisation as against 20 per cent then allowed. The Commerce Secretary also conceded during evidence that about 17 per cent of the import replenishment licences were nominated to others.

1.184. Yet, it was only in April 1974 that the import replenishment for bicycles (Roadster) and bicycle components were reduced respectively to 10 per cent and 20 per cent. No change was, however, made in the rate of 30 per cent in respect of SLR bicycles. That these rates were also

liberal and had no relevance to realities would be evident from the study by the Cost Accounts Branch (August 1974-March 1975) of the costs of T.I. Cycles India Ltd., Atlas Cycle Industries Ltd. and Sen Raleigh Ltd. which disclosed that the actual import content in the bicycles exported by the respective units was very small compared to the entitlement [the import content was only 0.5 to 2.27 per cent of f.o.b. realisation for various brands of complete bicycles (Roadster) against the entitlement of 20 per cent in 1973-74 and 10 per cent in 1974-75; and about 15 per cent of f.o.b. realisation in the case of SLR bicycles against the entitlement of 30 per cent]. The cost studies in respect of manufacturers of certain components (November 1974-April 1975) also suggest that the actual requirements of imported materials were much less than the Import Replenishment entitlements allowed.

1.185. The Committee are unable to see any justification for allowing import replenishment on such liberal scales for exports of bicycles and bicycle components. It has, however, been contended by the Commerce Ministry that as the percentage of import replenishment is sometimes calculated for a group of products and it is not possible to prescribe separate rates for each item under such a system, some items enjoy unintended benefits while others may be getting less than their requirement. While this argument may perhaps be valid to some extent in the case of components, it is difficult to appreciate the Ministry's reluctance to determine the quantum of import replenishment actually required for bicycles (Roadster) and SLR bicycles on a need-based analysis. Since, according to the Finance Ministry, there may not be more than two units manufacturing SLR bicycles and exporting them it should not be too difficult to determine the quantum of import replenishment necessary after a detailed scrutiny of all relevant data. The Committee would therefore, urge Government to re-examine this question in all its aspects and ramifications and bring about the desired improvements in the Import Replenishment Scheme. They would also reiterate, in this connection, their recommendation contained in paragraph 1.15 of their 164th Report (Fifth Lok Sabha) that no import replenishment licence should be granted against the export of those commodities which do not have any import content and such licences should not also be allowed to be transferred or utilised for imports of machinery, equipments, tools, fixtures and spares which are not required for the production or processing of the commodities being exported.

1.186. The final picture that emerges from the foregoing paragraphs is, thus, far from satisfactory. The Committee cannot help feeling that greater concern has been shown by the Commerce Ministry, without adequate justification, for the interests of the industry rather than for ensuring that the country's scarce resources are not expended indiscriminately and injudiciously. During the period from 1970-71, to 1974-75, while the

total amount of cash assistance admissible for exports of bicycles and bicycle components worked out to about Rs. 15 crores, an import replenishment of about 14 crores had been allowed for this purpose, against the total exports valued at Rs. 60.58 crores. It is also significant in this context that only about 8 per cent of the production of Roadster bicycles is exported while the country is yet to make a perceptible impact in the market for SLR bicycles. If the other concessions and facilities for export promotion such as drawbacks of customs and excise, railway freight rebate, supply of raw materials at concessional rates, etc. are also quantified and taken into account, the total cost of these exports may well turn out to be disproportionate to the foreign exchange actually earned.

1.187. As has been earlier pointed out by the Public Accounts Committee, in paragraph 1.49 of their 174th Report (Fifth Lok Sabha), the basic defect in the system of granting cash assistance and other incentives seems to be the absence of an effective machinery with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations come to notice. As a result of this handicap, Government have had to place an almost exclusive reliance on the data furnished by the industries themselves for the Export Promotion Council, which, admittedly, has been often found to be at variance with the actual position obtaining. It would also appear that though market survey reports indicating export prospects, prevalent price trends, etc. are received from Indian Embassies abroad and other agencies, apart from transmitting these to the Export Promotion Councils for exploiting the opportunities revealed through such reports, very little use is made of these reports by the Commerce Ministry for the determination of policies. It has also been admitted by the Ministry that there is no machinery to cull out price trends from these reports and use them for the purpose of fixation of cash assistance. Neither does the Ministry have at present any standing arrangements for the periodical collection, on regular basis, from the Export Promotion Councils data relating to f.o.b. costs and realisations in respect of items for which cash assistance has been granted. This is a situation which needs to be remedied immediately. Stressing, therefore, once again the importance of devising a suitable machinery for a concurrent review and monitoring of all the relevant factors influencing various incentives for export promotion so as to ensure that the trade does not derive undue benefits from the fact that all the relevant information may not be available with the administrative Ministry concerned, the Committee would reiterate their recommendation contained in paragraph 1.11 of their 236th Report (Fifth Lok Sabha).

1.188. Yet another reason advanced by the Ministry for not taking into account the f.o.b. realisations reported, from time to time, by the Director General, Commercial Intelligence and Statistics is that these figures are not available at the time of formulation of the policies and that the published statistics are usually received after six months. The Committee note that in pursuance of their recommendations in this regard, contained in paragraph 1.50 of their 174th Report (Fifth Lok Sabha), certain important changes in the method of compilation and publication of trade statistics coupled with the structural strengthening of the organisation have been made, as a result of which the time-lag between the period for which the information relates and its compilation and preparation for publication has been reduced from about six months to about three months at present. The monthly Statistics of the Foreign Trade of India are also now stated to be received in manuscript form without waiting for a printed copy of the volume. While these improvements are undoubtedly to be welcomed, the Committee are, however, concerned to learn that there is no machinery in the Commerce Ministry to watch and monitor export realisations whether on the basis of the data available in the manuscript copy or otherwise, which makes it all the more imperative to devise a suitable machinery for a concurrent review and evaluation of f.o.b. realisations as recommended in the preceding paragraph. There should also be a regular arrangement for the periodical collection of cost data and their examination by the Cost Accounts Branch from time to time, at least in respect of those commodities involving heavy outflow of cash assistance instead of extending the assistance on an ad hoc basis on the ground that the collection and examination of the data takes a long time.

1.189. According to the Report of the Indian Institute of Foreign Trade, one of the reasons for the high f.o.b. cost, necessitating large quantum of cash assistance, is the high proportion of the fixed overheads to the f.o.b. cost resulting from the under-utilisation of the total capacity available in the country for the production of bicycles. (In respect of two bicycle manufacturing units studied by the Institute, the fixed overheads constituted 6.7 and 13.0 per cent of the f.o.b. cost). Observing, in this context, that production of bicycles can be almost doubled if the total installed capacity is fully utilised, which in turn could reduce the unit cost at least by distributing fixed overheads over much greater numbers, the Institute's Report points out that "if production increases by 50 to 100 per cent of the existing capacity, the incidence of fixed overheads on each unit of production will be reduced by about 33.3 to 50 per cent." It is disconcerting to note that the actual production of bicycles was only 48.7 per cent to 63.3 per cent of the installed capacity during the period from 1970 to 1975, only about 8 per cent of the actual production had been exported. It has also been conceded by the representative of the Direc-

torate General, Technical Development that the high cost of production could be attributed to managerial inadequacies and lack of cost consciousness. Subsidising such exports at the cost of the public exchequer would, therefore, tantamount to paying a premium for the inefficiency of the bicycle manufacturers.

1.190. Another reason for the inability of the Indian bicycle manufacturers to compete effectively in the international market appears to be the quality of the Indian bicycles. The Commerce Secretary has also been good enough to concede that while the Roadster bicycles have functionally proved their worth in the developing countries, in certain markets and certain models, Indian bicycles do not measure up to the existing standards set up by the importing countries, as a result of which the country has not been able to compete with the products of United Kingdom or Japan. In regard to designs and looks also it has been admitted that the Japanese bicycles are "far superior". Since large scale manufacturers of bicycles in the organised sector generally buy out components manufactured in the small scale sector and in the absence of an adequate machinery for ensuring that the quality of such components fulfils the prescribed standards and specifications, the quality of the Indian bicycles would appear to have been adversely affected. All these underscore the importance of improving upon the existing arrangements for enforcing quality control and of a coordinated programme for Research and Development so as to be able to cater to the requirements of the sophisticated markets. This is particularly necessary in view of the fact that other developing countries like Iran, Iraq, Sri Lanka, Indonesia, Nigeria, etc. are also establishing assembling plants for Roadster bicycles and a survey of foreign markets has also disclosed that the demand for complete Roadster bicycles will not increase the world over.

1.191. The Committee have been informed in this connection that while the emphasis in earlier years had been on import substitution, it has now been shifted to the up-dating of technology as well as to aspects of cost reduction where the current effort in relation to the total turnover of the industry is still far from adequate and that a Panel for the bicycle industry, in which all the manufacturers and some of the important consumers would be members, has been constituted in April 1976 to go into various aspects relating to the growth and restructuring of the industry, like better utilisation of existing capacity, modernisation, technology development, diversification, cost evaluation and reduction, export generation and other related matters. The Panel will also examine, in the context of a larger mounting of research and development effort in areas like material conservation, reduction of process wastes, use of alternate light weight, high strength materials, etc. and whether a separate research centre for the bicycle

and bicycle components industry is necessary and feasible. Standardisation of specifications of components and raw material is also one of the terms of reference of the Panel. Considerable time having elapsed since the Panel was constituted, the Committee would like to be apprised in some detail of the progress made so far by the Panel and the specific steps taken to achieve the objectives envisaged.

1.192. As regards improving the quality of bicycles and components, the Committee learn that the whole question of quality control on engineering exports including exports of bicycles and components is currently being gone into by a committee under the chairmanship of the Secretary (Technical Development). They would like to know whether this exercise has been completed and, if so, the measures taken as a sequel thereto. The Committee need hardly emphasise the importance of ensuring that the quality of Indian bicycles and bicycle components come up to the exacting standards set by the sophisticated market.

1.193. Yet another reason for the high f.o.b. cost of Indian bicycles is stated to be the high prices charged by the secondary sector for cold-rolled steel strips, the basic raw material required by the industry. The Committee have been informed in this connection that while hot-rolled steel strips are available at the JPC (Joint Plant Committee) controlled prices, the prices of cold-rolled steel strips are totally uncontrolled. Since an assured supply at reasonable prices of the basic raw material required by the bicycle industry has a direct bearing on the f.o.b. cost, the Committee desire that the question of high prices charged by the secondary sector should be gone into urgently by the Steel Ministry and necessary corrective action taken to discipline the private producers of cold-rolled steel strips.

1.194. The Committee are also of the opinion that instead of resorting to the grant of ad hoc and piece-meal incentives for export promotion, it may be worthwhile to impose suitable export obligations on the industry and Government assistance extended only when it is absolutely inescapable. They have been informed by the Commerce Secretary that the idea of imposing export obligations and asking exporters to take on themselves an export commitment is already under Government's consideration and that the Ministry of Industry is also contemplating amendment of the Industries (Development and Regulation) Act to provide for an export obligation in suitable cases, particularly in the cases of foreign-owned and multinational companies. Since these measures appear to be only in an embryonic stage still, the Committee would urge Government to examine these expeditiously and if found desirable bring forth necessary legislation for the purpose. The feasibility of utilising the idle capacity in the

bicycle industry for export oriented activities should also be examined on a top-priority basis, in the light of the findings of the Development Panel for the bicycle industry which is stated to be engaged in a study of this subject.

1.195. The Committee also note that though there is a large market for the Sports Light Roadster model bicycles, demand for which has been estimated at 4 to 5 million a year, exports from the country have been only around 10,000 bicycles a year. Bulk of these exports are by T.I. Cycles India Ltd., a company governed by Section 29 of the Foreign Exchange Regulation Act, 1973, with 52.6 per cent of the equity capital being held by non-resident shareholders. It has been stated that attempts made so far to make a purely Indian-owned company to enter the export market for SLR bicycles have not been successful on account of the absence of the requisite facilities and technology within the country for the manufacture of three-speed hubs for these bicycles. The Committee understand that the cost of manufacture of the three-speed hubs in India would be prohibitive and even TI Cycles India Ltd. have been importing this vital component. Efforts made by several Indian companies for collaborative joint ventures for the production of three-speed hubs or export with two of the four foreign firms—Shimano of Japan and Sturmia—Archer of U.K.—who are stated to have monopolised their production, have also been unsuccessful. Since the development of an economic and viable unit for the production of three-speed hubs alone would require considerable capital investments, apart from the investment necessary in the steel and ancillary sectors for building up the production facilities for various other critical materials and components, it appears that the country may not be in a position in the immediate future to make any perceptible impact on the market for SLR bicycles.

1.196. The Committee have been informed in this context that discussions have been initiated with the purely Indian units manufacturing bicycles for the up-dating of their facilities to the level of TI Cycles India Ltd. and that the Panel for the bicycle industry, referred to earlier, would also go into this question. In view of the fact that the demand for Roadster bicycles is not likely to increase further, the Committee would urge Government to examine this question on an emergent basis and take all steps to provide the necessary infrastructural facilities for the production of a larger number of SLR bicycles and bicycles of more modern design required by the importing countries on long term and assured basis. It should also not be beyond the ingenuity of our technologists to find ways and means of achieving a breakthrough in the manufacture of three-speed hubs at reasonable cost. The Committee would like to be apprised, in some detail, of the findings and recommendations of the Development Panel in this regard and the specific steps taken in pursuance thereof.

1.197. Incidentally, the Committee learn that T.I. Cycles India Ltd. has been advised by the Reserve Bank of India to reduce its non-resident equity to 40 per cent by the 1st week of May 1977, in response to the company's application for continuing its activities in India under Section 29 of the Foreign Exchange Regulation Act, 1973. They would like to know whether the company has complied with this requirement and, if not, the steps, if any, taken to enforce the provisions of the Act.

1.198. From the analysis of facts given in the foregoing paragraphs, the Committee can safely infer that cash assistance provided for export of bicycles and bicycle components has not been on a rationally justifiable basis. The Committee are unable to understand how the Cash Assistance Review Committee could, on the basis of data thrown up (which was available also to officers of the Ministries of Finance as well as Commerce) differ with the suggestions made at different levels for a lower rate of cash assistance and ultimately fixed it at 15 per cent, in the case of complete bicycles and 20 per cent in the case of bicycle components with effect from 1-9-1974. They would like Government to direct the Cash Assistance Review Committee to have a more rational approach in deciding the commodities eligible for export promotion and the rate of cash assistance justified in individual cases so as to ensure that the country's scarce resources are committed in the national interest of export promotion and not frittered away.

NEW DELHI;  
September 30, 1977.  
Asvina 8 1899(5)

M. STEPHEN,  
Chairman,  
Public Accounts Committee.

## APPENDIX I

(Vide paragraph 1.60)

*Extracts of notes containing calculations leading to withdrawal of Cash Assistance on complete bicycles in February, 1974*

In its meeting held on 1.1.1974, MDF Committee decided to reduce cash assistance on bicycles, components etc. on the basis of the study conducted by IIFT during the middle of 1972. The existing rate of Cash Assistance and the rates decided by MDF are indicated below:—

|                                       | Existing<br>rate of C.A. | Rate<br>decided<br>by MDF |
|---------------------------------------|--------------------------|---------------------------|
| A.152.1. Complete Bicycles— . . . . . | 30 %                     | 20 %                      |
| A.152.2 Bicycle components . . . . .  | 30%                      | 20% <sup>7</sup>          |
| A.153.3 SLR bicycles . . . . .        | 25 %                     | 22½ %                     |

As per the above decision of MDF, we were going to issue a circular reducing the cash assistance. In the meantime, however, a letter has been received from Development Officer, DGTD (Page 65/c) that f.o.b. realisation of ordinary roadster bicycles has gone up to £12.50 and that this has necessitated a close second look on level of cash compensatory support.

It may be pointed out in this connection that the IIFT study examined the costing of roadster bicycles only, and did not go into the costing of bicycles components and SLR models. From the figures given in the IIFT report, Cost Accounts Branch had calculated the marginal cost and realisation of two units as follows:—

|   | Unit U  | Unit V |
|---|---------|--------|
|   | Rs.     |        |
| Marginal cost per bicycle as calculated by CAB marginal costing . . . . . | 173 57  | 160 69 |
| F.O.B. realisation + duty drawback . . . . .                              | 142 75  | 138 81 |
| Shortfall as percentage of f.o.b. realisation (without CA) . . . . .      | 24 65 % | 17 69% |

Since there was shortfall in realisation, MDF have decided to give cash assistance at the rate of 20 per cent for the roadster bicycles (A.152.1). In the above calculation, however, f.o.b. realization was taken at a much

lower figure than that obtaining now as per as DGTD's letter. This therefore necessitates a review.

The present f.o.b. realization appears to be £12.50. The duty drawback on export of roadster bicycles is 13 per cent. The total realization per bicycle is Rs. 282.50 (Rs. 250.00+Rs. 32.50). This realisation is therefore much more than the cost of production even of unit U, where manufacturing cost is higher than the cost in the other unit. It may be argued that the manufacturing cost has also gone up. Even if this cost has gone up by 60 per cent, there is no loss in export. In view of this, it will be very difficult to justify any cash compensatory support for export of roadster bicycles.

It is, therefore, suggested that cash assistance on export of complete bicycles may be completely withdrawn. Since there was no separate costing of bicycle components and SLR bicycles, and DGTD have not indicated any higher unit value realization in this respect, MDF decision may be followed for export of components and SLR.

There is no need to consult Finance or take it to MDF again, since we are withdrawing the incentive.

Sd - J. P. Das, Director.  
14-2-1974.

JS(BDK) on tour.  
AS/(RT)

- (A) I would, agree in the circumstances, with B above.
- (B) A complete list of all such withdrawals/reductions of C. A. decided with the justification, therefore in each case may be put up to C. M. also for information in a tabulated form. This should include the volume of exports under each and also effect, if any of our revisions.

Sd/- R. Tirumalai.  
15-2-74.

- (A) I have spoken to Secy. about these and he has agreed and that orders may issue.

Sd/- R. Tirumalai.  
16-2-74.

## APPENDIX II

(Vide paragraph 1.67)

*Extracts of notes leading to the decision not to accept suggestion to withdraw  
Cash Assistance on bicycle components*

### MINISTRY OF FINANCE (COMMERCE DIVISION)

2. The M/Commerce has reviewed the position again and have decided to withdraw the cash assistance on export of complete bicycles on the consideration that f.o.b. realisation plus benefit of duty drawback is much more than the cost of production. Even if the cost of production has gone up by 60 per cent, still there is no loss to the exporter. In the absence of similar information for bicycle parts and SLR bicycles, the Ministry is not withdrawing assistance but reducing assistance as decided by the MDF Main Committee.

3. The order regarding withdrawal of cash assistance on complete bicycles may be issued immediately.

4. In regard to bicycle components and SLR bicycles, the order for reduction may not be issued for the present. We are not convinced by making a distinction between complete bicycles on the one hand and the bicycle parts and SLR bicycles on the other hand. If export realisation is much more than the cost of production for complete bicycles, the same position will hold good for bicycle components and SLR bicycles. The cost of production when the cash assistance on SLR bicycles was refixed in 1970 would be available in the relevant file of the Ministry of Commerce. That could be taken as the basis after providing for 60 per cent increase as is being done for complete bicycles, the cost could be compared with f.o.b. realisation. Further, the rate of cash assistance on SLR bicycles was 25 per cent as against 30 per cent for complete bicycles when the then prevailing rate of assistance was less for SLR bicycles, it is difficult to maintain that 22.5 per cent assistance is still necessary for such bicycles when no assistance is considered necessary for bicycles. It would be difficult to maintain two different principles for two types of bicycles and it may result in discrimination and representation from the exporters. We would, therefore, strongly recommend that cash assistance on bicycle com-

ponents and SLR bicycles should also be withdrawn immediately. If the exporters represent a fresh examination on the basis of the cost data furnished by the exporters can be made and assistance reintroduced if it is justified on facts and figures.

5. In regard to SLR bicycles, there may not be more than two units manufacturing such bicycles and exporting them. It should not, therefore, be difficult to get proper cost data from these units and take decision on merit after withdrawing the CA at this stage.

Sd/- Jagdish Chander,

19-2-1974.

Director (C/CA).

We shall be grateful if necessary orders withdrawing of cash assistance on exports of complete bicycles is issued without any delay.

(2) A very early decision is necessary on our recommendations contained in para 4 of our note, that cash assistance on bicycle components and SLR bicycles may be withdrawn immediately.

(3) The suggestion at 'X' above is also approved.

Sd/- S. Y. Gupte,

21-2-74.

M/Commerce-EAC Section

M/Finance U.O. No. 1432-74—C Division dated 21-2-74.

MINISTRY OF COMMERCE

EAC Section

Notes from middle of page 8 *ante* may kindly be glanced through Stencil, withdrawing cash assistance on exports of complete Bicycle, is placed below for signature of Director (EA). As the instructions could be issued by tomorrow, this may be given effect from 22-2-74. After issue of instructions the file may be referred to EP (Engg.) Section for decision on point raised in para 4 of the note on pre-page.

D. D. (MET)

Sd/- M. E. Thomas

D. I. R. (EA)

21-2-74

I agree that a procedure should be adopted, which we will now take up with MDP. Finance has now done re-thinking. This will be worked

out. Issue notification and then put up proposals with self-contained note for MDF.

Sd/- L. N. Saklani

21-2-74

EAC

EP (Engg.) Section may kindly see Ministry of Finance's notes at pages 9-10 *ante*. Instructions withdrawing cash assistance against exports of Bicycle have been issued, a copy of the same is placed on the file. Action remains to be taken on bicycle components and SLR Bicycles for which urgent consideration is requested.

DD/(MET)  
US/(KVB)

Sd/- M. E. Thomas

23-2-74

In view of the stand taken by the Ministry of Finance in their note on p. 9 and 10 *ante*, it is for consideration whether we may *withdraw* cash assistance on components and SLR bicycles also and they have a cost study.

It may be added, at present there are 76,000 three speed hubs with various parties and all of them have been imported under advance licence with export obligation etc. In order to find market at least for these 76,000 hubs we had asked PEC to participate in the New York bicycle fair agreed for the MDF assistance for the participation. The PEC have since participated in this fair and we are awaiting their report. Hence sudden withdrawal of CA at this stage may create confusion (and even subsequent introduction after detailed cost study may not reverse the position). The other alternative is to implement the decision of the MDF Main Committee and then decide the position after 2 or 3 months by which time the cost report may also be available. But then we will be blamed for frequent changes in the CA policy. For Orders please.

Dir/(JPD)

Sd/- K. V. Balasubramaniam

23-2-74

In crores of Rs.

|  | 1971-72 | 1972-73 |
|--|---------|---------|
| Total including bicycles . . . . .     | 7 98    | 10 41   |
| Out of which components only . . . . . | 6 14    | 7 83    |

As regards bicycle components it may be mentioned that more than 75 per cent of the total export is from components and the manufacturer of components are mostly in small scale sector. Their economics of production

and export cannot be compared with that of the cycle manufacturers who are mostly in the organised sector. This is one area where the small scale sector has really been contributing to export earnings in spite of all difficulties in the matter of procurement of raw material etc. Hence it stands to reason that we should not give any jolt to the industry (which is performing rather satisfactorily).

Sd/- K. V. Balasubramaniam  
23-2-74

Export of bicycle components and SLR will have a set-back if CA is withdrawn completely as suggested by Finance. We may request them to allow the reduction of CA as per MDF decision to be given effect immediately. Simultaneously, cost study could be taken up to determine the need to reduce CA further.

Sd/- J. P. Das  
23-2-74

The reasons adduced by US(KVB) are tenable and I would endorse the proposal. Finance may concur.

Sd/- R. Tirumalai  
25-2-74

Kindly agree to the suggestion made above.

Sd/- J. P. Das  
28-2-74

M/Finance (Commerce Div.) Shri S. Y. Gupte.

M/Commerce U.O. No. 5(15)74- dated 5-3-1974

EP (Engg.)

MINISTRY OF FINANCE  
(COMMERCE DIVISION)

Our note at pp. 9-10/N refers.

2. In the meeting of the MDF Main Committee held on 1st January, 1974, the following decision was taken to reduce cash assistance:—

DECISION

| Existing rate             | Revised rate | Latest decision   |
|---------------------------|--------------|---|
| A.152.1 Complete Bicycles | 30%          | 20% —order already issued for with drawing cash assistance. |
| A.152.2 Components        | 30%          | } Yet to be decided.<br>} Order not issued so far.          |
| A.152.3 SLR bicycles.     | 25%          |   |

3. In our earlier note, we had suggested to the M/Commerce to withdraw cash assistance on SLR bicycles and bicycle components also as has been decided for complete bicycles. The main justification is that if the f.o.b. realisation in the international market has gone up considerably for complete bicycles so as to justify total withdrawal of cash assistance after the decision of the MDF Main Committee, the f.o.b. realisation should have gone up for SLR bicycles and components also. It will be difficult to maintain two different principles for complete bicycles and the other two items. The M/Commerce has not agreed with this view and they have suggested that the order for reduction of cash assistance may be allowed to be issued as decided by the Main Committee. The reasons given by them are as under:—

- (a) The position may be reviewed after sometime on the basis of a cost report if the cash assistance is to be withdrawn or reduced further. It has also been mentioned that Government might be blamed for frequent changes in the cash assistance policy if the order is now issued on the basis of the decision of the Main Committee and again after sometime on the basis of a cost report.
- (b) Export of bicycle components and SLR will have a set-back if CA is withdrawn completely. Simultaneously cost data could be taken up to determine the need to reduce CA further.
- (c) More than 75 per cent of the total export is from components and the manufacturers of components are mostly in the small scale sector. Their economies of production and export cannot be compared with that of the manufacturers who are mostly in the organised sector. This is one area where the small scale sector has really been contributing to export earnings inspite of difficulties in the matter of procurement of raw materials, etc.

4. In regard to (b) above, it may be mentioned that if the withdrawal of cash assistance on complete bicycles cannot have a setback, the position should not be different for bicycle components and SLR bicycles. The reason at (c) above is not generally taken into account in the principle of cash incentive. No distinction is made between the small scale sector and large scale sector. The rate is decided only on the basis of the cost of production and realisation.

5. However, having regard to the large number of components which are exported, the fact that the unit realisation is generally by weight and not by nos. and that proper cost data is not readily available for an

objective analysis to determine the higher rate of cash assistance, we may not, for the present press for the withdrawal of cash assistance on export of bicycle components, though the argument of higher f.o.b. realisation will still be valid. Cash assistance of 30 per cent is being reduced to 20 per cent on the basis of the report of the IIFT given in 1972. Since then f.o.b. realisation has gone up considerably though the precise figure is not available, normally, as suggested by us earlier, there should be withdrawal or further reduction of CA on components. However, for the reasons indicated above, we may agree to the reduced rate of cash assistance of 20 per cent being given effect to till 31st December, 1974 before which the position may be reviewed. The Engineering EPC, the TDA and the M/Commerce may please obtain proper data during this period for decision on the question of continuance of cash assistance beyond the above period and the rate at which it should be continued.

6. In regard to SLR bicycles, the case for withdrawal/further reduction is still valid as indicated below:—

| FOB cost of production as indicated at p. 3 (a).  |                          | Per bicycle.                           |
|---|--------------------------|--|
|   |                          | 192.29                                 |
| Escalation in cost of production of 60% as adapted for complete bicycle   |                          | 115.37                                 |
|   | <b>Total Cost</b>        | <b>307.66</b>                          |
| FOB realisation according to the DGTD and as given in the note of the MDI Main Committee, F32 at Rs. 80 per rate.   |                          | 250.00                                 |
| Benefit of duty drawback (The rate available in 1970 as Rs. 70 per unit for 14 N. sample buxas using the revised rate of 13% of the f.o.b. value as adapted for complete bicycle) |                          | 33.00                                  |
|   | <b>Total realisation</b> | <b>289.00</b>                          |
|   | Estimated loss           | 18.00 or about 7% of the f.o.b. value. |

On the above basis, there is no justification for fixing the rate of cash assistance beyond 10 per cent. We may again request the M/Commerce to please issue the order for reducing cash assistance to 10 per cent without any further delay. As the matter has already been pending for more than 2 months and any further delay is likely to be pointed out by the Audit, the M/Commerce may kindly take immediate action for reducing the cash assistance when it has already been established on the basis of available data.

Sd/- JAGDISH CHANDER,  
5-3-74.

Additional Secretary (C&I)

Sd/- A. P. V. Krishnan  
5-3-74

M/Commerce—Addl. Secy. (RT)

M/Commerce—Shri L. N. Saklani, Dir.

M/Fin. U.O. No. 1772—CD/74 dated 6-3-74.

Please examine immediately & put up.

Sd/- R. TJRUMALAI  
6-3-74.

Dir (JP)

Discussed with AS. He wanted present costing of SLR to be ascertained from DGTD.

Sd/- J. P. DAS  
11-3-74.

I am not getting Rajagopalan. In the meanwhile, circular on bicycle components may be issued, as Finance have agreed to MDF decision. EAC may please take necessary action.

Sd/- J. P. DAS  
12-3-74.

APPENDIX III

(Vide paragraph 1.72)

*Copies of important representations received from the Industry*

I—(COPY)

Dr. R. K. Singh  
Executive Director

ENGINEERING EXPORT PRO-  
MOTION COUNCIL, Surya Kiran  
Bldg. 19, Kasturba Gandhi Marg,  
New Delhi—1.

EPC:D:EA:

19th June, 1974.

Dear Shri Chavan:

Please refer to your D.O. No. 5(15)/74-EP (Engg.)/dated the 12th June, 1974 regarding the cash subsidy on complete bicycle.

The cost data together with the F.O.B. realisations for complete bicycles as well as components have already been given to the Ministry at earlier occasions. There is no cash subsidy on export of complete bicycle, at present, while 20 per cent is allowed on export of bicycle components. The cost data furnished to the Ministry has already established considerable gap to justify allowing a cash subsidy of atleast 15 per cent on export of complete bicycles. The present system of allowing cash subsidy on bicycle components @20 per cent and not allowing any cash subsidy on complete bicycle, in itself will give rise to various problems as explained below:—

- (1) Export of complete bicycle has got a set back and, in course of time, there will hardly be any export. Export of components will go up which has low realisation and lesser added value as compared to that of complete bicycle. Markets captured after years considerable efforts and expenditure, will go out of our hands which can be seen from the following details:—

(Rupees in Lakhs)

|                             | 1970-71 | 1971-72 | 1972-73 |
|-----------------------------|---------|---------|---------|
| Complete Bicycles . . . . . | 232.11  | 183.68  | 257.78  |
| Components . . . . .        | 454.69  | 614.28  | 783.32  |
| TOTAL . . . . .             | 686.80  | 797.96  | 1041.10 |

- (2) The tendency would be to increase export of components and even declare the complete bicycles which are always exported in CKD as export of components with a motivation to get cash subsidy of 20 per cent. This can only be avoided if similar cash subsidy is given for complete bicycle exports.
- (3) The actual payment of cash assistance on exports will always be more if 20 per cent is allowed for bicycle components without any cash subsidy for complete bicycle which can be seen from the following figures:—

*Export for only the Month of April 1974*

(Rupees in Lakhs)

|                              | April 1973 | April 1974 | Rate of cash subsidy | Actual cash subsidy |
|------------------------------|------------|------------|----------------------|---------------------|
| Complete Bicycle . . . . .   | 12.91      | 24.31      | Nil                  | ..                  |
| Bicycle Components . . . . . | 62.16      | 108.94     | 20%                  | 21.79               |
| TOTAL . . . . .              | 75.07      | 133.25     | 15%                  | 19.98               |

*Export for the year 1973-74 (April—February):*

|                              |        |         |   |        |
|------------------------------|--------|---------|---|--------|
| Complete Bicycle . . . . .   | 249.27 | 223.17  | Assuming cash subsidy is nil for the whole year | ..     |
| Bicycle Components . . . . . | 721.96 | 987.02  | 20%   | 197.40 |
| TOTAL . . . . .              | 971.23 | 1210.19 | 15%   | 181.53 |

Some of the important observations can be made from the above study.

- (1) Export of complete bicycles and components was rising at the same growth rate till the period when cash subsidy was withdrawn. Thereafter, the growth rate in export of complete bicycles has gone down while there has been spontaneous increase in the export of bicycle components.
- (2) Cash subsidy payable on bicycle components @ 20 per cent, in total comes more than @ 15 per cent applied for both bicycle and bicycle components.
- (3) The development of export of complete bicycle is an important factor to increase export of components. In case the export of complete bicycle vanishes, future may not lie in the export of only components and, as such, higher target will not be fulfilled.

Keeping the above observations and problems in view, we would strongly recommend that a cash subsidy of 15 per cent for both of the items, namely, for complete bicycle and bicycle components, parts and other accessories should be allowed and the announcement should be made as early as possible, so that the contacts and the markets established for the export of complete bicycles in the past may not die out. With best regards,

Yours sincerely,

Sd/- R. K. SINGH.

To,

Shri B. R. Chavan, Dy. Dir. Deptt. of Export Procution M Commerce.

II (Copy)

Shri D. P. Chattopadhyaya,  
Hon'ble Minister of Commerce,  
Government of India,  
Udyog Bhavan,  
New Delhi.

Dear Sir,

**SUBJECT.**—Cash Assistance for complete bicycle exports.

The exporters of complete bicycles had received a rude shock on the notification No. 12(2)/74-EEC dated 22nd February 1974, issued by the Director of Export Assistant, Ministry of Commerce, withdrawing cash assistance on export of complete bicycles. It has upset all plans and calculations of the exporters of bicycles who have been making efforts to better their performance during the current year in line with the Government's objective to improve our country's export earnings.

Arising out of the notification are the following points:—

- (i) whether the f.o.b. realisation on complete bicycles exports presently obtaining warrant any such a step;
- (ii) whether such a step would be conducive to maintain even the present level of exports in the context of the steadily increasing cost of production.

The bicycle exporters have considered these issue in all its aspects. The Government would appear to have taken their stand on the basis that f.o.b. realisation has reached a stage where bicycle exporters can very well do without any cash assistance. We are afraid Government's appraisal in this regard is not correct.

1948 L.S.—10.

In this connection we would refer to the data which the exporters had submitted to the Government late in 1972 when the Government decided to review the cash assistance allowed on the export of complete bicycles. This data was verified by the Government and it was conclusively established at that time that the continuance of cash incentive at 30 percent f.o.b. was not only essential to sustain the exports of bicycles but also very much in the overall interests of the country.

As you will kindly observe from the data, a copy of which is enclosed for your ready reference (Annexure I), the average f.o.b. realisation of a bicycle at that time was Rs. 111 and the cost was Rs. 174.04. Admittedly, since the submission of this data the f.o.b. realisation has indeed move up and the Government is quite justified in highlighting this point. However, what seemed to have been overlooked is the fact that during the same period the costs have also escalated, that too, to an extent that has not only completely wiped off the higher realisation of the exporters but also have left a larger deficit to be covered than before.

We have now carried out a detailed study with all leading exporters of bicycles to determine the latest costs and f.o.b. realisations on the same lines as we did on the earlier occasion in 1972. This study has revealed the following:—

- (i) The maximum average f.o.b. realisation per bicycle during September 73 to 22nd February, 1974 has been £ 7.09 only for a bicycle complete with saddle. In terms of rupees, this realisation works out to Rs. 133 per bicycle. The increase in f.o.b. realisation has thus been Rs. 21 per bicycle since the data was last submitted to the Government.
- (ii) As against this, the increase in cost during the same period, upto 22nd February, 1974 has been Rs. 49 per bicycle. This increase does not take into account the effects of additional levies in the latest Government Budget; it also assumes that cost have remained static since 22nd February, 1974 which is far from the case. Even as today the costs of all materials are steadily rising. Annexure II sets out the cost of escalations as principal raw-material and consumbles during September 1973—February, 1974 period.

Possibly Government have reached the conclusion that the f.o.b. realisations for the exporters have moved up appreciably by looking at the c.i.f. prices at which some orders have been booked since the beginning of this year. However, what is overlooked is the fact that much of the increase obtained at the c.i.f. level has been off-set by the vastly increased ocean freight which has gone up by 50 per cent to 70 per cent in the last two months. Furthermore, it would appear that no allowance has been given

to the accessories included in the bicycle such as gear case, carrier, stand, bell, toolbag, dynamo lamps etc. which have all registered increase ranging from 60 per cent to 100 per cent. Annexure II gives comparative prices in September, 1973 and February, 1974. All these facts can be substantiated with documentary evidence.

In the circumstances explained above it could be seen that it will be totally detrimental to our export interests if the cash assistance is not restored. Bicycle is a product with considerable added value and with very little import content, and as such it will be only in national interests for Government to give all positive support in promoting exports.

We would request the Hon'ble Minister to reconsider the matter in the light of the facts placed in the foregoing paragraphs and issue directions to restore the cash incentive.

Thanking you,

Yours faithfully,

BRIJMOHAN LAL.

*Export realisation per unit of Bicycle in major markets as compared to production cost.*

|   | Iran,<br>Behrin,<br>Kuwait etc. | Nigeria | Zambia,<br>Tanzania,<br>Malavi etc. |
|---|---------------------------------|---------|-------------------------------------|
|   | 1                               | 2       | 3                                   |
|   | C&F                             | CIF     | CIF                                 |
| Export Realisation . . . . .  | £ 11'00                         | £ 14'00 | £ 13'00                             |
| Converted to Rs. . . . .  | 204'00                          | 260'00  | 242'00                              |
| Less Ocean Freight . . . . .  | 25'00                           | ..      | ..                                  |
| Less Ocean Frieght & Insurance . . . . .  | ..                              | 45'00   | 30'00                               |
|   | 179'00                          | 215'00  | 212'00                              |
| Less Cost of Double bar etc. . . . .  | 5'00                            | ..      | ..                                  |
| Less Cost of additional accessories . . . . .                                     | ..                              | 32'00   | 30'00                               |
|   | 174'00                          | 183'00  | 182'00                              |
| Net FOB realisation Add Duty Drawback Refund<br>@ 13% of F. O. B. value . . . . . | 22'62                           | 28'79   | 23'66                               |
|   | 196'62                          | 206'79  | 205'66                              |
| Say Rs. . . . .   | 197'00                          | 207'00  | 206'00                              |

|  | 1.            | 2             | 3             |
|--|---------------|---------------|---------------|
| <i>Cost of Export Production of One Unit of Bicycle.</i>   |               | Rs. 225.00    |               |
| Average Ex-Factory Cost add the cost of special Export Packing; Preshipment Inspection Charges; Transportation; Railway Freight etc.; Clearing, Handling and town duty charges at Port; interest and bank charges etc. . . . . |               | 40.00         |               |
|  |               | <u>265.00</u> |               |
| Net Export Production Cost per Bicycle Export Realisation per unit of Bicycle i.e. FOB plus existing rate of duty drawback refund . . . . .  | 197.00        | 207.00        | 206.00        |
| Export Cost of Production per unit of Bicycle . . . . .  | <u>265.00</u> | <u>265.00</u> | <u>265.00</u> |
| Gap in Export Realisation . . . . .  | 68.00         | 58.00         | 59.00         |
| Gap in percentage . . . . .  | 26%           | 22%           | 22%           |

*Cost Calculation of one cycle—as on 30-4-74*

|   | Cost as on<br>1-7-73<br>Rs. | Total<br>Rs.  | Cost in-<br>crease<br>Addition<br>up till<br>30-4-74 | Total<br>Cost as<br>on 30-4-74 |
|---|-----------------------------|---------------|--|--------------------------------|
|   |                             | 1             | 2  | 3                              |
| <b>(A) Material Cost</b>                        |                             |               |  |                                |
| (i) Iron & Steel . . . . .                      | 18.24                       |               | 10.03  |                                |
| (ii) Semi-finished and direct parts . . . . .   | 51.70                       |               | 12.47  |                                |
| (iii) Readymade goods . . . . .                 | 43.12                       |               | 27.00  |                                |
| (iv) Consumable & Processing Material . . . . . | 12.87                       |               | 11.52  |                                |
| (v) Wrapping Material . . . . .                 | 1.39                        |               | 0.21   |                                |
|   | <u>127.32</u>               | <u>127.32</u> | <u>61.23</u>   | <u>188.55</u>                  |
| <b>(B) Manufacturing overhead</b>               |                             |               |  |                                |
| (i) Labour & Staff cost . . . . .               | 6.15                        |               | 0.85   | 7.00                           |
| (ii) Power & Fuel . . . . .                     | 1.92                        |               | 0.50   | 2.92                           |
| (iii) Repair & Maintenance . . . . .            | 2.22                        |               | 0.28   | 2.50                           |
| (iv) Other Mfg. Cost . . . . .                  | <u>2.33</u>                 | <u>12.62</u>  | <u>0.17</u>  | <u>2.50</u>                    |
| (C) General Administrative E.p. . . . .         |                             | 1.36          | ..   | 1.36                           |
| (D) Depreciation . . . . .                      |                             | 1.00          | ..   | 1.00                           |
| (E) Interest & Bank Commission . . . . .        |                             | 3.25          | ..   | 3.25                           |

|  | 1    | 2             | 3    | 4             |
|--|------|---------------|------|---------------|
| (F) <i>Selling and Distribution.</i>     |      |               |      |               |
| (i) Packing & Transport . . . . .        |      | 6.55          | 0.65 | 7.20          |
| (ii) Selling & Distribution . . . . .    |      | 3.57          | ..   | 8.57          |
|  |      | <u>160.67</u> |      | <u>224.85</u> |
| Less Scrap Sale . . . . .                |      | 160.67        |      |               |
|  |      | <u>1.50</u>   |      | <u>1.85</u>   |
|  |      | 159.17        |      | 223.00        |
| Selling Price for Cycle Margin . . . . . |      | 169.00        |      | 222.0         |
|  | Plus | 9.83          |      | - - 1.00      |

*Price difference in Iron and Steel Items from 1-7-73 — 30-4-74*

| Particulars                                       | Landed Cost<br>as on<br>1-7-73 | Landed cost<br>as on<br>30-4-74 | Price<br>increased | Average<br>price<br>increase |
|---|--------------------------------|---------------------------------|--------------------|------------------------------|
|   | Per Ton                        | Per Ton                         | Per Ton            | Per Ton                      |
| 1   | 2                              | 3                               | 4                  | 5                            |
| <i>Strip.</i>                                     |                                |                                 |                    |                              |
| 3-1/8" x 20G TIM . . . . .                        | 3245                           | 4020                            | 775                |                              |
| Indian Tube . . . . .                             | 3226                           | 4930                            | 1704               | 1885                         |
| Graham Firth . . . . .                            | 3994                           | 7170                            | 3176               |                              |
| @ 4" x 24 G. TIM . . . . .                        | 3440                           | 4210                            | 770                | 992                          |
| Indian Tube . . . . .                             | 3404                           | 4280                            | 876                |                              |
| Atma Steel . . . . .                              | 3370                           | 4700                            | 1330               |                              |
| 7 1/2" x 11 G TIM . . . . .                       | 3249                           | 4020                            | 771                | 1390                         |
| Indian Tube . . . . .                             | 3185                           | 4040                            | 855                |                              |
| Graham Firth . . . . .                            | 3975                           | 6520                            | 2545               |                              |
| 3" x 14 G. Graham Firth . . . . .                 | 4159                           | 7140                            | 2981               | 2981                         |
| Do. . . . .                                       | 4159                           | 7140                            | 2981               | 2981                         |
| 1/2" x 13 G. M.S. Gurunanak Steel Works . . . . . | 2250                           | 3000                            | 750                |                              |
| 1/2" x 16 G. Do. . . . .                          | 2250                           | 3000                            | 750                | 750                          |
| <b>TOTAL</b> . . . . .                            | <b>43906</b>                   | <b>64170</b>                    | <b>20264</b>       | <b>1559</b>                  |

|                     | 1 | 2     | 3     | 4    | 5   |
|---------------------|---|-------|-------|------|-----|
| <i>Sheet</i>        |   |       |       |      |     |
| 4-G. HSL. . . . .   |   | 2000  | 2625  | 625  |     |
| 16-G. HSL. . . . .  |   | 2125  | 2625  | 500  |     |
| 18-G. HSL. . . . .  |   | 2125  | 2625  | 500  |     |
| 23-G.HSL . . . . .  |   | 2225  | 2625  | 400  |     |
| 21-G. HSL. . . . .  |   | 2100  | 2592  | 492  |     |
|                     |   | 10575 | 13092 | 2517 | 503 |
| <i>M.S. Round.</i>  |   |       |       |      |     |
| 40 MM HSL . . . . . |   | 1175  | 2000  | 825  |     |
| 36 MM . . . . .     |   | 1175  | 2000  | 825  |     |
| 32 MM . . . . .     |   | 1175  | 2000  | 825  |     |
| 25 MM . . . . .     |   | 1175  | 2000  | 825  |     |
| 8/20 ,, . . . . .   |   | 1175  | 2000  | 825  |     |
|                     |   |       |       |      | 825 |
| <i>M. S. Rod.</i>   |   |       |       |      |     |
| 10 MM . . . . .     |   | 1204  | 1680  | 476  | 476 |
| H.B. WIRE . . . . . |   | 1812  | 2670  | 858  | 858 |

*Iron and Steel—July 1973 to 30th April, 1974*

| Particulars     | Required by us per cycle. | Average increase per ton. | Increase |
|-----------------|---------------------------|---------------------------|----------|
| Strip . . . . . | 5·833 Kg.                 | 1559/-                    | 9·09     |
| Sheet . . . . . | 0·700 Kg.                 | 503·                      | 0·35     |
| Wire . . . . .  | 0·300 Kg.                 | 858/-                     | 0·26     |
| Round . . . . . | 0·400 Kg.                 | 825·                      | 0·33     |
|                 | 7·233                     |                           | 10·03    |

*Price difference in Semi-finished & Boughtout Items*

|  | Landed cost as on 1-7-73 | Landed cost as on 30-4-74 | Increase | Average increase per item. |
|--|--------------------------|---------------------------|----------|----------------------------|
| <i>FRAME 1</i>                                       |                          |                           |          |                            |
| Seat Belt . . . . .                                  | 0·09                     | 0·15                      | 0·06     |                            |
| Frame 24" set (1)<br>(including warehousing Charges) | 6·53                     | 8·49                      | 1·96     |                            |

|                         | Landed cost<br>as on 1.7.73 | Landed cost<br>as on 30.4.74 | Increase    | Average<br>increase per<br>item |
|-------------------------|-----------------------------|------------------------------|-------------|---------------------------------|
| Seat Stay Tubes (2)     | 2.12                        | 2.60                         | 0.48        |                                 |
| Chain Stay Tubes (2)    | 3.15                        | 3.80                         | 0.65        |                                 |
| B.B. Shell              | 2.58                        | 3.35                         | 0.77        |                                 |
| Frame Lugs              | 1.85                        | 2.39                         | 0.54        |                                 |
| Seat Pillar 5"          | 0.72                        | 0.75                         | 0.03        |                                 |
| B.B. Shell Bolt         | 0.11                        | 0.16                         | 0.05        |                                 |
| Chain Stay Bolts & Nuts | 0.11                        | 0.15                         | 0.04        |                                 |
| B.B. Cup                | 1.45                        | 2.00                         | 0.50        |                                 |
| B.B. Rings              | 0.15                        | 0.25                         | 0.10        |                                 |
| <b>TOTAL</b>            | <b>18.86</b>                | <b>24.09</b>                 | <b>5.23</b> |                                 |
| <i>Fork :</i>           |                             |                              |             |                                 |
| Fork Blade Tube (2)     | 2.96                        | 3.60                         | 0.64        |                                 |
| Steering Col (1" CDW)   | 1.80                        | 2.26                         | 0.46        |                                 |
| Ball Racer-Set of 3     | 0.60                        | 0.80                         | 0.20        |                                 |
| Screw-Racer             | 0.34                        | 0.42                         | 0.08        |                                 |
| Check Nut               | 0.31                        | 0.41                         | 0.10        |                                 |
| Cotter Pin (2)          | 0.22                        | 0.36                         | 0.14        |                                 |
| <b>TOTAL</b>            | <b>6.23</b>                 | <b>7.85</b>                  | <b>1.62</b> |                                 |
| <i>Handle :</i>         |                             |                              |             |                                 |
| Handle Grip (Pair)      | 0.23                        | 0.26                         | 0.03        |                                 |
| Handle Bar Tube (1)     | 2.55                        | 3.53                         | 0.65        |                                 |
| Handle Stem (1)         | 0.74                        | 0.89                         | 0.15        |                                 |
| .. Black Nut (4)        | 0.13                        | 0.15                         | 0.02        |                                 |
| .. Bolts                | 0.42                        | 0.63                         | 0.21        |                                 |
| .. Eye-Bolts (4)        | 0.51                        | 0.76                         | 0.25        |                                 |
| .. Eye Washer (4)       | 0.09                        | 0.14                         | 0.05        |                                 |
| .. Lever Dodi (4)       | 0.22                        | 0.36                         | 0.14        |                                 |
| .. Lever Washer (4)     | 0.04                        | 0.04                         |             |                                 |
| .. Lever Hathi (2)      | 0.75                        | 1.11                         | 0.36        |                                 |
| .. Nuts 1/4" (2)        | 0.05                        | 0.08                         | 0.03        |                                 |
| .. Springs              | 0.03                        | 0.07                         | 0.04        |                                 |
| <b>TOTAL</b>            | <b>6.09</b>                 | <b>9.02</b>                  | <b>1.93</b> |                                 |

|  | Landed<br>cost<br>as on<br>1-7-73 | Landed<br>cost<br>as on<br>30-4-74 | Increase     | Average<br>increase<br>per<br>item |
|--|-----------------------------------|------------------------------------|--------------|------------------------------------|
| <i>Pedal:</i>                              |                                   |                                    |              |                                    |
| Pedal Rubber (1 Set) . . . . .             | 0.60                              | 0.68                               | 0.08         |                                    |
| Central Tube (2) . . . . .                 | 0.32                              | 0.44                               | 0.12         |                                    |
| Nut 3/16" (4) . . . . .                    | 0.06                              | 0.09                               | 0.03         |                                    |
| Rods (4) . . . . .                         | 0.40                              | 0.40                               | --           |                                    |
| Pedal Axle (2) . . . . .                   | 1.00                              | 1.53                               | 0.53         |                                    |
| <b>TOTAL</b> . . . . .                     | <b>2.38</b>                       | <b>3.14</b>                        | <b>0.76</b>  |                                    |
| <i>Rank :</i>                              |                                   |                                    |              |                                    |
| Crank unmachined (Pair) . . . . .          | 2.75                              | 4.75                               | 2.00         |                                    |
| <i>Mudguard &amp; Chaincover</i>           |                                   |                                    |              |                                    |
| Mud. Stay Nuts . . . . .                   | 0.06                              | 0.10                               | 0.04         |                                    |
| Screws 1 2" . . . . .                      | 0.02                              | 0.03                               | 0.01         |                                    |
| „ 1" . . . . .                             | 0.02                              | 0.03                               | 0.01         |                                    |
| <b>TOTAL</b> . . . . .                     | <b>0.10</b>                       | <b>0.16</b>                        | <b>0.06</b>  |                                    |
| <i>Brake :</i>                             |                                   |                                    |              |                                    |
| Brake Tube . . . . .                       | 0.77                              | 1.08                               | 0.31         |                                    |
| „ Clips . . . . .                          | 0.61                              | 0.83                               | 0.22         |                                    |
| „ Shoes . . . . .                          | 0.36                              | 0.50                               | 0.14         |                                    |
| „ Frame Bolt . . . . .                     | 0.03                              | 0.13                               | 0.04         |                                    |
| „ Gucha . . . . .                          | 0.16                              | 0.21                               | 0.05         |                                    |
| „ Draw Bolt . . . . .                      | 0.15                              | 0.21                               | 0.06         |                                    |
| „ Rubbers . . . . .                        | 0.13                              | 0.15                               | 0.02         |                                    |
| „ Screw 2" . . . . .                       | 0.03                              | 0.05                               | 0.02         |                                    |
| „ Knerling Nut . . . . .                   | 0.03                              | 0.04                               | 0.01         |                                    |
|  | <b>2.33</b>                       | <b>3.20</b>                        | <b>0.87</b>  |                                    |
| <b>TOTAL (of selected items) . . . . .</b> | <b>38.74</b>                      | <b>51.21</b>                       | <b>12.47</b> |                                    |

## Price Difference in items of Readymade Goods for Complete Bicycle

| Particulars                | Rate   | Qty. per cycle | Cost per cycle as on 1-7-73 | Cost as on 30-4-74 | Average increased per item |
|----------------------------|--------|----------------|-----------------------------|--------------------|----------------------------|
| Tyres D I. . . . .         | (2)    | Pair           | 13.00<br>G.Seal             | 17.96              | 4.96                       |
| Tubes . . . . .            | (2)    | „              | 5.56                        | 8.00               | 2.44                       |
| Chain . . . . .            |        | PC             | 5.25                        | 8.50               | 3.25                       |
| Hub . . . . .              |        | Pair           | 7.50                        | 10.50              | 3.00                       |
| Freewheel . . . . .        |        | PC             | 4.00                        | 5.00               | 1.00                       |
| Spokes . . . . .           |        | ½ Gross        | 5.25                        | 8.00               | 2.75                       |
| B. B. Axle . . . . .       | 16/Dz. | Pc             | 1.33                        | 2.05               | 0.72                       |
| Steel Ball ¼" . . . . .    | 2.50   | Gr.            | 0.38                        | 0.58               | 0.20                       |
| Steel Ball 1/8" . . . . .  | 0.80   | Gr             | 0.33                        | 0.52               | 0.19                       |
| Reflector . . . . .        | 24/-   | Pc             | 0.16                        | 0.21               | 0.05                       |
| Rim Tape . . . . .         | 16.25  | Pr Pr          | 0.23                        | 0.33               | 0.10                       |
| Ch. Adjuster (2) . . . . . | 9.50   | Grs. Pc        | 0.13                        | 0.22               | 0.09                       |
|                            |        |                | 43.12                       | 61.87              | 18.75                      |
| Dunlop Rim . . . . .       |        |                | 21.50                       | 32.00              | 50% 18.75                  |
| Saddle . . . . .           |        |                | 12.25                       | 17.75              | 60% 3.00                   |
|                            |        |                |                             |                    | 27.04                      |

## Summary of Processing Material

|   | Per cycle cost as worked out on 30-6-73 | % increase uptill 30-4-74 | Estimated cost on 30-4-74 | Average increase since 1-7-73 Rs. |
|---|---|---------------------------|---------------------------|-----------------------------------|
| Paint . . . . .                         | 2.93                                    | 79.88%                    | 5.27                      |                                   |
| Brazing & Welding . . . . .             | 2.76                                    | 144.48%                   | 6.75                      |                                   |
| Nickel . . . . .                        | 6.24                                    | 47.55%                    | 9.21                      |                                   |
| Consumable Store tools & Oils . . . . . | 0.95                                    | 234.50%                   | 3.17                      |                                   |
| Per cycle cost . . . . .                | 12.88                                   |                           | 24.40                     | 11.52                             |

## Price difference in items of Processing Material

|   | Rate per<br>kg. on<br>1-7-73 | Rate per<br>kg. on<br>30-4-74 | Increase<br>in value | %<br>increase | Average<br>increase |
|---|------------------------------|-------------------------------|----------------------|---------------|---------------------|
| <b>A. Brazing &amp; Welding:</b>          |                              |                               |                      |               |                     |
| 1. Brazing Ingot . . . . .                | 16.25                        | 33.00                         | 16.75                |               |                     |
| 2. Granual . . . . .                      | 17.25                        | 34.00                         | 16.75                |               |                     |
| 3. Brass Wire 16 . . . . .                | 16.00                        | 30.00                         | 14.00                |               |                     |
| 4. Brass Wire 1/8 . . . . .               | 17.50                        | 33.00                         | 15.50                |               |                     |
| 5. Oxygen Gas Cylinder . . . . .          | 18.35                        | 19.62                         | 1.25                 |               |                     |
| 6. D.A. Gas Cylinder per<br>6 cm. . . . . | 119.00                       | 350.00                        | 231.00               |               |                     |
| TOTAL . . . . .                           | 204.35                       | 499.62                        | 295.25               | 144.48%       |                     |
| <b>B. Paints:</b>                         |                              |                               |                      |               |                     |
| 1. Under Coats . . . . .                  | 7.88 lit                     | 14.30                         | 6.42                 |               |                     |
| 2. Finishing . . . . .                    | 7.40 lit                     | 13.67                         | 6.27                 |               |                     |
| 3. Green . . . . .                        | 15.90 lit                    | 29.75                         | 13.85                |               |                     |
| 4. White . . . . .                        | 22.95 lit                    | 39.30                         | 16.35                |               |                     |
| 5. Clear . . . . .                        | 15.70 lit                    | 31.10                         | 15.40                |               |                     |
| 6. Thinner . . . . .                      | 5.55 lit                     | 14.45                         | 8.90                 |               |                     |
| 7. Flamboyant . . . . .                   | 18.85 lit                    | 33.11                         | 14.26                |               |                     |
| 8. Grannodine . . . . .                   | 10.10 lit                    | 18.15                         | 8.05                 |               |                     |
| 9. Dexodine . . . . .                     | 13.75 lit                    | 23.45                         | 9.70                 |               |                     |
| 10. Sodium Nitrate . . . . .              | 3.45 Kg                      | 4.00                          | 0.55                 |               |                     |
| 11. Sodium Nitrate . . . . .              | 4.75 Kg                      | 7.00                          | 2.25                 |               |                     |
| 12. Tri Sodium Phosphate . . . . .        | 1.60 Kg                      | 1.75                          | 0.15                 |               |                     |
|   | 127.88                       | 230.03                        | 102.15               | 79.88%        |                     |
| <b>C. Nickel Plating:</b>                 |                              |                               |                      |               |                     |
| 1. Nickel Sulphate . . . . .              | 13.75 Kg                     | 18.00                         | 5.25                 |               |                     |
| 2. Nickel Chloride . . . . .              | 15.50 Kg                     | 21.00                         | 5.50                 |               |                     |
| 3. Chromic Acid . . . . .                 | 9.75 Kg                      | 17.00                         | 7.25                 |               |                     |
| 4. Trichloroethylene . . . . .            | 4.10 Kg                      | 9.25                          | 5.15                 |               |                     |
| TOTAL . . . . .                           | 43.10                        | 65.25                         | 22.15                |               |                     |

|                                    | Rate per<br>kg. on<br>1-7-73 | Rate per<br>kg. on<br>30-4-74 | Increase<br>in value | %<br>Increase | Average<br>increase |
|------------------------------------|------------------------------|-------------------------------|----------------------|---------------|---------------------|
| B.F. . . . .                       | 43.10                        | 65.25                         | 23.15                |               |                     |
| 5. Glue Flakes . . . . .           | 5.90 Kg.                     | 6.50                          | 0.60                 |               |                     |
| 6. Polishing Belts . . . . .       | 5.90 Pc                      | 6.10                          | 0.20                 |               |                     |
| 7. Nickle Square & Anode . . . . . | 48.50                        | 64.00                         | 15.50                |               |                     |
| 8. Zinc Slab . . . . .             | 8.50 Kg.                     | 21.00                         | 12.50                |               |                     |
| 9. Copper Wire Soft . . . . .      | 20.50 Kg.                    | 31.50                         | 11.00                |               |                     |
| 10. Sulphuric Acid Cond. . . . .   | 0.50 Kg.                     | 1.75                          | 1.25                 |               |                     |
|                                    | 132.90                       | 196.10                        | 63.20                | 47.55%        |                     |

**D. Oil & Lubricants:**

|                          |           |       |       |        |  |
|--------------------------|-----------|-------|-------|--------|--|
| 1. Mobile Oil . . . . .  | 1.85 Lit. | 8.18  | 6.33  |        |  |
| 2. Cutting Oil . . . . . | 2.65 Lit. | 9.15  | 6.50  |        |  |
| 3. Tellu Oil . . . . .   | 3.00 Lit. | 8.62  | 5.62  |        |  |
| 4. Grease . . . . .      | 2.50 Kg.  | 7.50  | 5.00  |        |  |
|                          | 10.00     | 33.45 | 23.45 | 234.5% |  |

III—(copy)

**THE ATLAS CYCLE INDUSTRIES LTD.**

Registered Office ATLAS NAGAR, ATLAS ROAD, SONEPAT.

**INDIA'S LARGEST PRODUCERS  
OF QUALITY BICYCLES**Post Box No. 20,  
SONEPAT-131001

Ref. No. EXPORT/

(Near Delhi)  
India

21st June, 1974.

Mr. L. N. Saklani,  
Director,  
Ministry of Commerce,  
Government of India,  
Udyog Bhavan,  
New Delhi.

Dear Sir,

The Engineering Export Promotion Council as well as the Cycle  
Manufacturers Association of India have already represented to you the

serious repercussions of the decision to withdraw cash assistance on the export of complete bicycles. It is understood that the matter is under active consideration of the Government. We, therefore, take the opportunity of bringing the following facts to your notice. The withdrawal of cash assistance is presumably based on the fact that the export price realisation in 1974 is higher than that in 1973 and that, therefore, exporters do not need any further assistance. As has already been represented the increase in export prices has been more than off set by the increase in cost of raw materials and other in puts, bought up accessories and components and sea freights etc.

In this regard we are enclosing herewith nine statements giving a complete break up of export price realization including incentives and the costs relating to each consignment exported by us from January, 1973 onwards. Statement No. 1 to 7 give these details for each country. Statement No. 8 is a comparative statement showing the position of early export in 1973 and position after the withdrawal of cash assistance. The figures in red indicate the losses.

The figures in these statements, from Statement 1 to 8, mentioned above, are based on the earlier draw back rates on 13% and the earlier cash assistance of 25% against the export of SLR cycles.

Statement No. 9, however, gives a comparative position on the basis of the latest draw back of 12% on the export of Roadster cycle and cash assistance of 10% on the export of SLR bicycle. The losses in statement No. 9 are indicated with red line under the concerned figure.

We are also enclosing herewith a statement No. 10 showing comparative costs of bought out components, accessories and raw materials consumed in early 1973 and now in 1974.

We are confident that these figures would amply convince you that we are incurring heavy losses in most of the countries to which we are exporting our products and the losses are the heaviest in the area to which our exports are 60% to 70%.

We are prepared to have the figures verified by any of your representatives.

We are confident that this will amply convince the Government that in spite of the increase in the export price realisation the export of complete bicycles still needs cash assistance by the Government.

In this connection we do wish to point out the anomaly of cash assistance of 20% being allowed on the export of components, whereas no

assistance, whatsoever, is allowed on the export of complete bicycles. This will not only encourage the unscrupulous exporters to export the cycles in knocked down parts but would also discourage exporters like ourselves who export complete bicycles and do not resort to such practices. The export of the complete bicycles from India, which are more than Rupees two crores per annum are bound to come down if immediately decision to restore cash assistance is not taken. It may also be noted that if the complete bicycles are not exported the export of bicycle parts which are fitted in the complete bicycles will also ultimately come down and country is, therefore, going to suffer seriously in its export efforts.

We hope that an early decision will be taken to restore the cash assistance on the complete bicycles.

Thanking you,

Yours faithfully,

for THE ATLAS CYCLE INDUSTRIES LTD.

Sd/-

Export Manager.

Encl:—

CC to :

The Engineering Export Promotion Council,

Surya Kiran Building,

Kasturba Gandhi Marg,

New Delhi-1.

**THE ATLAS CYCLES INDUSTRIES LTD.**

*Sonepat, the 25th May, 1974.*

**Statement No. 1. EXPORT TO IRAN**

*Complete Coloured Bicycles with Saddle and 1/4 Chaincover*

| Sl. | Particulars                      | 3000<br>Bicycles<br>contracted<br>in 1972<br>but shipped<br>in 1973 (Inv.<br>1798 to<br>1801<br>& 1803) | 5000<br>Bicycles<br>contracted<br>& shipped<br>in 1973<br>(Inv. 1810<br>1811<br>101, 103,<br>110 & 111) | 1000<br>Bicycles<br>contracted<br>& shipped<br>in 1973<br>(Inv. 112) | 5502<br>Bicycles<br>contracted<br>& shipped<br>in 1973<br>(Inv. 116,<br>118, 119,<br>122, 126,<br>127, 128,<br>134, &<br>138) | 2000<br>Bicycles<br>contracted<br>& shipped<br>in 1973<br>(Inv. 123<br>125 & 139) |
|-----|----------------------------------|---|---|--|---|---|
| (1) | (2)                              | (3)   | (4)   | (5)  | (6)   | (7)   |
| A.  | (i) Contracted Price             | ₹ 7.60<br>C & F<br>Rs.  | ₹ 7.82<br>C & F<br>Rs.  | ₹ 7.70<br>C & F<br>Rs.   | ₹ 7.70<br>C & F<br>Rs.  | ₹ 7.94<br>C & F<br>Rs.  |
|     | (ii) Less Average Sea<br>Freight | 144.16  | 148.33  | 146.05   | 146.05  | 150.61  |
|     | (iii) Less commission            | 15.76   | 13.05   | 17.70  | 13.88   | 14.02   |
|     |                                  | Nil   | 4.45  | Nil  | Nil   | 4.52  |

| (1)  | (2)                              | (3)    | (4)    | (5)    | (6)    | (7)    |
|------|----------------------------------|--------|--------|--------|--------|--------|
| (iv) | Net F.O.B. Realisation . . . . . | 128.40 | 131.83 | 128.35 | 132.17 | 132.07 |
| (v)  | Add. Incentive                   |        |        |        |        |        |
|      | (a) Drawback-13%                 | 16.69  | 17.01  | 16.69  | 17.18  | 17.17  |
|      | (b) Cash Assistance<br>- 30%     | 38.52  | 39.25  | 38.50  | 39.65  | 39.62  |
|      | (c) Railway . . . . .            | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   |
| (vi) | Total Realisation . . . . .      | 186.11 | 189.59 | 186.04 | 191.50 | 191.36 |

## B. COST

|        |  |        |        |        |        |        |
|--------|--|--------|--------|--------|--------|--------|
| (i)    | Ex-Works cost of<br>Cycle with Saddle<br>in Export Packing . . . . . | 179.89 | 184.25 | 185.61 | 184.23 | 184.25 |
| (ii)   | Transportation cost<br>to Port . . . . .                             | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   |
| (iii)  | Port Handling<br>charges . . . . .                                   | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   |
| (iv)   | F.O.B. Cost of<br>Cycle with Saddle . . . . .                        | 187.39 | 191.75 | 193.11 | 191.73 | 191.75 |
| (v)    | Cost of 14 Chain-<br>cover . . . . .                                 | 1.60   | 1.75   | 1.75   | 1.75   | 1.75   |
| (vi)   | Commission in<br>India . . . . .                                     | 6.42   | 2.62   | 6.42   | 6.61   | 2.64   |
| (vii)  | Bank Charges . . . . .   | 2.81   | 2.89   | 2.85   | 2.85   | 2.94   |
| (viii) | Total F.O.B. Cost . . . . .  | 198.22 | 199.01 | 204.13 | 202.94 | 199.08 |
| C.     | Profit/Loss per Bicycle . . . . .                                    | 12.11  | 11.39  | 18.69  | 11.44  | 7.72   |
| D.     | Percentage Profit/Loss of<br>F.O.B. Value . . . . .                  | 9.6%   | 8.7%   | 14.1%  | 8.7%   | 5.8%   |

| S. No.         | Particulars  | 900 Bicycles Contracted & shipped in 1973 (Inv. 141) | 2812 Bicycles Shipped & contracted in 1973 (inv. 142 & 143) | 102 Bi-cycles contract-<br>ed in 1973 but shipped in 1974 (inv. 156) | 1183 Bi-cycles Contract-<br>ed in '73 but shipped in '74 (inv. No. 4-148, 163) | 2000 Bi-cycles Contract-<br>ed in '73 but shipped in 1974 (inv. A-A-168, 169) | Position of 20000 Bicycles contract-<br>ed in 1974 |
|----------------|--|--|---|--|--|---|--|
|                |  | (8)  | (9)   | (10)   | (11)   | (12)  | (13)   |
| A. (i)         | Contracted Price   | £7.70<br>C & F<br>Rs.                                | £7.94<br>C&FC<br>Rs.  | £7.70<br>C&F<br>Rs.  | £7.94<br>C&FC<br>Rs.   | £7.70<br>C & F<br>Rs.   | £10.95<br>C & F<br>Rs.                             |
|                |  | 146.05   | 150.61  | 146.05   | 150.61   | 146.05  | 207.69   |
|                | (ii) Less Average Sea Freight                            | 16.02  | 16.04   | 25.27  | 24.80  | 25.19   | 26.00<br>(approx.)                                 |
|                | (iii) Less Commission                                    | Nil  | 4.52  | Nil  | 4.52   | Nil   | Nil  |
|                | (iv) Net F.O.B. Realisation                              | 130.00   | 130.05  | 120.78   | 121.29   | 120.86  | 181.60   |
|                | (v) Additional Incentives                                |  |   |  |  |   |  |
|                | (a) Drawback 13%   | 16.90  | 16.90   | 15.70  | 15.77  | 15.63   | 23.62  |
|                | (b) Cash Assistance 30%                                  | 39.01  | 39.02   | 36.23  | 36.39  | Nil   | Nil  |
|                | (c) Railway  | 2.50   | 2.50  | 2.50   | 2.50   | 2.50  | 2.50   |
|                | (vi) Total Realisation                                   | 188.44   | 188.47  | 175.21   | 175.95   | 138.39  | 207.81   |
| <b>B. COST</b> |  |  |   |  |  |   |  |
|                | (i) Ex-Works Cost of Cycle with Saddle in Export Packing | 183.49   | 190.59  | 217.48   | 215.98   | 217.09  | 228.69   |
|                | (ii) Transportation cost to Port                         | 5.00   | 5.00  | 5.00   | 5.00   | 5.00  | 5.00   |
|                | (iii) Port Handling Charges                              | 2.50   | 2.50  | 2.50   | 4.00   | 4.00  | 4.00   |
|                | (iv) F.O.B. cost of Cycle with Saddle                    | 190.99   | 198.09  | 224.98   | 224.98   | 226.09  | 237.69   |
|                | (v) Cost of 14 Chain e ver                               | 2.00   | 2.00  | 2.00   | 2.00   | 2.00  | 3.25   |
|                | (vi) Commission in India                                 | 6.50   | 2.60  | 6.24   | 2.43   | 6.01  | 9.08   |
|                | (vii) Bank Charges                                       | 2.85   | 2.94  | 2.85   | 2.94   | 2.85  | 4.05   |
|                | (viii) Total F.O.B. Cost                                 | 202.34   | 205.63  | 235.87   | 232.35   | 236.95  | 254.07   |
| C.             | Profit/Loss per Bicycle                                  | 13.90  | 17.16   | 60.66  | 56.40  | 98.56   | 46.26  |
| D.             | Percentage Profit/Loss of F.O.B. Value                   | 10.7%  | 13.2%   | 50.2%  | 46.5%  | 82%   | 25.5%  |



| (1)   | (2) | (3)    | (4)    | (5)    | (6)    | (7)    | (8)    |
|---|-----|--------|--------|--------|--------|--------|--------|
| (iv) F.O.B. Cost of Cycle with Saddle .                               |     | 181.40 | 186.15 | 185.09 | 190.18 | 191.16 | 196.25 |
| (v) Cost of accessories i.e. Full Chaincover, Pump Tool Bag & Tools . |     | 17.65  | 17.65  | 21.70  | 21.70  | 22.25  | 22.25  |
| (vi) Commission in India  |     | 6.68   | 6.92   | 7.79   | 8.05   | 8.03   | 8.32   |
| (vii) Commission** .  |     | 8.56   | 8.70   | 10.19  | 10.35  | 18.15  | 18.72  |
| (viii) Bank Charges .   |     | 7.16   | 7.16   | 6.54   | 6.54   | 6.32   | 6.32   |

\*\*Special arrangement for payment to Foreign buyers for higher price obtained.

| Sl. No.                        | Particulars | 1100 Bicycles<br>(Inv. 157 & 161)<br>contracted in July,<br>73 but shipped in<br>Jan. 1974 |            | 900 Bicycles<br>(Inv. 162 con-<br>tracted in July,<br>73 but shipped<br>in March, 1974 |            | 3000 Bicycles<br>contracted in May<br>1974 |                |
|--------------------------------|-------------|--|------------|--|------------|--|----------------|
|                                |             | (9)  | (10)       | (11)   | (12)       | (13)                                       | (14)           |
|                                |             | 800<br>S B   | 300<br>D B | 500<br>S B   | 400<br>D B | 2100<br>S B                                | 900<br>D B     |
|                                |             | £  | £          | £  | £          | £  | £ <sup>m</sup> |
| A. (i) Contracted Price C.I.F. |             | 9.57   | 9.87       | 9.57   | 9.87       | 15.00                                      | 15.40          |
|                                |             | Rs.  | Rs.        | Rs.  | Rs.        | Rs.  | Rs.            |
|                                |             | 181.52   | 187.21     | 181.52   | 187.21     | 284.52                                     | 292.10         |
| (ii) Less Average Sea Freight  |             | 31.49  | 31.49      | 30.58  | 30.58      | 31.00                                      | 31.00          |
| (iii) Less Insurance .         |             | 2.58   | 2.58       | 2.60   | 2.60       | 4.30                                       | 4.30           |
| (iv) Net F.O.B. Realisation .  |             | 147.45   | 153.14     | 148.34   | 154.03     | 249.22                                     | 256.80         |
| (v) Add Incentives             |             |  |            |  |            |  |                |
| (a) Drawback 13% .             |             | 19.17  | 19.91      | 19.28  | 20.05      | 32.40                                      | 33.38          |
| (b) Cash Asstt. 30% .          |             | 44.24  | 45.94      | Nil  | Nil        | Nil  | Nil            |

| (1)  | (2) | (9)    | (10)   | (11)   | (12)   | (13)   | (14)   |
|--|-----|--------|--------|--------|--------|--------|--------|
| (c) 50% Rly. Freight Rebate  |     | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   |
| (vi) Total Realisation   |     | 213.36 | 221.49 | 170.12 | 176.58 | 284.12 | 292.69 |
| <b>B. Cost :</b>   |     |        |        |        |        |        |        |
| (i) Ex-Works cost of cycle with Saddle in Export Packing               |     | 207.75 | 215.45 | 207.75 | 215.45 | 217.50 | 225.20 |
| (ii) Transportation cost to Port                                       |     | 5.00   | 5.00   | 5.00   | 5.00   | 5.50   | 5.50   |
| (iii) Port Handling Cost   |     | 2.50   | 2.50   | 4.00   | 4.00   | 4.00   | 4.00   |
| (iv) F.O.B. Cost of Cycle with Saddle                                  |     | 215.25 | 222.95 | 216.75 | 224.45 | 227.00 | 234.70 |
| (v) Cost of accessories i.e. Full Chain cover, Pump, Tool, Bag & Tools |     | 22.75  | 22.75  | 22.75  | 22.75  | 31.25  | 31.25  |
| (vi) Commission in India   |     | 7.66   | 7.66   | 7.42   | 7.70   | 12.46  | 12.84  |
| (vii) Commission**   |     | 18.15  | 18.72  | 18.15  | 18.72  | 28.45  | 29.21  |
| (viii) Bank Charges  |     | 7.03   | 7.03   | 8.56   | 8.56   | 11.60  | 11.60  |
| (ix) Total Cost F.O.B.   |     | 221.45 | 226.58 | 231.31 | 236.82 | 245.91 | 251.86 |
| C. Profit Loss per Cycle   |     | 28.01  | 26.13  | 6.05   | 3.97   | 13.68  | 11.50  |
| D. Percentage Profit Loss of F.O.B. Value                              |     | 21%    | 18.8%  | 3.9%   | 2.5%   | 8.5%   | 6.9%   |
| (ix) Total Cost FOB  |     | 270.55 | 277.11 | 273.65 | 282.18 | 310.76 | 319.60 |
| C. Profit/Loss per Cycle   |     | 57.19  | 55.62  | 103.53 | 105.60 | 26.64  | 26.92  |
| D. Percentage Profit Loss of FOB Value                                 |     | 38.8%  | 36.5%  | 68.8%  | 68.6%  | 17.7%  | 10.5%  |

\*\*Special arrangement for payment to foreign buyers for higher price obtained

## THE ATLAS CYCLE INDUSTRIES LIMITED

Sonepat, the 25th May, 1974.

## STATEMENT NO. 3

## Export to Bulgaria

*Complete Sports Light Weight Roadster Bicycles in Black 50% Flamboyant 50% Colours With Saddle, 1/4 Chain Cover, Bell, Tool Bag With Tools, Side Stand & Dynamo).*

| Sl. No.  | Particulars   | 4050 bicycles contracted in 1971 but shipped in 1973 (Inv. Nos. 1809, 1812 to 1816) |
|----------|---|---|
|          |   | Rs.   |
| A.       | (i) Contracted Price F.O.B.   | 140.00  |
|          | (ii) Net F.O.B. Realisation   | 140.00  |
|          | (iii) Add Incentives : (A) Draw Back 13%  | 18.20   |
|          | (B) Cash Assistance 30%   | 42.00   |
|          | (C) 50% Rly. Freight Rebate   | 2.50  |
|          | (iv) Total Realisation  | 202.70  |
| B. Cost. | (i) Ex-Works cost of cycle with saddle in export packing                                    | 188.74  |
|          | (ii) Transportation cost to port  | 5.00  |
|          | (iii) Port Handling charges   | 2.50  |
|          | (iv) F.O.B. cost of cycle with saddle   | 196.14  |
|          | (v) Cost of Accessories i.e. 1/4 Chain Cover, Bell, Tool Bag with Tools side Stand & Dynamo | 32.30   |
|          | (vi) Commission in India  | 7.00  |
|          | (vii) Total F.O.B. cost   | 235.44  |
| C.       | Profit/Loss per bicycle   | 32.74   |
| D.       | Percentage Profit/Loss of F.O.B. Value  | 23.4%   |

## THE ATLAS CYCLE INDUSTRIES LTD.

Sonepat, the 25th May, 1974.

## STATEMENT NO. 4

## Export to U.S.A.

(Complete Sports Light Eight Roadster Bicycles in Flemington Colours with Saddle,  
1/4 Chain Cover, Side Stand and Imported Three Speed Hubs)

| Sl. No. | (i) Contracted price C & F/ F.O.B. Particulars              | 2040 Nos. Bicycles Contracted in 1972 but shipped in 1973 (Invoices 1806 to 1808, 102 & 106). | 12 Nos. Bicycles contracted in 1974 |
|---------|---|---|-------------------------------------|
| A.      | (i) Contracted price C&F/FOB                                | U.S. \$ 24.65 FOB or Rs. 184.88   | U.S. \$ 35.00 C&F or Rs. 262.50     |
|         | (ii) Less Average Sea Freight                               | Nil   | Rs. 62.80                           |
|         |   | Rs.   | Rs.                                 |
|         | (ii) Nett F.O.B. Realisation                                | 184.88  | 199.70                              |
|         | (iii) Add Incentives :-                                     |   |                                     |
|         | (A) Drawback Rs. 14/-                                       | 14.00   | 14.75                               |
|         | (B) Cash Asstt. 25%   | 46.22   | 49.92                               |
|         | (C) 50% Rly. Frt. Rebate                                    | 3.50  | 3.50                                |
|         | (iv) Total Realisation                                      | 248.60  | 267.87                              |
| B.      | Cost:   |   |                                     |
|         | (i) Ex works cost of cycle with saddle in Transport Packing | 245.24  | 281.57                              |
|         | (ii) Transportation cost to Port                            | 7.00  | 7.00                                |
|         | (iii) Port Handling cost                                    | 7.00  | 10.00                               |
|         | (iv) F.O.B. cost of cycle with saddle                       | 259.24  | 298.57                              |
|         | (v) Cost of Accessories i.e. 1/4 Chain Cover, Side Stand    | 3.00  | 6.50                                |
|         | (vi) Commission in India                                    | 9.24  | 9.98                                |
|         | (vii) Total F.O.B. Cost                                     | 271.48  | 315.05                              |
| C.      | Profit/Loss per bicycle                                     | Less 22.88  | 47.18                               |
| D.      | Percentage Profit/Loss of F.O.B. value                      | 12.4%   | 23.6%                               |

## THE ATLAS CYCLE INDUSTRIES LTD.

Sonepat, the 25th May, 1974.

## STATEMENT No. 5

## Export to Nigeria

(Complete Gents Bicycles in black Colour with Saddle, Full Chain Cover, Tool bag with Tools, bells, Pump with Clips, side stand and Dynamo)

| Sl. No. | Particulars  | 2000 Nos. Bicycles contracted & shipped in 1973 (Inv. No. A108, 109 120 and 121). | 1000 Nos. Bicycles contracted & shipped in 1973 (Inv. No. 136) | 1500 Bicycles contracted in 1973 but shipped in Jan., 74 (Inv. 137 & 144) | 2000 Bicycles order obtaining in end Feb., 1974. |
|---------|--|---|--|---|--|
| 1       | 2  | 3   | 4  | 5   | 6  |
|         |  | Rs.   | Rs.  | Rs.   | Rs.  |
| A.      | (i) Contracted price C&F . . . . .                                 | ₹10.70  | ₹10.80   | ₹10.80  | ₹13.80   |
|         | or   | 202.96  | 204.85   | 204.85  | 261.75   |
|         | (ii) Less Average Sea Freight . . . . .                            | 27.49   | 36.82  | 42.88   | 42.88  |
|         | (iii) Less 1/2% for Non-Insurance . . . . .                        | 1.01  | 1.02   | 1.02  | 1.31   |
|         | (iv) Nett F.O.B. Realisation . . . . .                             | 174.46  | 167.31   | 160.96  | 217.56   |
|         | (v) Add Incentives:  |   |  |   |  |
|         | (a) Drawback 13% . . . . .   | 22.68   | 21.75  | 20.93   | 28.28  |
|         | (b) Cash Asstt. 30% . . . . .                                      | 52.58   | 50.19  | 48.31   | Nil  |
|         | (c) 50% Rly. Frt. Rebate . . . . .                                 | 2.50  | 2.50   | 2.50  | 2.50   |
|         | (vi) Total Realisation . . . . .                                   | 251.98  | 241.75   | 232.69  | 248.34   |
| B.      | Cost.  |   |  |   |  |
|         | (i) Ex-works cost of Cycle with saddle in Export Packing . . . . . | 173.90  | 133.66   | 183.66  | 220.50   |
|         | (ii) Transportation Cost to Port . . . . .                         | 5.00  | 5.00   | 5.00  | 5.00   |
|         | (iii) Port Handling Cost . . . . .                                 | 2.50  | 2.50   | 2.50  | 4.00   |

| 1      | 2   | 3      | 4      | 5      | 6      |
|--------|---|--------|--------|--------|--------|
|        |   | Rs.    | Rs.    | Rs.    | Rs.    |
| (iv)   | F.O.B. Cost of Cycle with saddle . . . . .  | 181.40 | 191.16 | 191.16 | 229.50 |
| (v)    | Cost of Accessories i.e. Full Chain cover, Tool Bag with Tools, Bell, Pump, side Stand & Dynamo . . . . . | 41.35  | 49.43  | 49.43  | 77.10  |
| (vi)   | Commission in India . . . . .   | 14.81  | 14.52  | 14.20  | 18.43  |
| (vii)  | Bank charges . . . . .  | 9.25   | 10.11  | 9.11   | 13.39  |
| (viii) | Total F.O.B. Cost . . . . .   | 246.81 | 265.22 | 264.90 | 338.42 |
| C.     | Profit/Loss per cycle . . . . .   | 5.17   | 23.47  | 32.21  | 90.08  |
| D.     | Percentage Profit/Loss of F.O.B. value . . . . .  | 3%     | 14%    | 20%    | 41.4%  |

## THE ATLAS CYCLE INDUSTRIES LTD.

Sonepat, the 27th May, 1974

## STATEMENT NO. 6 EXPORT TO DUBAI

(Complete Bicycles with Saddle, Carrier, side stand, tool bag with Tools, 1/4 Chain Cover (60 Nos.) Full Chain Covers. (100 Nos.) Dynamo (190 Nos.) & Pump with Clips (100 Nos.)

| Sl. No. | Particulars  | 60 Bicycles shipped in 1973 (Inv. No. 1804) | 100 Bicycles (Black & Green) shipped in 1973 (Inv. No. 105) 50 Nos. (Inv. black. 105) 50 Nos. green | 100 Nos. Bicycles contracted in May, 74 to be shipped in 1974 w/o Tool Bag with tools, carrier. | 150 Bicycles contracted in May, 1974 to be shipped in '74 in assorted colours Tool Bag Carrier Full Stand |            |              |
|---------|--|---|---|---|---|------------|--------------|
| 1       | 2  | 3   | 4   | 5   | 6   | 7          | 8            |
| A.      | (i) Contracted Price CIF/ CIFC                         | £8.85                                       | £10.05  | £10.05  | US\$ 31.90  | US\$ 32.70 | £15.35       |
|         |  | or Rs.167.86                                | Rs.190.63   | Rs.192.53   | or Rs.239.25  | Rs.245.25  | or Rs.291.15 |
|         | (ii) Less: Average sea-freight                         | 9.86  | 12.73   | 12.73   | 21.08   | 21.08      | 21.08        |
|         | (iii) Less: Insurance                                  | 3.68  | 4.28  | 4.28  | 4.36  | 4.36       | 5.16         |
|         | (iv) Nett F. O. B. realisation                         |   |   |   |   |            |              |
|         | Add: Incentives—                                       | 154.32                                      | 173.62  | 175.52  | 213.81  | 219.81     | 264.91       |
|         | (A) Drawback 13%                                       | 20.06                                       | 22.57   | 22.82   | 27.79   | 28.57      | 34.43        |
|         | (B) Cash Asstt. 30%                                    | 46.30                                       | 52.09   | 52.66   | Nil   | Nil        | Nil          |
|         | (C) 50% Rly. Frt. Re-bate                              | 2.50  | 2.50  | 2.50  | 2.50  | 2.50       | 2.50         |
|         | (v) Total Realisation                                  | 223.18                                      | 250.78  | 253.50  | 244.10  | 250.88     | 301.84       |
|         | <b>COST</b>  |   |   |   |   |            |              |
| B.      | (i) Ex-works cost of Cycles with saddle in export pkg. | 173.65                                      | 174.68  | 177.52  | 216.39  | 219.98     | 223.27       |
|         | (ii) Transportation cost to port                       | 5.00  | 5.00  | 5.00  | 5.00  | 5.00       | 5.00         |
|         | (iii) Port handling cost                               | 2.50  | 2.50  | 2.50  | 4.00  | 4.00       | 4.00         |

| 1   | 2      | 3      | 4      | 5      | 6      | 7      | 8 |
|---|--------|--------|--------|--------|--------|--------|---|
| (iv) F. O. B. cost of cycles<br>with saddle . . . | 181.95 | 182.02 | 185.02 | 225.39 | 228.98 | 232.27 |   |
| (v) Cost of accessories . . .                     | 9.40   | 46.55  | 46.55  | 16.10  | 16.10  | 32.60  |   |
| (vi) commission in India . . .                    | 7.72   | 8.68   | 8.78   | 10.69  | 10.99  | 13.25  |   |
| (vii) Bank charges . . .                          | 3.28   | 3.72   | 3.76   | Nil    | Nil    | 5.67   |   |
| C. (viii) Total F.O.B. cost‡ . . .                | 201.55 | 240.97 | 244.11 | 252.18 | 256.07 | 283.79 |   |
| C. Profit/Loss per cycle . . .                    | 21.63  | 9.81   | 9.39   | 8.08   | 5.19   | 18.05  |   |
| D. Percentage Profit/Loss of<br>Value . . . . .   | 14%    | 5.7%   | 5.4%   | 3.8%   | 2.4%   | 6.81%  |   |

THE ATLAS CYCLE INDUSTRIES LIMITED, Sonapat, the 28th May, 1974

STATEMENT NO. 7—EXPORT TO PARAGUAY

(Complete Gents bicycles in black/Assorted colour with saddle, 1/4 chain covers, side stand, tool bag with tools, bell, dynamo Carrier and pump with clips)

| Sr. No. | Particulars   | 200 Nos. Black Bicycle contracted in 1973 with Dynamos (Invoice No. A-135) | 100 Nos. Flamboyant bicycles contracted in 1973 w/o Dynamos (Inv. No. A-135) | 200 Nos. Bicycles contracted in Sept 73 but likely shipped in May 74 (Invoice No. 167) | 1000 Bicycles contracted in May 1974 |
|---------|---|--|--|--|--------------------------------------|
| 1       | 2   | 3  | 4  | 5  | 6                                    |
| A.      | (i) Contracted Price C.I.F.                               | £ 10 07  | £ 9 32   | £ 10 30  | £ 17 20                              |
|         | (ii) Less average Sea Freight                             | or Rs. 191 00  | Rs. 176 78   | or Rs. 195 37  | or Rs. 326 25                        |
|         | (ii) Less average Sea Freight                             | Rs. 14 73  | Rs. 14 73  | Rs. 26 41  | Rs. 26 41                            |
|         | (iii) Less Insurance                                      | Rs. 3 68   | Rs. 3 68   | Rs. 3 90   | Rs. 6 58                             |
|         | (iv) Nett P.O.B. Realisation                              | Rs. 172 59   | Rs. 158 37   | Rs. 165 06   | Rs. 293 31                           |
|         | (v) Add Incentives: (A) Drawback 13%                      | Rs. 22 54  | Rs. 20 59  | Rs. 21 46  | Rs. 38 13                            |
|         | (B) Cash Asstt. 30%                                       | Rs. 51 78  | Rs. 47 51  | Nil  | Nil                                  |
|         | (C) 50% Rly. Frt. Rebate                                  | Rs. 2 50   | Rs. 2 50   | Rs. 2 50   | Rs. 2 50                             |
|         | (vi) Total Realisation                                    | Rs. 249 41   | Rs. 228 97   | Rs. 189 02   | Rs. 333 94                           |
| B.      | <b>COST:</b>  |  |  |  |                                      |
|         | (i) Ex. Works Cost of cycle with saddle in export packing | Rs. 176 54   | Rs. 182 79   | Rs. 206 89   | Rs. 217 39                           |
|         | (ii) Transportation Cost to Port                          | Rs. 5 00   | Rs. 5 00   | Rs. 5 00   | Rs. 5 00                             |
|         | (iii) Port Handling Cost                                  | Rs. 8 00   | Rs. 8 00   | Rs. 10 00  | Rs. 10 00                            |

| 1  | 2   | 3          | 4          | 5          | 6          |
|----|---|------------|------------|------------|------------|
|    | (iv) F.O.B. Cost of Cycles with saddles . . . . .   | Rs. 189.54 | Rs. 195.79 | Rs. 221.89 | Rs. 232.39 |
|    | (v) Cost of Accessories i.e. 1/4 Chain Cover, Side Stand, Tool Bag with Tools, Bell, Carrier, Dynamo & Pump . . . . . | Rs. 37.90  | Rs. 11.90  | Rs. 51.10  | Rs. 68.10  |
|    | (vi) Commission in India . . . . .  | Rs. 8.63   | Rs. 7.92   | Rs. 8.25   | Rs. 14.67  |
|    | (vii) Bank Charges . . . . .  | Rs. 3.73   | Rs. 3.45   | Rs. 3.81   | Rs. 6.36   |
|    | (viii) Total F.O.B. Cost . . . . .  | Rs. 239.80 | Rs. 219.06 | Rs. 285.05 | Rs. 321.52 |
| C. | Profit/Loss per cycle . . . . .   | Rs. 9.61   | Rs. 9.93   | Rs. 96.03  | Rs. 12.42  |
| D. | Percentage Profit/Loss of F.O.B. value . . . . .  | 5.6%       | 6.3%       | 58.2%      | 4.2%       |

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## STATEMENT NO. 8

## COMPARATIVE STATEMENT SHOWING REALISATIONS, COSTS &amp; PROFITS/LOSS ON EXPORTS IN 1973/AND IN 1974

Sonepat, the 31st May, 1974

| Sl. No.  | Countries | Iran       | Kenya      | D/Bar      | Bulgaria           | U.S.A.        | Nigeria    | Dubai      | Paraguay   | Tanzania   |
|--|-----------|------------|------------|------------|--------------------|---------------|------------|------------|------------|------------|
|  |           |            | S/Bar      |            | SLR (Single Speed) | SLR (3-Speed) |            |            |            |            |
| 1  | 2         | 3          | 4          | 5          | 6                  | 7             | 8          | 9          | 10         | 11         |
| A. (i) Cycles                                    | 73        | 20214      | 2300       | 1200       | 4050               | 2040          | 3000       | 160        | 300        | ..         |
| Exported contract                                | 74        | 31790      | 3400       | 1600       | ..                 | 12            | 5500       | 250        | 1200       | 1000       |
| (ii) Price charged                               | 1973      | £ 7.60     | £ 9.12     | £ 9.40     | Rs. 140.00         | US \$24.65    | £10.70     | £ 8.85     | £10.07     | ..         |
|  | 1974      | £10.96     | £15.00     | £15.40     | ..                 | US \$35.00    | £13.80     | £15.35     | £17.20     | £11.06     |
| (iii) Sea freight involved                       | 1973      | Rs. 13.05  | Rs. 14.85  | Rs. 14.25  | Nil                | Nil           | Rs. 27.49  | Rs. 9.86   | Rs. 14.73  | ..         |
|  | 1974      | Rs. 26.00  | Rs. 31.00  | Rs. 31.00  | ..                 | Rs. 62.80     | Rs. 42.88  | Rs. 21.08  | Rs. 26.41  | Rs. 29.93  |
| (iv) Total FOB Realisation (including incentive) | 1973      | Rs. 186.04 | Rs. 225.26 | Rs. 232.85 | Rs. 202.70         | Rs. 248.60    | Rs. 251.98 | Rs. 223.18 | Rs. 249.41 | ..         |
|  | 1974      | Rs. 207.81 | Rs. 284.12 | Rs. 292.68 | ..                 | Rs. 267.87    | Rs. 248.34 | Rs. 301.84 | Rs. 333.94 | Rs. 202.45 |
| B. (i) Cost per cycle                            | 1973      | Rs. 179.89 | Rs. 177.59 | Rs. 182.68 | Rs. 188.74         | Rs. 245.24    | Rs. 173.90 | Rs. 173.65 | Rs. 176.54 | ..         |
|  | 1974      | Rs. 228.69 | Rs. 217.50 | Rs. 225.20 | ..                 | Rs. 281.57    | Rs. 220.50 | Rs. 223.27 | Rs. 217.39 | Rs. 205.89 |
| (ii) Cost of accessories involved                | 1973      | Rs. 1.60   | Rs. 21.70  | Rs. 21.70  | Rs. 32.80          | Rs. 3.00      | Rs. 41.35  | Rs. 9.40   | Rs. 37.90  | ..         |
|  | 1974      | Rs. 3.25   | Rs. 31.25  | Rs. 31.25  | ..                 | Rs. 6.50      | Rs. 77.10  | Rs. 32.60  | Rs. 68.10  | Rs. 18.20  |
| (iii) Other Selling exp. involved                | 1973      | Rs. 16.73  | Rs. 32.02  | Rs. 32.44  | Rs. 14.50          | Rs. 23.24     | Rs. 31.56  | Rs. 18.50  | Rs. 25.36  | ..         |
|  | 1974      | Rs. 22.13  | Rs. 62.01  | Rs. 63.15  | ..                 | Rs. 26.98     | Rs. 40.82  | Rs. 27.92  | Rs. 36.03  | Rs. 21.93  |



STATEMENT No. 9  
SONEPAT, the 15th June, 1974

COMPARATIVE STATEMENT SHOWING REALISATIONS, COSTS & PROFITS/LOSS ON EXPORTS IN 1973/AND IN 1974

| S. No. | Countries                                   | Iran               | KENYA      |            | Bulgaria SLR (Single Speed) | U.S.A. S.L.R. (3 Speed) | Nigeria    |            |
|--------|---|--------------------|------------|------------|-----------------------------|-------------------------|------------|------------|
|        |   |                    | \$/Bar     | D/Bar      |                             |                         |            |            |
|        |   | 1                  | 2          | 3          | 4                           | 5                       | 6          |            |
| A.     | (i) Cycles Exported . . . . .               | 1973 . . . . .     | 20214      | 2300       | 1200                        | 4050                    | 2040       | 3000       |
|        |   | 1974 . . . . .     | 31790      | 3400       | 1600                        | ..                      | 12         | 5500       |
|        | (ii) Price Charged . . . . .                | 1973 . . . . .     | £ 7.50     | £ 9.12     | £ 9.40                      | Rs. 140.00              | US \$24.65 | £10.70     |
|        |   | 1974 . . . . .     | £10.95     | £15.00     | £15.40                      | ..                      | US \$35.00 | £13.80     |
|        | (iii) Less average sea freight . . . . .    | 1973 . . . . .     | Rs. 15.76  | Rs. 14.25  | Rs. 14.25                   | Nil                     | Nil        | Rs. 27.49  |
|        |   | 1974 . . . . .     | Rs. 26.00  | Rs. 31.00  | Rs. 31.00                   | ..                      | Rs. 62.80  | Rs. 42.88  |
|        | (iv) Less Insurance/Non-Insurance . . . . . | 1973 . . . . .     | ..         | Rs. 2.95   | Rs. 2.95                    | ..                      | ..         | Rs. 1.01   |
|        |   | 1974 . . . . .     | Nil        | Rs. 4.30   | Rs. 4.30                    | ..                      | ..         | Rs. 1.31   |
|        | (v) Net f.o.b. realisation . . . . .        | 1973 . . . . .     | Rs. 128.40 | Rs. 155.78 | Rs. 161.09                  | Rs. 140.00              | Rs. 184.88 | Rs. 174.46 |
|        |   | 1974 . . . . .     | Rs. 181.69 | Rs. 249.22 | Rs. 256.80                  | ..                      | Rs. 199.70 | Rs. 217.56 |
|        | (vi) Add Incentives                         |                    |            |            |                             |                         |            |            |
|        |   |                    |            |            |                             |                         |            |            |
|        | (a) D/B 13%<br>12%                          | 1973 . . . . .     | Rs. 16.69  | Rs. 20.25  | Rs. 20.94                   | Rs. 18.20               | Rs. 14.00  | Rs. 22.68  |
|        |   | 1974 . . . . .     | Rs. 21.79  | Rs. 29.90  | Rs. 30.82                   | ..                      | Rs. 14.75  | Rs. 26.10  |
|        | (b) Cash Assistance . . . . .               | 1973 30% . . . . . | Rs. 38.52  | Rs. 46.73  | Rs. 48.32                   | Rs. 42.00               | Rs. 46.22  | Rs. 52.34  |
|        |   | 1974 Nil . . . . . | Nil        | Nil        | Nil                         | ..                      | Rs. 19.97  | Nil        |
|        | (c) Railway Freight Refund . . . . .        | 1973 . . . . .     | Rs. 2.50   | Rs. 2.50   | Rs. 2.50                    | Rs. 2.50                | Rs. 3.50   | Rs. 2.50   |
|        |   | 1974 . . . . .     | Rs. 2.50   | Rs. 2.50   | Rs. 2.50                    | ..                      | Rs. 3.50   | Rs. 2.50   |
|        | (vii) Total Realisation . . . . .           | 1973 . . . . .     | Rs. 186.11 | Rs. 225.26 | Rs. 232.85                  | Rs. 202.70              | Rs. 248.60 | Rs. 251.98 |
|        |   | 1974 . . . . .     | Rs. 205.98 | Rs. 281.62 | Rs. 290.12                  | ..                      | Rs. 237.92 | Rs. 246.16 |

## STATEMENT No. 9

## SONEPAT, the 15th June, 1974

## COMPARATIVE STATEMENT SHOWING REALISATIONS, COSTS &amp; PROFITS/LOSS OF EXPORTS IN 1973/AND IN 1974

| S. No. | Countries                         |        | Dubai      | Paraguay   | Tanzania   |
|--------|-----------------------------------|--------|------------|------------|------------|
|        | I                                 |        | 7          | 8          | 9          |
| A.     | (i) Cycles Exported               | 1973 . | 160        | 300        | ..         |
|        |                                   | 1974 . | 250        | 1200       | 1000       |
|        | (ii) Price Charged                | 1973 . | £ 8.85     | £10.07     | £11.06     |
|        |                                   | 1974 . | £15.35     | £17.20     | ..         |
|        | (iii) Less average sea freight    | 1973 . | Rs. 9.86   | Rs. 14.73  | ..         |
|        |                                   | 1974 . | Rs. 21.08  | Rs. 26.41  | Rs. 29.93  |
|        | (iv) Less Insurance Non-Insurance | 1973 . | Rs. 3.68   | Rs. 3.68   | ..         |
|        |                                   | 1974 . | Rs. 5.16   | Rs. 6.53   | Rs. 2.90   |
|        | (v) Net <i>f.o.b.</i> realisation | 1973 . | Rs. 154.32 | Rs. 172.59 | ..         |
|        |                                   | 1974 . | Rs. 264.91 | Rs. 293.31 | Rs. 179.85 |
|        | (vi) Add Incentives               |        |            |            |            |
|        | (a) D/B 13%                       | 1973 . | Rs. 20.06  | Rs. 22.54  | ..         |
|        | 12%                               | 1974 . | Rs. 31.79  | Rs. 35.20  | Rs. 23.38  |
|        | (b) Cash Assistance               | 1973 . | Rs. 46.30  | Rs. 51.78  | Nil        |
|        |                                   | 1974 . | Nil        | Nil        | ..         |
|        | (c) Railway Freight Refund        | 1973 . | Rs. 2.50   | Rs. 2.50   | ..         |
|        |                                   | 1974 . | Rs. 2.50   | Rs. 2.50   | Rs. 2.50   |
|        | (vii) Total Realisation           | 1973 . | Rs. 223.18 | Rs. 249.41 | ..         |
|        |                                   | 1974 . | Rs. 299.20 | Rs. 331.01 | Rs. 205.73 |

|   |        | 1          | 2          | 3          | 4          | 5          | 6          |
|---|--------|------------|------------|------------|------------|------------|------------|
| <b>B. Cost</b>  |        |            |            |            |            |            |            |
| (i) Ex-Works cost of cycle with saddle in Export Packing . . . . .                  | 1973 . | Rs. 179.89 | Rs. 177.59 | Rs. 182.68 | Rs. 188.74 | Rs. 245.24 | Rs. 173.90 |
|   | 1974 . | Rs. 228.69 | Rs. 217.50 | Rs. 225.20 | ..         | Rs. 281.57 | Rs. 220.50 |
| (ii) Transportation cost to Port . . . . .  | 1973 . | Rs. 5.00   | Rs. 5.00   | Rs. 5.00   | Rs. 5.00   | Rs. 7.00   | Rs. 5.00   |
|   | 1974 . | Rs. 5.00   | Rs. 5.50   | Rs. 5.50   | ..         | Rs. 7.00   | Rs. 5.00   |
| (iii) Port Handling Charges . . . . .   | 1973 . | Rs. 2.50   | Rs. 2.50   | Rs. 2.50   | Rs. 2.50   | Rs. 7.00   | Rs. 2.50   |
|   | 1974 . | Rs. 4.00   | Rs. 4.00   | Rs. 4.00   | ..         | Rs. 10.00  | Rs. 4.00   |
| (iv) F.O.B. Cost of cycle with saddle . . . . .                                     | 1973 . | Rs. 187.39 | Rs. 185.00 | Rs. 190.18 | Rs. 196.14 | Rs. 259.24 | Rs. 181.40 |
|   | 1974 . | Rs. 237.69 | Rs. 227.00 | Rs. 234.70 | ..         | Rs. 298.57 | Rs. 229.50 |
| (v) Cost of accessories involved . . . . .  | 1973 . | Rs. 1.60   | Rs. 21.70  | Rs. 21.70  | Rs. 32.30  | Rs. 3.00   | Rs. 41.35  |
|   | 1974 . | Rs. 3.25   | Rs. 31.25  | Rs. 31.25  | ..         | Rs. 6.50   | Rs. 77.10  |
| (vi) Other selling expenses involved i.e. Commission in India/bank charges. . . . . | 1973 . | Rs. 9.23   | Rs. 24.52  | Rs. 24.94  | Rs. 7.00   | Rs. 9.24   | Rs. 24.06  |
|   | 1974 . | Rs. 13.13  | Rs. 52.51  | Rs. 53.65  | ..         | Rs. 9.98   | Rs. 31.82  |
| (vii) Total F.O.B. Cost . . . . .   | 1973 . | Rs. 198.22 | Rs. 231.31 | Rs. 236.82 | Rs. 235.44 | Rs. 271.48 | Rs. 246.81 |
|   | 1974 . | Rs. 254.07 | Rs. 310.76 | Rs. 319.60 | ..         | Rs. 315.05 | Rs. 338.42 |
| <b>C. Profit/Loss per bicycle . . . . .</b>   |        |            |            |            |            |            |            |
|   | 1973 . | Rs. 12.11  | Rs. 6.05   | Rs. 3.97   | Rs. 32.74  | Rs. 22.88  | Rs. 5.17   |
|   | 1974 . | Rs. 48.09  | Rs. 29.14  | Rs. 29.48  | ..         | Rs. 77.13  | Rs. 92.26  |
| <b>D. Percentage Profit/Loss of f.o.b. value . . . . .</b>                          |        |            |            |            |            |            |            |
|   | 1973 . | 9.6%       | 3.9%       | 2.5%       | 23.4%      | 12.4%      | 3%         |
|   | 1974 . | 26.4%      | 11.7%      | 11.5%      | ..         | 38.6%      | 42.4%      |

N.B. Export Incentives have been taken as follows:

- (1) Cash Assistance
  - (a) 30% till 21-2-1974
  - (b) Nil w.e.f. 22-2-1974
- (2) Drawback
  - (a) 13% till 31-5-1974
  - (b) 12% w.e.f. 1-6-1974

- S.L.R. Three Speed Cycles
  - (a) 25% till 22-4-1974
  - (b) 10% w.e.f. 23-4-1974
- Rs. 14.75 per cycle.  
plus refund of actual duty paid.

Contd. Statement No. 9

|  |        | 7          | 8          | 9          |
|--|--------|------------|------------|------------|
| <b>B. Cost:</b>  |        |            |            |            |
| (i) Ex-Works cost of cycle with saddle in Export Packing . . . . .                   | 1973 . | Rs. 173.65 | Rs. 176.54 | Rs. ..     |
|  | 1974 . | Rs. 223.27 | Rs. 217.39 | Rs. 207.50 |
| (ii) Transportation cost to Port . . . . .   | 1973 . | Rs. 5.00   | Rs. 5.00   | Rs. 5.00   |
|  | 1974 . | Rs. 5.00   | Rs. 5.00   | Rs. ..     |
| (iii) Port Handling Charges . . . . .  | 1973 . | Rs. 2.50   | Rs. 8.00   | Rs. ..     |
|  | 1974 . | Rs. 4.00   | Rs. 10.00  | Rs. 4.00   |
| (iv) F.O.B. Cost of Cycle with saddle . . . . .                                      | 1973 . | Rs. 181.15 | Rs. 189.54 | Rs. ..     |
|  | 1974 . | Rs. 232.27 | Rs. 232.39 | Rs. 216.50 |
| (v) Cost of accessories involved . . . . .   | 1973 . | Rs. 9.40   | Rs. 37.90  | Rs. ..     |
|  | 1974 . | Rs. 32.60  | Rs. 68.10  | Rs. 24.00  |
| (vi) Other selling expenses involved i.e. commission in India/bank charges . . . . . | 1973 . | Rs. 11.00  | Rs. 12.36  | Rs. ..     |
|  | 1974 . | Rs. 18.92  | Rs. 21.03  | Rs. 13.39  |
| (vii) Total F.O.B. Cost . . . . .  | 1973 . | Rs. 201.55 | Rs. 239.80 | Rs. ..     |
|  | 1974 . | Rs. 283.79 | Rs. 321.52 | Rs. 255.89 |
| <b>C. Profit/Loss per bicycle . . . . .</b>  |        |            |            |            |
|  | 1973 . | Rs. 21.63  | Rs. 9.61   | Rs. ..     |
|  | 1974 . | Rs. 15.41  | Rs. 9.49   | Rs. 50.16  |
| <b>D. Percentage Profit/Loss of f.o.b. value . . . . .</b>                           |        |            |            |            |
|  | 1973 . | 14%        | 5.6%       | Rs. ..     |
|  | 1974 . | 5.8%       | 3.2%       | 27.8%      |

## STATEMENT NO. 10

## STATEMENT SHOWING INCREASE IN COSTS SINCE 1973 FOR SOME IMPORTANT ITEMS ONLY

| Sl. No.                      | Item                                 | Cost per cycle in |       | Increase  |           |
|------------------------------|--------------------------------------|-------------------|-------|-----------|-----------|
|                              |                                      | 1973              | 1974  | Total Rs. | Total Rs. |
| <b>BROUGHT UP COMPONENTS</b> |                                      |                   |       |           |           |
| 1                            | Rims . . . . .                       | 21.50             | 32.00 | 10.50     |           |
| 2                            | Saddle chasis . . . . .              | 4.88              | 7.45  | 2.57      |           |
| 3                            | Tyres . . . . .                      | 13.00             | 15.70 | 2.70      |           |
| 4                            | Rubber Tubes . . . . .               | 5.08              | 7.62  | 2.54      |           |
| 5                            | Chains . . . . .                     | 5.70              | 8.25  | 2.55      |           |
| 6                            | B.B. Axle . . . . .                  | 1.88              | 2.50  | 0.62      |           |
| 7                            | Saddle Cover Leather . . . . .       | 3.00              | 4.10  | 1.10      |           |
| 8                            | Steel Balls . . . . .                | 2.09              | 3.15  | 1.06      |           |
| 9                            | Free Wheel . . . . .                 | 6.60              | 7.15  | 0.55      |           |
| 10                           | Pedal Rubber . . . . .               | 0.54              | 0.78  | 0.24      |           |
| 11                           | Pedal Spindle . . . . .              | 0.48              | 0.99  | 0.51      |           |
| 12                           | Seat Pillar . . . . .                | 0.37              | 0.73  | 0.36      |           |
| 13                           | B.B. Cups . . . . .                  | 0.83              | 1.05  | 0.22      |           |
| 14                           | Rubber Back for Reflectors . . . . . | 0.13              | 0.27  | 0.14      |           |
| 15                           | Name Plates . . . . .                | 1.23              | 1.37  | 0.14      |           |
| 16                           | B.B. Axle . . . . .                  | 1.88              | 2.50  | 0.62      |           |
| 17                           | Screw Racer . . . . .                | 0.35              | 0.54  | 0.19      |           |
| 18                           | Cotter pins . . . . .                | 0.17              | 0.26  | 0.09      |           |
| 19                           | Red Glass for Reflectors . . . . .   | 0.69              | 0.18  | 0.09      |           |
| 20                           | Handle Grips . . . . .               | 0.26              | 0.34  | 0.08      |           |
| 21                           | Paper Transfer . . . . .             | 0.14              | 0.21  | 0.07      |           |
| 22                           | Brass Rivets . . . . .               | 0.04              | 0.10  | 0.06      |           |
| 23                           | Rim Tape . . . . .                   | 0.10              | 0.16  | 0.06      |           |
| 24                           | Draw Bolt . . . . .                  | 0.07              | 0.09  | 0.02      |           |
|                              |                                      | 70.41             | 97.40 | 26.99     | 26.99     |

| Sl. No.                              | Item                         | Cost per cycle in |       | Increase | Total        |
|--------------------------------------|------------------------------|-------------------|-------|----------|--------------|
|                                      |                              | 1973              | 1974  |          |              |
| <b>RAW MATERIALS AND CONSUMABLES</b> |                              |                   |       |          |              |
|                                      |                              | Rs.               | Rs.   | Total    | Total        |
|                                      |                              | Rs.               | Rs.   | Rs.      | Rs.          |
| 25                                   | Steel Sheets and strips      | 17.95             | 26.61 | 8.66     |              |
| 26                                   | Steel Tubes                  | 13.54             | 17.70 | 4.16     |              |
| 27                                   | Steel Bars & Rods            | 4.39              | 7.44  | 3.05     |              |
| 28                                   | Brass wire                   | 1.46              | 3.25  | 1.79     |              |
| 29                                   | Steel wire                   | 3.66              | 4.30  | 0.64     |              |
| 30                                   | Packing & wrapping papers    | 2.53              | 4.35  | 1.82     |              |
| 31                                   | Fuel Oils                    | 1.99              | 3.28  | 1.29     |              |
| 32                                   | Welding Gas                  | 1.19              | 2.47  | 1.28     |              |
| 33                                   | Copper, Zinc, Brass & Bronze | 0.67              | 1.81  | 1.14     |              |
| 34                                   | Packing cases                | 4.34              | 5.36  | 1.02     |              |
| 35                                   | Paints                       | 0.93              | 1.50  | 0.57     |              |
| 36                                   | Chemicals                    | 0.95              | 1.47  | 0.52     |              |
|                                      | Total                        | 53.60             | 79.54 | 25.94    | 25.94        |
| 37                                   | Power                        | 0.70              | 2.55  | 1.85     |              |
| 38                                   | Labour                       | 8.20              | 8.75  | 0.55     |              |
|                                      |                              | 8.90              | 11.30 | 2.40     | 2.40         |
| <b>CYCLE ACCESSORIES</b>             |                              |                   |       |          |              |
| 39                                   | Full Chain Cover             | 9.50              | 16.75 | 0.55     |              |
| 40                                   | Tool Bag                     | 1.80              | 3.50  | 1.70     |              |
| 41                                   | Carriers                     | 3.83              | 5.81  | 1.58     |              |
| 42                                   | Bells                        | 1.40              | 2.75  | 1.35     |              |
| 43                                   | Stands                       | 3.50              | 4.83  | 1.33     |              |
| 44                                   | Pumps &<br>Pump Clips        | 2.88              | 4.08  | 1.20     |              |
| 45                                   | Locks                        | 1.83              | 2.75  | 0.92     |              |
| 46                                   | 1/4 Chain Cover              | 0.85              | 1.70  | 0.85     |              |
| 47                                   | Dynamo                       | 24.40             | 28.00 | 3.60     |              |
|                                      |                              | 250.29            | 70.26 | 19.97    | 19.97        |
| <b>Grand Total</b>                   |                              |                   |       |          | <b>75.30</b> |

## APPENDIX IV

(Vide paragraph 1.72)

*Extracts of notes leading to grant of Cash Assistance at 12½% (later 15%) on export of bicycles.*

It may kindly be recalled that decision was taken with the approval of M.D.F. Main Committee to revise the rate of cash assistance on bicycles and bicycle components as under:—

| Item                        | Previous Rate | Rate Approved by the Main Committee | Rate actually decided after taking into account further development |
|-----------------------------|---------------|-------------------------------------|---|
| Complete bicycles . . . . . | 30%           | 20%                                 | ..  |
| SLR bicycles . . . . .      | 25%           | 22.5%                               | 10%   |
| Components . . . . .        | 30%           | 20%                                 | 20%   |

2. When the draft note for reducing the cash assistance on components was referred to us, we had suggested to the Ministry of Commerce that cash assistance on bicycle components may also be withdrawn or reduced further. The Ministry of Commerce did not accept our suggestion and indicated the following justification:—

- (i) Export of bicycle components will have set back if C.A. is withdrawn completely. The position may be reviewed after sometime on the basis of detailed cost report.
- (ii) More than 75% of the total export is from components and the manufacturers of components are mostly in the small scale sector. Their economies of production and export cannot be compared with that of the bicycle manufacturers who are mostly in the organised sector. This is one area where the small sector has really been contributing to export earning in spite of difficulties in the matter of requirement of raw materials, etc. We had pointed out that if the withdrawal of cash assistance on complete bicycles/SLR bicycles cannot have a

set back to exports, the position should not be different for components. The reason at (ii) above is not generally taken into account in the principle of cash compensatory support. No distinction is made between the small scale sector and large scale sector. The rate is decided only on the basis of cost of production and realisation.

3. However, having regard to the large number of components which are exported, the fact that the unit realisation is generally by weight and not by number, and that proper cost data was not readily available for an objective analysis to determine the higher rate of cash assistance, we did not press our objection further for withdrawal of cash assistance on export of bicycle components.

4. On reconsideration, we feel that even without waiting for a detailed cost study which may take more than six months, there is clear justification for reducing cash assistance on export of bicycle components for the reasons indicated earlier and as shown below:—

- (i) While the producers of bicycle components are mainly in the small scale sector, it is not necessary that exporters are the same who are the producers of components. Exporters are different from the producers. They will be purchasing the components from the producers and then exporting. This may add to the ultimate cost of export on account of cost of export overheads and other expenses. Continuance of cash assistance will only help such middleman exporters in quoting lower prices. Further the item is of a labour intensive nature and Indian prices should be competitive in view of the high cost of labour in other developed countries. While the economics of scale may not be available to the small scale sector, it has also to be conceded that overheads and other fixed expenses are much less in the case of small scale units as compared to large scale sector.
- (ii) Cash assistance on complete bicycles and SLR bicycles has been withdrawn/reduced after taking into account the increase in unit realisation in International Market. The unit realisation for components would also have gone up in line with similar buoyancy for all other products. The argument for complete bicycles will be equally valid for components.
- (iii) Continuance of cash assistance of 20% on components may result in misuse of the facility in as much as complete bicycles may be sent in semi-assembled condition for the purpose of claiming cash assistance. The country will lose foreign exchange on account of higher unit realisation for a finished product and also will have to pay cash assistance even though it has been withdrawn.

- (iv) DGTD had suggested that bicycle components may be defined by making it clear that only a few major items of export will be eligible for cash assistance. This will also ensure that cash assistance will not be obtained by exporters of complete bicycles by exporting in an unassembled form. This suggestion was not accepted by the Ministry of Commerce.
- (v) Out of total exports of bicycles and components of about Rs. 16 crores, export of components alone is Rs. 11 crores. It seems illogical to continue cash assistance on components when it has been withdrawn on complete bicycles. The bulk of exports has been left uneffective. In the absence of detailed cost data to justify continuance of cash assistance at the increased rate of 20% on export of components in the face of withdrawal of cash assistance on complete bicycle, may be objected to by the Audit. It is, therefore desirable to take timely remedial action.

In view of the above position we may request the Ministry of Commerce to reduce the cash assistance on bicycles components from 20% to 10% pending a detailed cost study. If this is not acceptable to them, we may suggest that cash assistance of 10% only may be sanctioned both for components and complete bicycles in order to avoid misuse of cash assistance and also protect decline in unit realisation by exporting complete bicycles in an unassembled condition. Expenditure-wise, cash assistance of 20% on export of components of about Rs. 11 crores will work out to Rs. 2.20 crores whereas cash assistance on 10% both on bicycles and components will result in a total expenditure of about Rs. 1.5 crores. There would still be a saving of Rs. 70 lakhs in a full year.

5. If the above suggestion is approved by Director (C&CA) and A.S. (C&I), we may take up the matter with the Ministry of Commerce.

Sd/- Jagdish Chander

5-6-1974.

Director (C & CA)

Additional Secretary (C&I)

Grant of cash assistance on exports of bicycle components at a rate higher than that admissible on export of bicycles is bound to lead to the type of misuse or malpractices about which apprehension is expressed in our above Note. Since the manufacturer of components is principally in the small sector, it is equally possible that actual exporters are other than the actual manufacturers and further overheads of the exporter are being added to claim deficit or loss between F.O.B. cost and realisation. Ministry of Commerce, DGTD, and Associate Finance are agreed about

the need for undertaking and completing detailed cost study expeditiously.

2. Ministry of Commerce may, therefore, be suggested two alternatives pending reference to C.A. Branch for cost study:—

(i) Reduce C.A. on Bicycle components from 20% to 10%;

OR

(ii) C.A. on complete Bicycles as well as bicycle components may be allowed uniformly at 10%.

Sd/- S. Y. Gupte  
DIRECTOR.  
6-4-74

AS(C&I)

Sd/- A.P.V. Krishnan  
7-6-74.

Dir(ECA)

Sd/- 10-6-74.

M/Commerce—Shri L. N. Saklani, Director/NR

Ministry of Finance Dy. No. 4221-CD/74—FT&T Div. dated 11-6-74.

This point was discussed with AS(RT) when Dir(JPD) was also present. Dir. (JPD) was of the view that cost account of local bicycle is available on file. It has been checked in file that we have sent two reminders to Industries Department for it. However, meanwhile Finance has agreed on prepage to a 10% C.A. Dir(JPD) has some view on this. May now see and deal with the file.

Sd/- L. N. Saklani,  
20-6-74.

Discussed with Dir(JPD), who desired that Cost Accounts Branch Report on indigenous Bicycle Industry may be had from Shri Rangan. Dy. Secy. in Ministry of Industrial Development. In spite of numerous D.O. reminders this has not been given so far. On personal contact, it has been told that only one copy was available and it had been put up in file submitted to higher officers in that Ministry. He promised to give a copy as soon as the file was back to him. Position has been told to Dir(JPD) who said we might wait.

Sd/- B. R. Chavan  
29-6-74.

EP(Engg).

Reference Ministry of Finance (Associated Fin) Notes on pages 4—6/ante-

This is regarding the review of cash assistance rates on export of complete bicycles, bicycle components. The rates had been recently revised, under which the cash assistance has been reduced from 30% to 20% in respect of bicycle components from 25% to 10 per cent in respect of SLR bicycles and has been completely abolished on export of complete bicycles.

Ministry of Finance have suggested the reconsideration of the rates on complete bicycles and components on grounds listed in their note dated 5-6-1974. The suggestions now made by them are that the rate should be reduced on bicycle components from 20% to 10% or uniform rate of 10% should be allowed both on complete bicycle as well as bicycle components. This is proposed to be made applicable upto 31st March, 1975 by which time the detailed cost examination should be completed and the rates fixed. The main contention in making these suggestions is that there was likelihood of misuse of cash assistance facility if it is available only for parts and not available for complete bicycles. The diversion through exports in un-assembled condition of bicycle for the purpose of claiming assistance on components and parts is possible. It has been apprehended that there would be decline in the unit realization. Since components fetch less.

The export statistics during the three years has been as follows:—

| Item                    | 1971-72 |                | 1972-73 |                | 1973-74 |                |
|-------------------------|---------|----------------|---------|----------------|---------|----------------|
|                         | No.     | Value<br>(Rs.) | No.     | Value<br>(Rs.) | No.     | Value<br>(Rs.) |
| 1. Bicycles<br>Complete | 142620  | 1.84 crs.      | 211576  | 2.50 crs.      | ..      | ..             |
| 2. Parts                | ..      | 6.14 crs.      | ..      | 7.83 crs.      | ..      | ..             |
| Total                   |         | 7.98 crs.      |         | 10.41 crs.     |         |                |

The export targets fixed for these products amount to Rs. 13 crores, Rs. 15 crores, Rs. 17.50 crores in the next three years. This is based on the presumption that there would be a gradual increase in the export of complete bicycles and the ratio between parts and complete bicycles will be tilted towards complete bicycles in course of time. This exercise had been undertaken some time back when the cash assistance rates were identical for complete bicycles as well as components. The situation has

been changed as a result of reduction of abolition of cash assistance on complete bicycles with effect from 22nd February, 1974. As from 14th March, 1974, the C.A. on bicycle components and accessories in 20% upto exports effected till 31st December, 1974.

The anomaly created by differentiation in the rates of assistance as between complete bicycles and parts had been under examination. We had requested EEPC to submit details as regards the latest f.o.b. realisations for the past few months on exports of complete bicycle from leading exporters and also had requested EEPC to submit data for both the groups. Simultaneously, we have been requesting the Ministry of Industrial Development to make available the CAB Report prepared by Cost Accounts Branch, Department of Expenditure, Ministry of Finance, prepared for fixation of fair prices on local sales of bicycles. While the EEPC has been able to give only a part information, Ministry of Industrial Development have made available the CAB Report only on 10th July, 1974. This was collected from that department personally. After keeping the copy, the original had been returned. It had been held through a number of discussions that Dir(JPD) had with AS(RT) that we should base our examination on the CAB Report, in addition to the material that may come from EEPC. Certain data has also been received from Atlas Cycle Industries Ltd.

To recapitulate briefly, the rate of cash assistance on exports of complete bicycles, has been withdrawn on the ground that the f.o.b. realization+benefit of duty draw back was more than the cost of production, even allowing the escalation in the cost by 60%. The f.o.b. realization taken for consideration as given by DGTD was about £ 13. As a result of checking of current f.o.b. realizations, it is seen that the realization of about £ 13-14 was CIF and not f.o.b. Because of this, net f.o.b. realization goes down resulting into the reverse position of cost of production going higher than the realizations. Reference is also invited to the CAB figures for cost of production as worked out in September, 1973. Taking into consideration, the cost of M/s. Sen Raleigh, Calcutta, operative capacity as 80% and where subsequent wage increase had also formed the part, the following figures can be deducted:—

| Item   | Value (Rs.) |   |
|--|-------------|---|
| (a) FOB destination cost with packing (Hence transport to Port not included) | 215.55      | This is the maximum costing of any units.                 |
| (b) Increased since Sept. 1973 at minimum                                    | 70.00       | As revealed from statements furnished by the Atlas Cycle. |

| Item   | Value (Rs.) |   |
|--|-------------|---|
| (c) Port Handling . . . . .                        | 2.50        | } Fr m figures<br>furnished by<br>Atlas Cycle |
| (d) Accessories . . . . .                          | 2.00        |   |
| (e) Finance Charges and similar expenses . . . . . | 10.00       |   |
| Total FOB cost . . . . .                           | 300.05—I    |   |
| FOB Realizations as in May, 1979 . . . . .         | 237.50      |   |
| Drawback @ 12 % . . . . .                          | 28.50       |   |
| Gap Rs. 34.00                                      | 266.00—II   |   |

Attention is also invited to a comparative statement showing realizations, costs and profits/loss on exports in 1973 and in 1974, as given by M/s. Atlas Cycle Industries. The average f.o.b. cost during 1973 works out to Rs. 232 while in 1974, it has moved up to Rs. 305, showing a difference of about Rs. 70. Similarly, as regards the realizations, it was Rs. 161 per cycle in 1973 while it has moved up to Rs. 237 in 1974 resulting in the addition of Rs. 76. These averages show that a substantial gap will exist between f.o.b. realisation and f.o.b. cost and this gap can be any where between Rs. 30 to Rs. 50 after taking into account the drawback benefit. The cash assistance at the rate of 10% therefore, as suggested by Ministry of Finance in their second alternative, appears to hold ground.

*C. A. on bicycle components.*—As from 14th March, 1974, the rate of cash assistance is 20%, which had been reduced from earlier 30%. This has been done on the basis of costing by IIFT done in 1972. Finance had agreed to permit this rate upto 31st December, 1974, by which time the decision has to be reviewed on the basis of detailed cost data. In the cost of components, the unit realisation is generally by weight and not by numbers and that the proper cost data is not readily available for an objective analysis. A number of small units have been engaged in manufacture of components and the costs could vary from unit to unit, leaving the matter to be judged on *ad-hoc* basis. A point has been made that the export of complete bicycle and components was raising at the same growth rate till the period when cash subsidy was withdrawn and that thereafter the growth rate in export of complete bicycle has gone down while there has been spontaneous increase in the export of bicycle components. It is possible that this decision may intensify in the months ahead if bicycle components are eligible to get cash assistance at the rate of 20%, when such facility is not available for complete bicycle. The identical treatment of components and complete bicycles appear to be essential since it is easy to export complete bicycles in CKD conditions under the name of components. Export of components are stated to have realization lower than that of complete bicycles, thus affecting the foreign

exchange realization. Assuming an increase of 30% in the total cost of production on the basis of figures at slip 'Y' and 40% increase in f.o.b. realizations (approximate relationship with complete bicycle costing) there seems to be the case for reducing the cash assistance rate on components from existing 20%. In the absence of details, this has to be on *ad-hoc* consideration. The major point in doing so is to establish identity and facilities for complete bicycles and components, so that no misuse occurs.

As stated earlier, the rate of C.A. on complete bicycles can be fixed at 10% of f.o.b. value and appears fully justified on the basis of figures from Cost Accounts Branch as well as the exporters. Similar dispensation to bring uniformity, for components will resolve the problem as there seems to be inter-changeability in export products to an extent. This facility should be available upto 31st March, 1975, by which time the matter could be reviewed in detail through Cost Accounts Branch of Ministry of Finance.

Sd/- B. R. CHAVAN

DIR(JPD)

We had obtained f.o.b. realization figures from TDA/PEC. Please put up those papers. Also link file dealing with renewal of CA on bicycle components.

Sd/- J. P. DAS  
18-7-74.

Notes from page 8/n may kindly be glanced through. To arrive at the loss in export, if any, the factors to be taken into account are f.o.b. realization and cost of production. For cost of production, we have the cost data of the Cost Accounts Branch prepared in September, 1973. For purpose of this examination, the costing of Sen Releigh, Calcutta, which is the highest has been adopted.

As regards f.o.b. realization, we had taken 12.50 pounds (Rs. 237.50) while examining the question of cash assistance in February 1974. The main contention of the Cycle manufacturers is that the actual realization is much lower. According to the Chairman, Bicycles and Components Panel of E.E.P.C. f.o.b. realization is Rs. 174 to Rs. 183, as against Rs. 237.50 adopted by us. There is however a statement received from M/s. Atlas Cycles showing f.o.b. realization ranging from Rs. 179.85 to Rs. 293.31 in different markets.

I had consulted Shri Rajagopalan, D.O., DGTD regarding present f.o.b. realization. He said that the export of bicycles now being made are in respect of contracts entered into quite sometime back and therefore do not reflect the present prices. He was of the view that we should collect infor-

mation from our Commercial Representatives in different countries to find out price at which those countries are importing Roadster Bicycles.

Since collection of data about costing and f.o.b. realisation will be a never ending process, since they will vary from time to time, it is suggested that we take a decision on the basis of data given in the Under Secretary's note. As for these figures, the short-fall in realisation is about 11 per cent in respect of export of Roadster bicycles. A cash assistance of 10 per cent should therefore meet the requirement.

At present, there is no cash assistance on 'complete bicycles' whereas there is a 20 per cent cash assistance on bicycle components. It has been pointed out by the Audit and confirmed by D.G.T.D. that there is a possibility of complete bicycles being exported as bicycle components for availing cash assistance. In view of this, it is necessary to have the same rate of cash assistance both for complete bicycles and bicycle components.

It is therefore suggested that we may agree with the Ministry of Finance (Expenditure) and have a uniform rate of cash assistance of 10 per cent on complete bicycles as well as bicycle components.

Sd/- J. P. DAS,  
Director.  
25/7/74.

(KR)

The question of revising our orders issued in March 1974 regarding the withdrawal of cash assistance for complete roadster bicycles, while allowing 20 per cent cash assistance for bicycle components, has been taken on hand, on account of the apprehension that all the parts of a complete bicycle may actually be shipped, for being assembled at the importing end, thereby leading to payment of cash assistance where this was not intended. This apprehension has been brought to our notice by DGTD and Finance and has also been admitted by EEPC. However, I do find that even when the rate of cash assistance was the same, both for assembled bicycles and bicycle components, our exports of components were far higher than the exports of complete bicycles. In 1970-71 we exported complete bicycles for a value of Rs. 2.32 crores, while the exports of components were Rs. 4.55 crores. In 1971-72, these figures were Rs. 1.83 crores and Rs. 6.14 crores respectively, and in 1972-73, these were respectively Rs. 2.50 crores and Rs. 7.83 crores. EEPC have given us the value of outstanding export orders as on 1-4-1974 and as on 1-7-1974; but since only one figure has been given for bicycles and parts together, it has not been possible for me to ascertain precisely the extent to which there has been a shift from the export of complete bicycles to that of bicycle components in the current financial year.

2. There has been a plea from EEPC, the Bicycles Manufacturers Association and the Punjab Government for restoring cash assistance to assembled bicycles. For this purpose, it becomes necessary to assess as nearly as possible the f.o.b. realisation and the f.o.b. costs. It will be seen from the statement given at page 9/N that f.o.b. realisation has been taken as Rs. 237.50 as against a realisation between Rs. 174/- and Rs. 183- contended by the Chairman, Bicycles and Components Panel and EEPC. This figure of Rs. 237.50 has been sought to be justified by drawing attention to the fact that one of the exporters, Messrs. Atlas Cycles, has f.o.b. realisation ranging between Rs. 179.85 and Rs. 293.31.

3. This range revealed from the figures given by the Atlas Cycles, has however, to be modified on two grounds. Firstly, f.o.b. realisation given by the firm includes the value of accessories asked for by an importer and is not relatable to the assembled bicycles with saddle alone. For instance, while Rs. 293.31 is the f.o.b. realisation by the firm on a contract of supply to Paraguay, it is found that the cost of accessories was Rs. 68.10. We do not know the price quoted for these accessories by the firm; even if we take the cost alone off the f.o.b. realisation, then such realisation net of accessories works out to Rs. 225.21. If this is done for the other countries to which exports were effected by the firm, it is found that the f.o.b. realisation, net of accessories, ranges between Rs. 155.85 and Rs. 225.21.

4. Since our attempt should be to arrive at the average f.o.b. realisation, the quantity exported at any particular prices also becomes relevant. Thus, Atlas Cycles exported only 1200 cycles to Paraguay, where the higher f.o.b. realisation was achieved. On the other hand, they had exported as many as 31790 cycles to Iran, where the net f.o.b. realisation was only Rs. 178.44. If allowance is made for the quantities exported as well, the weighted average of f.o.b. realisation would be somewhere between Rs. 190 and Rs. 200. These figures are nearer the figures given by the Chairman, Bicycles and Components Panel of EEPC.

5. As regards f.o.b. cost, this has been taken as Rs. 300 at page 9/N, while even the EEPC has given us the figure of Rs. 260/-, in the d.o. letter of the Chairman of the Bicycles Panel, of 12th July addressed to C.M. Since duty drawback is being allowed at 12 per cent, if the f.o.b. realisation is taken at Rs. 200/-, the net shortfall for an exporter will be Rs. 36 - per cycle, i.e., around 18 per cent of f.o.b. realisation. It thus appears to me that cash assistance of only 10 per cent on complete bicycles may be insufficient and that the minimum that should be allowed is 15 per cent.

6. The suggestion of the Ministry of Finance to have 10 per cent cash assistance equally for complete bicycles and bicycle components has obviously behind it the intention that the total outflow of assistance should not exceed that which would be given at the rate of 20 per cent on the

export of bicycle components only. But, as I have pointed out earlier, the value of exports of bicycle components has far outstripped, even in the past, the value of exports of complete bicycles. If we reduce the cash assistance for bicycle components to 15 per cent, from the present entitlement of 20 per cent, the total outgo will not increase, so long as the exports of bicycle components and of complete bicycles are in the ratio of about 3:1. I would hence suggest that we may allow 15 per cent cash assistance for complete bicycles and reduce the assistance for *bicyclé parts* to 15 per cent. These revised rates may be allowed till 31st March 1975, by which time we should get the data based upon detailed cost examination from the Finance Ministry so as to enable us to decide upon the cash assistance policy to be adopted for the year 1975-76.

Sd./- K. Ramanujam,

3rd August '74.

AS(RT)

I have considered this matter. There are two issues involved: (1) whether there should be a common rate for both bicycles and bicycle components in view of the admitted prospect of bicycle components being exported and their getting assembled in the country of import and to guard against such irregularities we may accept that the rate should be common for both although JS(KR) has rightly drawn distinction in regard to the volume of exports as between components and assembled bicycles. (2) What should be the rate prescribed. The Finance Ministry have suggested 10 per cent on the basis of the f.o.b. realisation and costing available on record which, however, needs to be up dated. JS(KR) suggested 15 per cent while Dir(JPD) suggested a uniform rate of 10 per cent. I understand that the f.o.b. realisations have not been as high as they were originally and that it is somewhere 12 1 2 Pounds now. I also understand that the realisations vary from market to market. Having regard to these facts on a priority basis we may suggest a uniform rate of 12½ per cent for both *compenents and bicycles* to obtain till the 31st March 1975. Meanwhile, costing and f.o.b. realisation data will be up dated and we can take a further look. Finance may kindly consider this suggestion.

Sd./- R. Tirumalai,

Additional Secretary.

5-8-74.

R/Ministry of Finance (Commerce)  
(Shri S. Y. Gupta, Director.

Ministry of Commerce, U.O. No. 5(15) '74-EP(Engg), dated 7-8-1974.

MINISTRY OF FINANCE  
(Commerce Division)

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Our note at pp. 4-6/N refers.

2. With the approval of Additional Secretary (C&I), we had suggested reduction of cash assistance of 20 per cent on bicycle components to 10 per cent and also reintroduction of cash assistance at the reduced rates of 10 per cent on complete bicycles as against no assistance at present.

3. In their notes at pp. 8—14/N, the M/Commerce has examined the matter. In the analysis at p. 8—11/N, the Under Secretary and Director feel that the rate of 10 per cent suggested by us is reasonable. However, JS(KR) has suggested that the loss to the exporter will be around 18 per cent and, therefore, a uniform rate of 15 per cent cash assistance may be sanctioned on complete bicycles and components upto 31-3-1975 subject to review on the basis of a detailed cost study. AS(RT) has, however, suggested that a uniform rate of 12.5 per cent may be introduced pending a detailed cost study.

4. As explained earlier, it is difficult to agree to the grant of cash assistance at a rate higher than 10 per cent of the f.o.b. realisation for the following main reasons:—

- (i) Having withdrawn the cash assistance completely on export of complete bicycles, reintroduction of cash assistance at a higher rate of 12.5 per cent without a detailed cost study may not be justified.
- (ii) As the M/Commerce is aware, grant of cash assistance on an *ad-hoc* basis without supporting details was objected to by the PAC in the case of audit paras. on cash assistance on some items included in the report of the C&AG for 1972-73. In this context, we have to be very cautious in announcing the rate of cash assistance which may prove to be liberal later on when a detailed cost study is undertaken. It has been our experience in the past that the figures given by the Council/industry were inflated and in a majority of cases where cost study was undertaken, the cash assistance was either not justified or recommended at a much reduced rate.
- (iii) The cost data furnished by the industry and the Council as available in the file is unaudited without a certificate of its correctness and reasonableness by a firm of Chartered Accountants and the Council. Certain inadmissible items like manufacturing overheads, general administrative expenditure,

depreciation, interest and bank commission, selling and distribution expenses have been taken into account which are not admissible in the principle of marginal costing.

- (iv) The data available in the file is for one or two exporters and not for all the representative exporters to arrive at complete loss on exports. Even this data is in respect of complete bicycles on which cash assistance has already been withdrawn with the approval of the Main Committee of the MDF. The cost data for components is not available in the proper form. Even in the DGCI&D statistics, the export is in terms of quantity (kgs.) and value (rupees) for which comparable f.o.b. cost is not available. In this context, whatever rate is decided on components, is purely *ad-hoc*. The main basis for this rate is the reasonable loss on export of complete bicycles and the anxiety to avoid misuse of the facility of cash assistance on bicycles components in the absence of any assistance on complete bicycles.

To safeguard the public interest and avoid fixation of a rate which may subsequently be found on the high-side likely to be pointed out by the Audit, it will be safe and reasonable to fix cash assistance at a lower slab of 10 per cent. This item is included in the agenda for the meeting of the Review Committee to be held on 17th August.

The M/Commerce may kindly see and reconsider the matter. Since the decision has been pending for a long time, it is suggested that the rate of 10 per cent cash assistance may be announced without further delay.

(Sd.) JAGDISH CHANDER,  
1-12-1974

Director (C&A)

(Sd.) S. Y. GUPTA,  
13-8-1974

M/Commerce—Shri J. P. Das, Dir.

M/Finance U.O. No. 5479-CD/74 dated 14-8-1974

JS may kindly see.

(Sd.) J. P. DAS,  
16-8-1974

AS(RT) may see Finance's notes from p. 15 N.w.r.t. his notes at pp. 13-14/N. Finance have generally commented on the inadequacy of data on which our recommendation was made. The measure was meant to be *ad-hoc* till complete costing data was available; and Finance's sugges-

tion that 10 per cent cash assistance could be given to complete bicycles- was itself only an *ad-hoc one*. We have taken into account data available in making the recommendation for the consideration of Finance.

This question is being discussed in the meeting of the Cash Assistance Review Committee tomorrow.

(Sd.) K. RAMANUJAM  
16-8-1974

AS(R/T)

(1) This was raised in today's CAR Committee and Dr. A. K. Sengupta Economic Adviser and Shri M. Narasimhan desired to see this case.

(2) I should add that I have since had a discussion on the appropriate rate of CA for bicycle components with DGTD and I am informed that from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent. This may be taken as my final view regarding the specific rate. This is now proposed to be discussed on 22-8-1974, at 3.45 P.M. in my room.

(Sd.) R. TIRUMALAI  
17-8-1974

EA (Dr. A. K. Sengupta)

While JS(KSR)'s point that bicycles should have at least 15 per cent assistance, is well taken. I see no reason why the rate on components should be reduced.

(Sd.) A. K. SENGUPTA  
28-8-1974

Shri M. Narasimhan

I agree that the rate should be uniform for complete bicycles and for components. Would not object to 15 per cent but if we can evolve an arrangement whereby it is 10 per cent now but subject to revision with retrospective effect on the basis of a complete cost study that might meet both the points of Expenditure Department and Commerce Ministry.

(Sd.) M. NARASIMHAN  
21-8-1974

Discussed.

Record Note of discussions may be put up incorporating decision that components will be eligible for C.A. at 20 per cent and cycles 15 per cent and also rationale of the differential rate and how this will not lead to any leakage.

(Sd.) R. TIRUMALAI  
22-8-1974

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## APPENDIX V

(Vide paragraph 1.75)

Extracts from the second meeting of the Cash Assistance Review Committee held at 2.45 P.M. on Friday, the 22nd August, 1974, under the Chairmanship of Shri R. Tirumalai, Additional Secretary, Ministry of Commerce.

\* \* \* \* \*

The following decisions were taken:—

(1) Cash Assistance on export of bicycles and bicycle components.

The rates of Cash Assistance for bicycles and bicycles components have been revised recently to the following:—

- (i) Bicycles Components from 30 per cent to 20 per cent.
- (ii) complete bicycles from 20 per cent to nil.
- (iii) S.L.R. Bicycles 25 per cent to 10 per cent.

After complete withdrawal of cash assistance on bicycles, there were a series of representations from the bicycles exporters that they had been out priced in the International market. The decision to completely withdraw cash assistance on complete bicycles had been taken on the ground that bicycles had been able to fetch f.o.b. realization of £12.5. It was represented by the exporters of bicycles that such f.o.b. realization was confined to a few markets only and the average realization was much lower.

Ministry of Finance (Expenditure), Audit and DGTD had pointed out that there should be no difference between the rate of cash assistance for bicycles (complete) and bicycle parts, since there was a possibility of complete bicycles going in C.K.D. packs to get the advantage of cash assistance rates available on export of bicycle components.

The representations received in the Ministry of Commerce had been examined with reference to cost data furnished by the bicycles manufacturers to EEPC, as well as the data available from the Cost Accounts Branch



## APPENDIX VI

(Vide paragraph 1.104)

*Composition of the PANEL for development of cycle and cycle components industries.*

### I

GOVERNMENT OF INDIA

MINISTRY OF INDUSTRY AND CIVIL SUPPLIES

(Department of Industrial Development)

*New Delhi, the 14th April, 1976*

### RESOLUTION

The Government have decided to constitute a Panel for the development of the Cycle and Cycle Components Industries with the following composition, for a period of two years from the date of this Resolution.

#### CHAIRMAN

Shri S. C. Banerjee, Deputy Director General of Technical Development (Retired), Ministry of Industry and Civil Supplies.

#### RESIDENCE

C-107, Chittaranjan Park, New Delhi-110019.

#### MEMBERS

1. Shri M. V. Arunachalam, Managing Director, T.I. Cycles of India and President, The Cycle Manufacturers Association of India, 2 E/16, Jhandewalan, Extension, New Delhi-110005.
2. Shri Brij Mohan Lal, Managing Director, Hero Cycles, Hero Nagar, G.T. Road, Ludhiana-141003.
3. Shri B. D. Kapur, President, M/s. Atlas Cycles of India Limited, Sonapat (Haryana).
4. Shri M. K. Modwal, Chief Executive, Sen Raleigh Cycles, 1, Middleton Street, Calcutta-16.

5. Col. U.S. Anand, General Manager, Hind Cycles, 250, Worli, *Bombay-400025*.
6. Shri Hans Raj Pahwa, Managing Director, Avon Cycles, Industrial Area, *Ludhiana (Punjab)*.
7. Shri R. N. Agarwal, Director, Popular Cycle Manufacturing Company Private Limited, Belanganj, *Agra-4 (UP)*.
8. Shri P. S. Satara, President, All India Small Tyre Manufacturers Association & M/s. Satara Rubber Industries, 18/1, Mathura Road, *Faridabad (Haryana)*.
9. Shri M. R. Gadhok, Managing Partner, M/s. Matchless Industries of India, 36, DLF Industrial Area, Najafgarh Road, *New Delhi-15*.
10. Shri Lov Kumar, Merchandising Officer, Merchandising Division, Trade Development Authority, *New Delhi*.
11. Director, Central Mechanical Engineering Research Institute, *Durgapur*.
12. Shri R. K. Rangan, Deputy Secretary, Department of Industrial Development, Ministry of Industry and Civil Supplies, *New Delhi*.
13. *Member Secretary:*  
Shri T. Ramasubramaniam, Development Officer, Directorate General of Technical Development, Udyog Bhavan, *New Delhi*.

## II

GOVERNMENT OF INDIA

## MINISTRY OF INDUSTRY &amp; CIVIL SUPPLIES

(Department of Industrial Development)

*New Delhi, the 15th June, 1976***RESOLUTION**

The Government of India had constituted a Panel for the development of the Cycle and Cycle Components Industries *vide* Resolution dated the 14th April, 1976. It has now been decided that in addition to the members mentioned therein,—Shri S. V. Pikale, M/s. S. V. Pikale & Company, 18/19, Hamam Street, Bombay-400001 will also be a member of the above panel.

(Sd.) C. MALLIKARJUNAN.  
*Under Secy. to the Govt. of India.*

## APPENDIX VII

(Vide paragraph 1.105)

Note indicating the steps taken since 1970 and prior to the constitution of the panel (1976) to bring about (i) standardisation of parts, (ii) technological developments to improve the quality and design of bicycles, (iii) diversification of production, particularly for the manufacture of SLR models and (iv) modernisation of the bicycle and bicycle components manufacturing industry.

More than 80 per cent of bicycles are, as, already stated, sold in the rural market. The requirement, therefore, has to keep in view appropriate technology and the fact that the bicycle in such a market is used also as a carrier of milk cans, families etc. under existing arduous road conditions. This, therefore calls for sturdiness and robustness which are peculiar features of marketing in Indian conditions.

The stress of the manufacturers has therefore, in the past, been in the direction of meeting such requirements. But as these requirements themselves vary from region to region, there had been occasions where the quality of the bicycle, some assemblies and components had come for some criticism. This aspect however, has been effectively tackled by Government through creation of competition forcing managements to give attention not only to cost reduction aspects but also to quality and other desirable features. The role of the managements has, therefore, assumed a greater importance. There are cases of bicycle manufacturers as pointed out earlier, where the capacity utilisation had been as 'high' as 100 per cent. The quality complaints by and large, have related to other manufacturers, the managements of which could not cope up with the said competition. Wherever any specific complaint had been brought to the notice of the Government, which has been rare, suitable action was taken.

In the above context, answers to the specific questions raised are given below:

- (i) *Standardisation of parts.*—Attention had been focussed on standardisation of parts even earlier to 1970. Almost all major bicycle components had been standardised; these include bicycle rims, frames, handle bars, tube, valves, spokes and nipples, crank and chin wheels, free-wheels and mud-guards. The residual area is relatively small and is engaging Government attention.

- (ii) *Technological Developments, improvement of quality and design of bicycles.*—As pointed out, the technology has to be appropriate to suit rural markets. The technology needs, therefore, as relevant to export and Indian markets are different. It may be further stated that some of the manufacturers in the country have arranged for joint ventures in some developing countries based on the appropriateness of the technology required in India.

Technology development in the more advanced countries has taken place in the field of high strength materials and manufacturing techniques which while ensuring the technical performance of bicycles under conditions similar to the operative conditions in India give at the same time improved design, quality and cost reduction. Unfortunately, such high strength materials are still not manufactured in the country and if we wish to update our quality and design, we are faced with the choice of importing them often at costly prices. If export markets are to be expanded for our bicycles, this choice would have to be resolved as between import of these materials and the adoption of the latest techniques. The implications of this choice and the related aspects of the economies of development and the high strength materials are currently being studied by the Panel.

- (iii) *Diversification of production particularly for the manufacture of SLR Model.*—Attempts had been made in the past to develop SLR and other special models of bicycles, as would be evident from the successful export of SLR model bicycles of TI Cycles of India. However, the key to the further development of this model is indigenous manufacture of three-speed hubs in respect of which information relating to another question has been furnished. For models of bicycles, other than the SLR, components like multi-speed free-wheels have been developed and are in the process of trial usage. Special bicycle rims like endrick rims and westrik rims for SLR models are already being produced in the country. There has also been significant production of caliper brakes, a newly developed item.
- (iv) *Modernisation of bicycles and bicycle components manufactured by Bicycle Industry.*—In the context of the appropriate technology, to which a reference has been made earlier, the need for whole-sale modernisation of the industry for updating materials and methods, had not arisen. However, in the replacement of old or obsolete equipments and toolings, the Government had

assisted the concerned industrial units in importing more modern equipments such as special purpose machine tools and toolings in lieu of general purpose equipments, of which bicycles were originally made in the country. Proposals for improved metal finishing techniques such as electro-static painting, which would also contribute to cost reduction in the use of paintings, have also been sponsored.

## APPENDIX VIII

(Vide paragraph 1.107)

*Extracts from the study undertaken, in February 1975, by M/s. S. R. Batliboi & Co., Chartered Accountants into the working of M/s. Sen Raleigh Limited.*

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3.7. In order to determine the reasons for the vulnerable position in which the company is placed at the moment, we have carried out a detailed survey of the Company's operations during the post-closure period from April 1972 to December 1974. On the basis of our study, we have formed the opinion that unsatisfactory overall performance during the above period can be attributed to the combined effect of several complex and in exorable factors, some major, others relatively minor. These are outlined hereunder for consideration and future remedial measure:

- (a) At the very outset, it appears to us that the Company's production programme was optimistic to a fairly substantial extent at the time of opening of the factory and, in consequence, the Company's financial requirements were under estimated. It is also clear to us that, had the financial requirements been properly assessed, and had the reopening been done on a pre-planned gradual manner, to correspond with the increase in the production, the Company would not only have conserved resources but could also have built up the necessary inventory so essentially required for achieving production at the target level.
- (b) The above financial difficulty was further accentuated due to the fact that the Company was not allowed to increase the prices for its products for quite some time in spite of repeated request made by the Company and, as a result, the Company sustained loss estimated at Rs. 54 lakhs leading to erosion of its working capital. In our opinion, the decision not to allow the Company to increase the price at a time when costs were spiralling was wholly unfavourable to the Company.
- (c) It is also observed by us that the Company never undertook a detailed survey to determine its financial requirements in terms of a totality of its operations. In our opinion, this should have been done and the financial institutions informed, so that they could have assessed the Company's requirements in proper

perspective having regard to all the circumstances. Instead of the above required strategy, the Company asked for money in piece-meal, so as to overcome the current difficulties without taking into account the long term problems confronting the Company. The position was made far worse because of the procedural delays involved in certain cases varying from 3-4 months, thus making the Company's financial position more acute and critical, leading to consequential depletion of inventories in vital sectors of work.

- (d) On the review of production since reopening as shown in Annexure-II it will be observed that the Company failed to achieve the target production within a short period after resumption of operation. They however achieved the 1400 level for a few months in 1973 & 1974. In our opinion the failure to maintain this level of production can be said to be one of the significant factors which led to the deterioration of the situation.

The following factors had also contributed to unsatisfactory performance:

- (a) Extremely high wages and salary cost per cycle due to increase in dearness allowance.
- (b) Heavy burden of interest charges due to increased borrowings from the financial institutions.
- (c) Erratic supply position of some of the critical raw materials resulting in loss of production.
- (d) Sporadic power cuts.
- (e) Adherence to Raleigh brand and the failure to initiate action for a medium priced model.

3.8. Besides the above, the lukewarm approach and attitudes of the management to some of the basic and vital issues concerning the Company's operations, failure to initiate action in time in anticipation of events and lack of firmness had contributed in no small measure to the difficult situation the Company finds itself in at present. It is our opinion that, inspite of the various constraints in general and that of financial in particular, the management could have possibly secured better performance if they had been able to organise a suitable management, structure and to generate appropriate motivation amongst the key personnel for attaining the basic objective of achieving the viability within a reasonable period of time.

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## APPENDIX IX

(Vide paragraph 1.128)

*Copy of D.O. No. 1(93)/74-EPE dated 12th March, 1974, from Shri K. Rajagopalan, Development Officer, Directorate General of Technical Development, New Delhi, to Shri J. P. Das, Director, Ministry of Commerce, New Delhi, and copy to Shri M .M. Sahlani, Director, Export Promotion, Ministry of Commerce, New Delhi.*

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SUBJECT.—*Cash Assistance on export of bicycles/bicycle components.*

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As you are aware, conventional roadster bicycles are almost always shipped in a knocked down condition. There is, therefore, risk, consequent on the abolition of the cash subsidy on export of complete bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of bicycle components and walk away with 30 per cent cash assistance prescribed for bicycle components.

In order to avoid this situation, it may worth considering the limiting of the cash assistance on bicycle components to the shipment of only the following components:—

- (a) Free Wheels
- (b) Chains
- (c) Hubs and hub parts
- (d) Chain wheels and cranks
- (e) Rims
- (f) Spokes and Nipples
- (g) Dynamo lighting sets
- (h) B. B. Shells.

The other components like frame tubing, forks, etc. may not merit a subsidy on the analogy of precedents already established for steel tubes, products with little value added etc.

The advantage of the above proposal is that the bicycle parts specified in the foregoing paragraph do not add up to complete bicycle and it would be easy for the customs authorities to identify the shipments of these parts from completely knocked down bicycles in what is known as case packing. It is also pertinent to mention in this connection that the components specified above constitute the bulk of exports of bicycle components from the country.

With regards,

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## APPENDIX X

### Conclusions/Recommendations

| S. No. | Para No. of Report | Ministry/ Department concerned | Conclusions/Recommendations   |
|--------|--------------------|--------------------------------|---|
| I      | 1.158              | Ministry of Commerce           | Time and again, the Public Accounts Committee have adversely commented upon the indiscriminate grant of cash assistance and other incentives for export promotion on the basis of <i>ad hoc</i> and incomplete assessments that had little or no relevance to the realities of the situation at a given point of time. The Audit paragraph under consideration, which deals with the grant of Cash Assistance and Import Replenishment for export of bicycles and bicycle components is one more instance of formulation 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 anomalies in the operation of the schemes had come to light. While the Committee are not opposed, in principle, to the grant of incentives for boosting the country's exports they cannot help feeling, after a study of the Audit paragraph and the evidence tendered before them, that greater care and vigilance should have been exercised in allowing large payments out of the exchequer and the export promotion schemes extended in a more prudent and discriminating manner after formulating the policies in this regard on more precisely thought-out foundations. Some of the more conspicuous |

deficiencies and defects in the schemes in respect of bicycles and bicycle components are discussed in the following paragraphs.

2. 1-159 Ministry of Commerce

According to the Report of the Indian Institute of Foreign Trade, the main consideration for the grant of an export subsidy is the "removal of price disadvantage involved in export and making the export operation no less attractive than the domestic sale." Cash Assistance is, thus, 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. Data in regard to f.o.b. cost and f.o.b. realisation are, therefore, of vital importance for a proper determination of the need for and quantum of cash assistance. The Committee are, however, concerned to find that for as long as eight years (1966—1974), cash assistance for the export of bicycles and bicycle components had been extended, as in the case of other engineering goods, not on the basis of any critical and scientific cost studies but on the basis of what has been described by the Commerce Secretary as "a more or less quick appraisal of the situation." Admittedly, when the decision to introduce the cash assistance scheme immediately after devaluation was taken in August 1966, it "was not based on any detailed calculation." It has also been admitted that "the basis on which these decisions were taken were not always definite" and that it was only in 1972 that the Commerce Ministry decided "to have a second look" in respect of certain items and ascertain, on the basis of marginal costing, whether "these deserved the

cash assistance that has always been enjoyed by them" and cost studies for the purpose were commissioned through the Indian Institute of Foreign Trade.

3 1.160 Ministry of Commerce

The Committee are concerned to note that even in the absence of relevant data and a cost-benefit analysis, the rates of cash assistance for bicycles and bicycle components had been enhanced from the post-devaluation rate of 20 per cent to 25 per cent with effect from 1 June 1967 and to 30 per cent with effect from 1 March 1968 and remained undisturbed thereafter till 21 February 1974 in the case of complete bicycles (Roadster) and till 13 March 1974 in respect of components, despite the fact that certain perceptible changes had taken place during this period in regard to the indigenous availability of raw materials required for the manufacture of bicycles and bicycle components and in the behaviour of international prices. The Committee feel that the position should have been kept under constant review and timely corrective action taken on the basis of data relating to cost of production and f.o.b. realisations instead of extending the scheme from year to year in what appears to be an injudicious manner. Since devaluation should not have ordinarily warranted further assistance and incentives for export promotion, the initial decision to extend cash assistance also ought to have been taken only after detailed cost studies. That these elementary precautions were not taken in regard to schemes involving considerable outgo from the public exchequer is regrettable.

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1-161

Ministry of Commerce

Even after the introduction in 1972 (after some anomalies in the operation of the cash assistance scheme for engineering goods had been brought to the Ministry's notice by the Central Board of Excise & Customs) of the concept of determining the gap between the cost of production and f.o.b. realisations on the basis of a more scientific analysis of cost data, the question of making suitable adjustments in the rates of cash assistance for bicycles and bicycle components had been hanging fire, for one reason or the other, for nearly two years. Thus, the Indian Institute of Foreign Trade, in their Report submitted in November 1972, had assessed that the percentage of uncovered loss on exports to the f.o.b. cost in the case of complete bicycles (Roadster) manufactured by five representative units ranged between 1.9 per cent to 30.2 per cent after taking into account the then available cash assistance of 30 per cent and had recommended the continuance of cash assistance and other export assistance for bicycles and components at the rates then prevailing. It had, however, been decided that consideration of the Institute's Report might be held over on the ground that a Committee, appointed in January 1973 under the Chairmanship of the Chief Controller of Imports & Exports to review the Registered Exporter's Policy for 1973-74, had also been asked to review, *inter-alia*, the need for and quantum of existing cash subsidies and import replenishment.

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1-162

Ministry of Commerce

Surprisingly enough, though the Review Committee referred to above, had in an annexure to its report submitted in February 1973, proposed

reduction of the rates of cash assistance for bicycles and bicycle components to 22.5 per cent and 20 per cent respectively of the f.o.b. realisations as against 30 per cent admissible for both then, and had also proposed reduction of the existing rates of import replenishment [from 20 to 10 per cent for complete bicycles (Roadster) and from 30 to 20 per cent for components] the proposed reductions were not given effect to. Explaining the reasons for the non-acceptance of these proposals, which would have resulted in a saving of Rs. 83 lakhs by way of cash assistance and Rs. 80 lakhs in foreign exchange by way of import replenishment during 1973-74, the Commerce Ministry have stated, inter alia, that there was a discrepancy between the main recommendation in the Report of the Review Committee and the figures shown in the annexure and that the recommendations had not been accepted as they involved an increase in the rates of cash assistance on many of the items, which was not considered possible without proper examination of cost data relating to the products. It is, however, not clear to the Committee why the alleged discrepancy was not got reconciled by reference to the Review Committee. Since the recommendations must have presumably been based on a study of data then available and of the then prevailing trends of f.o.b. realisations from exports of bicycles and bicycle components, it is also not clear to the Committee why items in respect of which reduction in rates of cash assistance had been recommended could not have been viewed in isolation and cost data in respect of items for which increase in the rates of cash assistance had been proposed, examined separately so as to safeguard against the payment of larger amounts than was considered necessary.

That whatever studies were undertaken by the Indian Institute of Foreign Trade were only haphazard would be evident from the anomalies pointed out subsequently by the Cost Accounts Branch of the Finance Ministry to whom the Institute's Report had been referred for advice in May 1973. While the Institute had assessed, after comparison of the manufacturing cost of two units ('U' and 'V'), that the uncovered loss, after taking into account the then admissible cash assistance of 30 per cent, would be respectively 2.8 per cent and 1.9 per cent, the Cost Accounts Branch had determined the loss in respect of these units, on the basis of marginal costing, as 24.65 per cent and 17.69 per cent respectively as against the then existing assistance of 30 per cent. Apart from pointing out certain anomalies in the method adopted by the Institute in working out the f.o.b. cost of bicycles, the Cost Accounts Branch had also drawn attention to a significant fact that the Institute's study had not taken into account the extra benefits accruing to the exporters from the import replenishment on export of bicycles and components which were normally sold at a high premium (one of the leading manufacturers of bicycles, Sen Raleigh Ltd., had themselves indicated later in November 1974 that they had obtained a premium of 50 per cent by giving their import replenishment as a nomination to other parties) or were utilised by importing directly raw materials or capital goods, as a result of which the exporters would derive considerable advantage in imports over indigenous cost. This position had also been confirmed in July 1973 by the Director General, Technical Development, who had pointed out that the

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actual import content in complete bicycles (Roadster) would work out to less than 10 per cent of the f.o.b. realisation as against the 20 per cent Import Replenishment then allowed.

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L.164

Ministry of Commerce

It is significant in this context that while cost studies had been commissioned through the Indian Institute of Foreign Trade after the Central Board of Excise and Customs had drawn the Commerce Ministry's attention to certain anomalies in the operation of the cash assistance scheme for engineering goods, the Review Committee under the Chairmanship of the Chief Controller of Imports & Exports had been set up only in connection with the annual revision of the Import Policy and not in the context of the anomalies in the operation of the cash assistance scheme highlighted by the Central Board of Excise & Customs. In these circumstances, the Committee are unable to appreciate the rationale for deferring consideration of the Institute's Report. After having specifically commissioned these studies, it would have been more appropriate to have referred the Report promptly to the Cost Accounts Branch or entrusted the cost studies to them *ab initio*, instead of having waited for more than six months. Better results might have ensued from adopting such a course of action. Unfortunately, the Commerce Ministry appear to have adopted a 'Heads I win, Tails you lose' attitude in dealing with this question.

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L.165

Ministry of Commerce

After making yet another abortive attempt in August 1973 to reduce the rates of cash assistance for complete bicycles (Roadster) and bicycle

components, a decision had been taken, in January 1974, by the Marketing Development Fund to reduce the cash assistance for complete bicycles (Roadster) and bicycle components from 30 to 20 per cent and for special model Sports Light Roadster (SLR) bicycles from 25 to 22½ per cent. However, while orders conveying these decisions were yet to be issued, the Director General, Technical Development had informed the Commerce Ministry, in February 1974 that the unit value realisations from complete bicycles (Roadster) had increased from 8.50 pounds (Rs. 161) to 12.50 pounds (Rs. 236) which might "necessitate a close second look at the level of the present cash compensatory support for this item." On fresh calculations being made by the Commerce Ministry, it was found that there was no loss in the export of complete bicycles (Roadster) and accordingly cash assistance on this item had been abolished with effect from 22 February 1974.

However, barely six months later, cash assistance for complete bicycles (Roadster) had been reintroduced on an *ad hoc* basis, though at a reduced rate of 15 per cent, with effect from 1 September 1974 to be effective till 31 March 1975, pending collection of relevant cost data and their examination by the Cost Accounts Branch. It appears that this decision had been taken on the basis of "a spate of representations" received from the industry in this connection and on the ground that f.o.b. realisations had not been "as high as they were originally" and that the realisations varied

“from market to market”. The Committee, however, find that the Finance Ministry had expressed a number of reservations in regard to this proposal and had pointed out, *inter alia* that having withdrawn cash assistance for complete bicycle (Roadster) completely, its reintroduction without a detailed cost study may not be justified and that the grant of cash assistance on an *ad hoc* basis without supporting details had been objected to by the Public Accounts Committee in the case of Audit Paragraphs on Cash Assistance on some items included in the Report of the Comptroller and Auditor General of India for the year 1972-73. In fact, on 5 August 1974, the Additional Secretary in the Commerce Ministry himself had suggested a lower rate of 12½ per cent for both bicycles (Roadster) and bicycle components, while the Under Secretary and Director in the Ministry had suggested, on the basis of the data available from the report of the Cost Accounts Branch prepared in connection with fixation of domestic prices for bicycles as well as data made available by the exporters in 1974 alongwith their representations, a rate of 10 per cent uniformly for complete bicycles (Roadster) and bicycle components.

It is also significant in this context that in arriving at the rate of 12½ per cent (later revised to 15 per cent by the Cash Assistance Review Committee) the Commerce Ministry had relied on unauthenticated data. Besides, while in the calculations for determining the loss on exports, the f.o.b. cost of Rs. 260 furnished in July 1974 without any detailed breakup

by the Chairman, Bicycle and Bicycle Components and Accessories Panel of the Engineering Export Promotion Council [who was also connected with a leading bicycle-manufacturing firm, Hero Cycles (P) Ltd.] had been adopted, the f. o. b. realisation of Rs. 200 had been assumed on the basis of data given by another manufacturer (Atlas Cycle Industries Ltd.), whose f.o.b. realisations from different exports to various countries during 1974 ranged from Rs. 179.85 to Rs. 293.31. The Finance Ministry had also gone on record, in no uncertain terms, that it had been the experience in the past that the data given by the Export Promotion Council/industry were inflated and "in a majority of cases where cost study was undertaken, the cash assistance was either not justified or recommended at a much reduced rate." While emphasising, therefore, the need for being "very cautious" in announcing the rate of cash assistance "which may prove to be liberal later on when a detailed cost study is undertaken," the Ministry had pointed out that it was difficult to agree to the grant of cash assistance at a rate higher than 10 per cent.

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It has, however, been contended by the Commerce Ministry that while the Finance Ministry's suggestion for restricting the cash assistance for complete bicycles (Roadster) and bicycle components at 10 per cent was "totally an *ad hoc* proposal not based on any kind of data," the proposal for the grant of 12½ per cent (later 15 per cent) cash assistance for complete bicycles (Roadster) "was based on the available data and DGTD's

advice." The Committee, however, find from the relevant note recorded by the Director in the Commerce Ministry after discussions with the Development Officer of the Directorate General, Technical Development on 25 July, 1974, that the official of the Directorate had pointed out that as the exports of bicycles then being made related to contracts entered into some-time back, the f.o.b. realisation did not reflect present prices and had suggested that information from the Commercial Representatives in different countries should be collected to find out the price at which these countries were importing Roadster bicycles. The subsequent discussions on 17 August, 1974 between the Additional Secretary in the Ministry and the Director General, Technical Development also related not to complete bicycles (Roadster) but to the appropriate rate of cash assistance for bicycle components when the former had been informed that "from the point of view of costing data and its potential the rate cannot admit of any reduction below 15 per cent." In these circumstances and in view of the fact that the data made available by the industry was not entirely reliable, the Committee are unable to accept the Ministry's contention in this regard.

That whatever assessments were made by the Commerce Ministry in this regard had no relevance to realities would be evident from the subsequent (February-March 1975) findings of the Cost Accounts Branch after a cost study of three of the four bicycle manufacturers selected for the purpose as well as from the data relating to f.o.b. realisations compiled by the Director General, Commercial Intelligence and Statistics. Thus, while the Commerce

Ministry had adopted the f.o.b. realisation as Rs. 200 on the basis of the data given by Atlas Cycle Industries Ltd., according to the statistics published by the Director General, Commercial Intelligence & Statistics, the f.o.b. realisations during April-July 1974 actually ranged between Rs. 188 and Rs. 247 (average Rs. 219). Had this figure been taken into account, the loss on export would have worked out only to 6.7 per cent, as against 18 per cent assumed by the Commerce Ministry, even after assuming the f.o.b. cost of Rs. 260 as correct and without taking into account the benefit accruing from import replenishment. Though the correctness of assuming the average realisation to be Rs. 219 has been disputed by the Commerce Ministry, the Committee are of the view that as these data are indicative of the market trends prevailing at the relevant time, they are of some significance. In any case, it would appear from the subsequent cost studies by the Cost Accounts Branch (details of which have been discussed earlier in this Report) that in respect of three leading manufacturers of bicycles (T.I. Cycles India Ltd., Atlas Cycle Industries Ltd. and Sen Raleigh Ltd.), the loss on export, after taking into account the benefits derived from import replenishment licences, was insignificant and there had, in fact, been substantial gains in some cases. The Committee regret that cash assistance should have been resorted to on an *ad hoc* basis, without a scientific evaluation of the costs and f.o.b. realisations.

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13            I.170            Do

What causes greater concern to the Committee is the fact that in spite of the fact that the Finance Ministry had not agreed to the rate of cash assistance proposed by the Commerce Ministry and had, in fact, repeatedly drawn attention to the lack of adequate justification, in the absence of authenticated data, for the rates proposed, the Cash Assistance Review Committee should have overlooked these objections and decided upon a rate

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(15 per cent) which was more than what the Commerce Ministry themselves had proposed earlier (12½ per cent). The Committee cannot countenance this procedure whereby the Finance Ministry had been precluded from exercising its legitimate functions of careful scrutiny of expenditure of considerable magnitude sought to be incurred on an incentive scheme. Though the Committee have been informed in this connection that the Ministry of Finance (Department of Expenditure and Economic Affairs) were also represented on the Cash Assistance Review Committee, this does not, as has earlier been pointed out by the Committee in paragraph 1.112 of their 178th Report (Fifth Lok Sabha), obviate the need for obtaining the specific concurrence and approval of that Ministry to a scheme that appears to have been unjustified on all accounts.

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Ministry of Commerce

Though the cash assistance of 15 per cent, granted on an *ad hoc* basis in August, 1974, was valid only till 31 March, 1975, continuance of the assistance at the same rate upto 30 September, 1975 and again upto 31 March, 1976 was sanctioned respectively on 30 April, 1975 and 1 October, 1975. The Committee find that the decision to extend the cash assistance upto 30 September, 1975 was not taken on the basis of any fresh examination of detailed data in regard to f.o.b. costs and f.o.b. realisations but on somewhat tenuous ground that continuity of cash assistance was necessary in the interest of exports from the country. In view of the fact that the reports of the Cost Accounts Branch on the cost study of leading manufacturers of bicycles had been received by then and these had also disclosed

that the cash assistance earlier given was hardly justified, the Committee feel that the Commerce Ministry ought to have proceeded more cautiously and taken these reports into consideration instead of extending the cash assistance once again in *ad hoc* and indiscriminate manner. Similarly, though it had initially been decided that the latest f.o.b. cost and f.o.b. realisation should be taken into account while considering the question of cash assistance beyond 30 September 1975, it appears that no detailed studies had been conducted in this regard but the cost data submitted by a firm manufacturing complete bicycles, which disclosed a shortfall of 16 per cent and 18.85 per cent respectively in the case of two units, had been adopted. Since, according to the Finance Ministry, past experience had shown that the data made available by the industry were inflated, the Committee are not sure how far the excessive reliance placed on the data furnished by the industry could be considered justified.

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The Committee find that even in the case of Sports Light Roadster (SLR) model bicycles, the rate of cash assistance had been increased from 10 to 12½ per cent with effect from 1 April 1975 without taking into account all the relevant factors. It has been stated by the Commerce Ministry in this connection that the decision to enhance the cash assistance had been taken by the Cash Assistance Review Committee on the basis of representations received from the trade that the cash compensatory support of 10 per cent was inadequate and of the report of the Cost Accounts Branch in respect of T.I. Cycles India Ltd., which disclosed a loss of 12.1 per cent on exports of SLR bicycles. It is, however, seen that the Cost Accounts Branch had simultaneously pointed out that the company had an excess import entitlement licence of 15 per cent, the benefit from which

could not be assessed and had, therefore, suggested that the Commerce Ministry may take a view on the benefits, if any, on the import entitlements in deciding the quantum of cash assistance. This aspect, unfortunately, does not appear to have been gone into. In view of the fact that the import replenishment on bicycles was admittedly found on examination to be much higher than the actual import content and the excess import entitlement could also be transferred at considerable premium, the Committee fail to understand why this important and vital question had been over-looked in determining the quantum of cash assistance necessary for SLR bicycles.

The manner in which the question of granting cash assistance for bicycle components had been handled causes even greater concern to the Committee. While taking a decision to abolish, with effect from 22 February 1974, cash assistance for complete bicycles (Roadster), no change had, however, been made in the January 1974 decision of the Marketing Development Fund in regard to bicycle components (*viz.* to reduce the cash assistance from 30 to 20 per cent) on the ground that no separate costing in respect of components were made nor had the Director General, Technical Development intimated any higher unit value realisation from their exports. The Committee find in this context that when the proposal for reduction of cash assistance from 30 to 20 per cent was sent to the Finance Ministry in February 1974, that Ministry had suggested, on the consideration that if export realisation was much more than the cost of production for complete

bicycles the same position would hold good for components also, that cash assistance on bicycle components might be withdrawn. This had not been accepted by the Commerce Ministry on the ground that as more than 75 per cent of the export was accounted for by components and the manufacturers of components were mostly in the small scale sector, their economics of production and export could not be compared with that of the cycle manufacturers who were mostly in the organised sector, and that exports of components would have a set back if the cash assistance was withdrawn completely.

17      I 174      —Do—

Both these arguments had, however, been refuted in March 1974 by the Ministry of Finance. As regards the contention that exports of components would have a set back if cash assistance was withdrawn, the Finance Ministry had pointed out that if the withdrawal of the assistance on complete bicycles could not result in a set back to exports, the position should not be different for components. With reference to the distinction sought to be drawn between the organised sector and the small scale sector, the Ministry had drawn attention to the fact that the rates of cash assistance were decided only on the basis of cost of production and f.o.b. realisation and no distinction was made between the small scale sector and the large scale sector.

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18      I 175      —Do—

Though the Finance Ministry had not then pressed this issue further as proper cost data were not available for an objective analysis, subsequently, on reconsideration of the question in June 1974, the Ministry had pointed out that even without waiting for a detailed cost study, there was "clear justification" for reducing cash assistance for components to prevent mal-

practices. That Ministry had accordingly suggested that, pending reference to the Cost Accounts Branch for cost study, either the cash assistance on bicycle components be reduced from 20 to 10 per cent or cash assistance on complete bicycles as well as components be allowed uniformly at 10 per cent. The following valid reasons had been cited, *inter alia*, by them in support of their suggestion:

- (i) While the producers of bicycle components are mainly in the small scale sector, it is not necessary that exporters are the same who are the producers of components. Exporters are different from the producers. They will be purchasing the components from the producers and then exporting. This may add to the ultimate cost of export on account of cost of export overheads and other expenses. Continuance of cash assistance will only help such middle man exporters in quoting lower prices.
- (ii) As the item is of labour intensive nature, Indian prices should be competitive in view of the high cost of labour in other developed countries.
- (iii) Cash Assistance on complete bicycles and SLR bicycles has been withdrawn/reduced after taking into account the increase in unit realisation in International Market. The unit realisation

for components would also have gone up in line with similar buoyance for all other products. The argument for complete bicycles will be equally valid for components.

- (v) Continuance of cash assistance of 20 per cent on components may result in misuse of the facility in as much as complete bicycle may be sent in semi-assembled condition for the purpose of claiming cash assistance. The country will lose foreign exchange on account of higher unit realisation for a finished product and also will have to pay cash assistance even though it has been withdrawn.

In fact, even as early as in March 1974, the Director General, Technical Development had informed the Commerce Ministry that as conventional Roadster bicycles were almost always shipped in a knocked down condition, there was a risk, consequent on the abolition of cash assistance for complete (Roadster) bicycles, that unscrupulous exporting units might show exports of complete bicycles as exports of components with a view to claiming the cash assistance prescribed for components.

The Committee are, however, surprised to find that in utter disregard of the reservations expressed by various official agencies, no positive steps were taken by the Commerce Ministry to prevent the possible abuse of the cash assistance available for bicycle components. It would appear, *prima facie*, from the statistics of exports of bicycles and bicycle components during the period when cash assistance on bicycles stood abol-

ed as well as from the two specific cases of exports of bicycles and components to countries 'P' and 'Q' cited in the Audit paragraph that these fears were not entirely unfounded. Though the Commerce Ministry have attempted to prove that the apprehension that complete bicycles might be exported as components was not borne out by the actual export performance, the reasons for the somewhat drastic decline in the exports of complete bicycles and increase in exports of components to countries 'P' and 'Q' have not been satisfactorily explained. Besides, the Engineering Export Promotion Council themselves had pointed out, in their representation pleading for the reintroduction of cash assistance for complete bicycles, that in the absence of cash assistance for complete bicycles, "the tendency would be to increase export of components and even declare the complete bicycles which are always exported in CKD (completely knocked down condition) as exports of components with a motivation to get cash subsidy of 20 per cent." The officials in the Ministry of Commerce had also conceded, in their notes on the suggestions of the Finance Ministry referred to earlier, the possibility of abuse of the cash assistance on components.

As stated earlier, one of the arguments advanced by the Commerce Ministry for not withdrawing or at least reducing cash assistance for components is that while informing the Ministry of the increase in unit value realisations from complete bicycles, the Director General, Technical Deve-

lopment had not indicated similar higher realisations from exports of components. No reference on this question was either made at that stage to the Directorate by the Commerce Ministry. However, even in the absence of any communication in this regard, it should have been evident that if realisations from exports of bicycles had increased, it was only logical, as a natural corollary, that realisations from exports of components should have also increased at least relatively if not on the same scale as complete bicycles. It is also significant in this context that even in November 1972, while recommending cash assistance at the then existing rates for both complete bicycles and components, the Indian Institute of Foreign Trade had nevertheless pointed out, *inter alia*, that "the hope of bridging the gap between the f.o.b. cost and f.o.b. realisation through improved unit value realisation may be partially justifiable" in the case of bicycle components on the basis of data in regard to unit value realisations during the period from 1965-66 to 1970-71.

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The Committee note that while the unit value realisation from exports of bicycles rose by 9 per cent in 1973-74 as compared to 1972-73, the corresponding rise for most of the components was 11 per cent or more, and that between April and July 1974, the unit value realisations from most components rose by 25 per cent or more whereas that of bicycles fell marginally by 3 per cent. That the unit value realisation from exports of components had, in fact, increased during the period in question is also evident from the data relating to exports of components to countries 'P' and 'Q'. Thus, while the export of bicycle components to country

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'P' had increased only about 22 per cent during April 1974 to September 1974 as compared to the exports during the corresponding period in 1973 (from 12.23 lakh kgs. to 14.97 lakh kgs.), the value of the exports had risen by nearly 119 per cent (Rs. 138.38 lakhs as against Rs. 63.09 lakhs). Similarly, while exports of components (other than saddles) to country 'Q' had increased by 67 per cent (from 2.74 lakhs kgs. to 4.59 lakh kgs.) during the relevant period as compared to the exports during the corresponding period in 1973, the value of the exports had gone up by nearly 171 per cent (from Rs. 17.48 lakhs to 47.44 lakhs). Significantly enough, the Engineering Export Promotion Council had also recommended cash assistance of 15 per cent for both components and complete bicycles.

The Committee find that while drawing the Commerce Ministry's attention, in February 1974, to the possible misuse of the cash assistance on bicycle components, the Director General, Technical Development had also suggested that, to prevent abuses, cash assistance might be restricted to only eight components which constituted bulk of the exports from the country. The Directorate had also pointed out that as these components did not add up to a complete bicycle, it would have been easy for the Customs authorities to identify consignments of these parts from those of complete bicycles exported in a knocked down condition. Though the

Commerce Ministry had felt, in view of the fact that there were more than seventy five components of bicycles, that "some more thought could be given to this problem" and that the components could perhaps be put into two groups, one for which cash assistance would be admissible and another for which such assistance would not be available, while announcing the registered exporters' policy and cash assistance effective from April 1974, the Committee are concerned to note that this question was not pursued to its logical conclusion for one reason or the other. As this decision, if implemented, would have imparted greater rationality to the cash assistance scheme and would have curbed at least partially the misuse of the scheme besides resulting in considerable savings to the exchequer, the Committee are inclined to take a serious view of this failure.

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In these circumstances, the Committee are firmly of the view that the possibility, however remote, of the cash assistance for components being abused by unscrupulous exporters in the absence of similar assistance for complete bicycles should have been promptly taken notice of and necessary corrective action taken to plug the loophole. The Committee, however, regret that even the elementary precaution of ascertaining the f.o.b. realisations from exports of components had not been taken by the Commerce Ministry and cash assistance had been persisted with without reference to any cost data on the tenuous ground that exports of components would suffer a setback.

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As in the case of complete bicycles (Roadster), subsequent examination (November 1974—April 1975) by the Cost Accounts Branch of the

cost data furnished by three manufacturers of components had disclosed that the cash assistance allowed, from time to time, on exports of components which were studied (Rims, Caliper brakes and Dynamo Lighting sets) was not justified or was hardly justified. It has, however been contended by the Commerce Ministry that as the data studied by the Cost Accounts Branch related only to three components, these were not "very representative" and it was difficult to apply the conclusions reached in these three cases to all the components numbering about seventy five. Since, according to the Director General, Technical Development, bulk of the exports was accounted for by only eight components, the Committee are unable to appreciate why data relating to at least these components could not have been examined and the policies in this regard formulated on more precise foundations instead of indiscriminately and even irrationally extending the scheme from time to time.

It appears that in spite of the fact that the Finance Ministry had expressed a number of reservations in regard to the proposals made by the Commerce Ministry from time to time and various officials in the Commerce Ministry also held different views on the subject, the Minister's approval had not been obtained at any stage to the decisions taken about the continuation and quantum of Cash Assistance at different points of time except while increasing the cash assistance rate on SLR Bicycles in October 1975. Since conflicting views had been expressed on the subject and the decisions also appear to have been taken on an *ad hoc* basis, the

Committee are of the opinion that all the facts of the case ought to have been placed before the Minister who could then have had an opportunity to give his considered views on the entire question. The feasibility of prescribing suitable monetary limits for the grant of cash assistance at the Secretary's level, without obtaining the Minister's specific approval, should be appropriately examined.

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Apart from the somewhat indiscriminate extension of cash assistance for bicycles and bicycle components, import replenishment also appears to have been allowed on a larger scale than necessary and the Committee are concerned to observe that there had been avoidable delay in revising the rates of import replenishment. As pointed out earlier in paragraph 1.162, though the Committee appointed under the Chairmanship of the Chief Controller of Imports and Exports had proposed, in February 1973, reduction of import replenishment for bicycles (Roadster) and bicycle components to 10 per cent and 20 per cent respectively from the then existing rates of 20 per cent and 30 per cent, which would have resulted in a saving of Rs. 80 lakhs in foreign exchange during 1973-74 alone, the proposed reductions had not been effected. Admittedly, prior to 1973 no study had been made in the Commerce Ministry to determine the premium on import replenishment licences. Subsequently, in May 1973, the Cost Accounts Branch, to whom the Report of the Indian Institute of Foreign Trade on 'Bicycles and Bicycle Parts' had been referred, had also drawn attention to the fact that the import replenishments on exports of bicycles were normally sold at a heavy premium. (Subsequent scrutiny of the cost data of leading bicycle manufacturers had also indicated that

while Sen Raleigh Ltd. had sold their import replenishment at a premium of 50 per cent during 1973-74, Atlas Cycle Industries Ltd. had sold their import replenishment in 1973 at premia ranging from 30 to 49 per cent). As early as in July 1973, the Director General, Technical Development had also pointed out that the actual import contents in complete bicycles (Roadster) worked out to less than 10 per cent of the f. o. b. realisation as against 20 per cent then allowed. The Commerce Secretary also conceded during evidence that about 17 per cent of the import replenishment licences were nominated to others.

Yet, it was only in April 1974 that the import replenishment for bicycles (Roadster) and bicycle components were reduced respectively to 10 per cent and 20 per cent. No change was, however, made in the rate of 30 per cent in respect of SLR bicycles. That these rates were also liberal and had no relevance to realities would be evident from the study by the Cost Accounts Branch (August 1974—March 1975) of the costs of T.I. Cycles India Ltd., Atlas Cycle Industries Ltd. and Sen Raleigh Ltd. which disclosed that the actual import content in the bicycles exported by the respective units was very small compared to the entitlement [the import content was only 0.5 to 2.27 per cent of f.o.b. realisation for various brands of complete bicycles (Roadster) against the entitlement of 20 per cent in 1973-74 and 10 per cent in 1974-75; and about 15 per cent of f.o.b. realisation in the case of SLR bicycles against the entitlement

of 30 per cent]. The cost studies in respect of manufacturers of certain components (November 1974—April 1975) also suggest that the actual requirements of imported materials were much less than the Import Replenishment entitlements allowed.

The Committee are unable to see any justification for allowing import replenishment on such liberal scales for exports of bicycles and bicycle components. It has, however, been contended by the Commerce Ministry that as the percentage of import replenishment is sometimes calculated for a group of products and it is not possible to prescribe separate rates for each item under such a system, some items enjoy unintended benefits while others may be getting less than their requirement. While this argument may perhaps be valid to some extent in the case of components, it is difficult to appreciate the Ministry's reluctance to determine the quantum of import replenishment actually required for bicycles (Roadster) and SLR bicycles on a need-based analysis. Since, according to the Finance Ministry, there may not be more than two units manufacturing SLR bicycles and exporting them, it should not be too difficult to determine the quantum of import replenishment necessary after a detailed scrutiny of all relevant data. The Committee would, therefore, urge Government to re-examine this question in all its aspects and ramifications and bring about the desired improvements in the Import Replenishment Scheme. They would also reiterate, in this connection, their recommendation contained in paragraph 1.15 of their 164th Report (Fifth Lok Sabha) that no import replenishment licence should be granted against the export of these commodities which do not have any import content and such licences

should not also be allowed to be transferred or utilised for imports of machinery, equipments, tools, fixtures and spares which are not required for the production or processing of the commodities being exported.

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I. 186

Ministry of Commerce

The final picture that emerges from the foregoing paragraphs is, thus, far from satisfactory. The Committee cannot help feeling that greater concern has been shown by the Commerce Ministry, without adequate justification, for the interests of the industry rather than for ensuring that the country's scarce resources are not expended indiscriminately and injudiciously. During the period from 1970-71 to 1974-75, while the total amount of cash assistance admissible for exports of bicycles and bicycle components worked out to about Rs. 15 crores, an import replenishment of about 14 crores had been allowed for this purpose, against the total exports valued at Rs. 60.58 crores. It is also significant in this context that only about 8 per cent of the production of Roadster bicycles is exported while the country is yet to make a perceptible impact in the market for SLR bicycles. If the other concessions and facilities for export promotion such as drawbacks of customs and excise, railway freight rebate, supply of raw materials at concessional rates, etc. are also quantified and taken into account, the total cost of these exports may well turn out to be disproportionate to the foreign exchange actually earned.

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As has been earlier pointed out by the Public Accounts Committee,

in paragraph 1.49 of their 174th Report (Fifth Lok Sabha), the basic defect in the system of granting cash assistance and other incentives seems to be the absence of an effective machinery with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. As a result of this handicap, Government have had to place an almost exclusive reliance on the data furnished by the industries themselves or the Export Promotion Council, which, admittedly, has been often found to be at variance with the actual position obtaining. It would also appear that though market survey reports indicating export prospects, prevalent price trends, etc. are received from Indian Embassies abroad and other agencies, apart from transmitting these to the Export Promotion Councils for exploiting the opportunities revealed through such reports, very little use is made of these reports by the Commerce Ministry for the determination of policies. It has also been admitted by the Ministry that there is no machinery to cull out price trends from these reports and use them for the purpose of fixation of cash assistance. Neither does the Ministry have at present any standing arrangements for the periodical collection, on regular basis, from the Export Promotion Councils data relating to f. o. b. costs and realisations in respect of items for which cash assistance has been granted. This is a situation which needs to be remedied immediately. Stressing, therefore, once again the importance of devising a suitable machinery for a concurrent review and monitoring of all the relevant factors influencing

various incentives for export promotion so as to ensure that the trade does not derive undue benefits from the fact that all the relevant information may not be available with the administrative Ministry concerned, the Committee would reiterate their recommendation contained in paragraph 1.11 of their 236th Report (Fifth Lok Sabha).

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Ministry of Commerce

Yet another reason advanced by the Ministry for not taking into account the f.o.b. realisations reported, from time to time, by the Director General, Commercial Intelligence and Statistics is that these figures are not available at the time of formulation of the policies and that the published statistics are usually received after six months. The Committee note that in pursuance of their recommendations in this regard, contained in paragraph 1.50 of their 174th Report (Fifth Lok Sabha), certain important changes in the method of compilation and publication of trade statistics coupled with the structural strengthening of the organisation have been made, as a result of which the time lag between the period for which the information relates and its compilation and preparation for publication has been reduced from about six months to about three months at present. The monthly Statistics of the Foreign Trade of India are also now stated to be received in manuscript form without waiting for a printed copy of the volume. While these improvements are undoubtedly to be welcomed the Committee are, however, concerned to learn that there is no machinery in the Commerce Ministry to watch and monitor export

realisations whether on the basis of the data available in the manuscript copy or otherwise, which make it all the more imperative to devise a suitable machinery for a concurrent review and evaluation of f.o.b. realisations as recommended in the preceding paragraph. There should also be a regular arrangement for the periodical collection of cost data and their examination by the Cost Accounts Branch from time to time, at least in respect of those commodities involving heavy outflow of cash assistance, instead of extending the assistance on an *ad hoc* basis on the ground that the collection and examination of the data takes a long time.

According to the Report of the Indian Institute of Foreign Trade, one of the reasons for the high f.o.b. cost, necessitating large quantum of cash assistance, is the high proportion of the fixed overheads to the f.o.b. cost resulting from the under-utilisation of the total capacity available in the country for the production of bicycles. (In respect of two bicycle-manufacturing units studied by the Institute, the fixed overheads constituted 6.7 and 13.0 per cent of the f.o.b. cost). Observing, in this context, that production of bicycles can be almost doubled if the total installed capacity is fully utilised, which in turn could reduce the unit cost at least by distributing fixed overheads over much greater numbers, the Institute's Report points out that "if production increases by 50 to 100 per cent of the existing capacity, the incidence of fixed overheads on each unit of production will be reduced by about 33.3 to 50 per cent." It is disconcerting to note that the actual production of bicycles was only 48.7 per cent to 63.3 per cent of the installed capacity during the period from 1970 to 1975, only about 8 per cent of the actual production had been

exported. It has also been conceded by the representative of the Directorate General, Technical Development that the high cost of production could be attributed to managerial inadequacies and lack of cost consciousness. Subsidising such exports at the cost of the public exchequer would, therefore, tantamount to paying a premium for the inefficiency of the bicycle manufacturers.

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Ministry of Commerce

Another reason for the inability of the Indian bicycle manufacturers to compete effectively in the international market appears to be the quality of the Indian bicycles. The Commerce Secretary has also been good enough to concede that while the Roadster bicycles have functionally proved their worth in the developing countries, in certain markets and certain models, Indian bicycles do not measure up to the exacting standards set up by the importing countries, as a result of which the country has not been able to compete with the products of United Kingdom or Japan. In regard to designs and looks also it has been admitted that the Japanese bicycles are "far superior". Since large scale manufacturers of bicycles in the organised sector generally buy out components manufactured in the small scale sector and in the absence of an adequate machinery for ensuring that the quality of such components fulfils the prescribed standards and specifications, the quality of the Indian bicycles would appear to have been adversely affected. All these underscore the importance of improving upon the existing arrangements for enforcing quality control and of a coordinated programme for Research and Development so as to be able to cater to the requirements of

the sophisticated markets. This is particularly necessary in view of the fact that other developing countries like Iran, Iraq, Sri Lanka, Indonesia, Nigeria, etc. are also establishing assembling plants for Roadster bicycles and a survey of foreign markets has also disclosed that the demand for complete Roadster bicycles will not increase the world over.

The Committee have been informed in this connection that while the emphasis in earlier years had been on import substitution, it has now been shifted to the up-dating of technology as well as to aspects of cost reduction where the current effort in relation to the total turnover of the industry is still far from adequate and that a Panel for the bicycle industry, in which all the manufacturers and some of the important consumers would be members, has been constituted in April 1976 to go into various aspects relating to the growth and restructuring of the industry, like better utilisation of existing capacity, modernisation, technology development, diversification, cost evaluation and reduction, export generation and other related matters. The Panel will also examine, in the context of a larger mounting of research and development effort in areas like material conservation, reduction of process wastes, use of alternate light weight, high strength materials, etc., and whether a separate research centre for the bicycles and bicycle components industry is necessary and feasible. Standardisation specifications of components and raw materials is also one of the terms of reference of the Panel. Considerable time having elapsed since the Panel was constituted, the Committee would like to be apprised in some detail of the progress made so far by the Panel and the specific steps taken to achieve the objectives envisaged.

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| 35 | 1' 192 | Ministry of Commerce | As regards improving the quality of bicycles and components, the Committee learn that the whole question of quality control on engineering exports including exports of bicycles and components is currently being gone into by a committee under the Chairmanship of the Secretary (Technical Development). They would like to know whether this exercise has been completed and, if so, the measures taken as a sequel thereto. The Committee need hardly emphasise the importance of ensuring that the quality of Indian bicycles and bicycle components come up to the exacting standards set by the sophisticated market.   |
| 36 | 1' 193 | Ministry of Commerce | Yet another reason for the high f.o.b. cost of Indian bicycles is stated to be the high prices charged by the secondary sector for cold-rolled steel strips, the basic raw material required by the industry. The Committee have been informed in this connection that while hot-rolled steel strips are available at the JPC (Joint Plant Committee) controlled prices, the prices of cold-rolled steel strips are totally uncontrolled. Since an assured supply at reasonable prices of the basic raw material required by the bicycle industry has a direct bearing on the f.o.b. cost, the Committee desire that the question of high prices charged by the secondary sector should be gone into urgently by the Steel Ministry and necessary corrective action taken to discipline the private producers of cold-rolled steel strips. |
| 37 | 1' 194 | Ministry of Commerce | The Committee are also of the opinion that instead of resorting to the grant of <i>ad hoc</i> and piece-meal incentives for export promotion, it may be  |

worthwhile to impose suitable export obligations on the industry and Government assistance extended only when it is absolutely inescapable. They have been informed by the Commerce Secretary that the idea of imposing export obligations and asking exporters to take on themselves an export commitment is already under Government's consideration and that the Ministry of Industry is also contemplating amendment of the Industries (Development and Regulation) Act to provide for an export obligation in suitable cases, particularly in the cases of foreign-owned and multinational companies. Since these measures appear to be only in an embryonic stage still, the Committee would urge Government to examine these expeditiously and if found desirable bring forth necessary legislation for the purpose. The feasibility of utilising the idle capacity in the bicycle industry for export oriented activities should also be examined on a top-priority basis, in the light of the findings of the Development Panel for the bicycle industry which is stated to be engaged in a study of this subject.

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The Committee also note that though there is a large market for the Sports Light Roadster model bicycles, demand for which has been estimated at 4 to 5 million a year, exports from the country have been only around 10,000 bicycles a year. Bulk of these exports are by T. I. Cycles India Ltd., a company governed by Section 29 of the Foreign Exchange Regulation Act, 1973, with 52.6 per cent of the equity capital being held by non-resident shoreholders. It has been stated that attempts made so far to make a purely Indian-owned company to enter the export market for SLR bicycles have not been successful on account of the absence of the requisite facilities and technology within the country for the manufacture of three-speed hubs for these bicycles. The Committee understand that the cost of manufacture of

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the three-speed hubs in India would be prohibitive and even T.I. Cycles India Ltd. have been importing this vital component. Efforts made by several Indian companies for collaborative joint ventures for the production of three-speed hubs for export with two of the four foreign firms—Shimano of Japan and Sturmia—Archer of U.K.—who are stated to have monopolised their production, have also been unsuccessful. Since the development of an economic and viable unit for the production of three-speed hubs alone would require considerable capital investments, apart from the investment necessary in the steel and ancillary sectors for building up the production facilities for various other critical materials and components, it appears that the country may not be in a position in the immediate future to make any perceptible impact on the market for SLR bicycles.

The Committee have been informed in this context that discussions have been initiated with the purely Indian units manufacturing bicycles for the up-dating of their facilities to the level of T. I. Cycles India Ltd. and that the Panel for the bicycle industry, referred to earlier, would also go into this question. In view of the fact that the demand for Roadster bicycles is not likely to increase further, the Committee would urge Government to examine this question on an emergent basis and take all steps to provide the necessary infrastructural facilities for the production of a larger number of SLR bicycles and bicycles of more modern design required by the importing countries on long term and assured basis. It should also not be beyond the ingenuity of our technologists to find ways and means of achieving a

breakthrough in the manufacture of three-speed hubs at reasonable cost. The Committee would like to be apprised, in some detail, of the findings and recommendations of the Development Panel in this regard and the specific steps taken in pursuance thereof.

40 I. 197 Ministry of Commerce

Incidentally, the Committee learn that T.I. Cycles India Ltd. has been advised by the Reserve Bank of India to reduce its non-resident equity to 40 per cent by the 1st week of May 1977, in response to the company's application for continuing its activities in India under Section 29 of the Foreign Exchange Regulation Act, 1973. They would like to know whether the company has complied with this requirement and, if not, the steps, if any, taken to enforce the provisions of the Act.

41 I. 198 Ministry of Commerce

From the analysis of facts given in the foregoing paragraphs, the Committee can safely infer that cash assistance provided for export of bicycles and bicycle components has not been on a rationally justifiable basis. The Committee are unable to understand how the Cash Assistance Review Committee could, on the basis of data thrown up (which was available also to officers of the Ministries of Finance as well as Commerce) differ with the suggestions made at different levels for a lower rate of cash assistance and ultimately fixed it at 15 per cent, in the case of complete bicycles and 20 per cent in the case of bicycle components with effect from 1-9-1974. They would like Government to direct the Cash Assistance Review Committee to have a more rational approach in deciding the commodities eligible for export promotion and the rate of cash assistance justified in individual cases so as to ensure that the country's scarce resources are committed in the national interest of export promotion and not frittered away.

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