

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

(SIXTH LOK SABHA)

THIRTY-SIXTH REPORT

**IRREGULAR RELEASE OF WOOLLEN GARMENTS  
UNDER A MISDECLARATION AS RAGS**

DEPARTMENT OF REVENUE AND BANKING

[Action taken by Government on the recommendations  
of the Public Accounts Committee contained in their  
158th Report (Fifth Lok Sabha)]



*Presented in Lok Sabha on*  
*Laid in Rajya Sabha on*

22 Dec 77  
22 Dec 1978

**LOK SABHA SECRETARIAT  
NEW DELHI**

November 1977/Kartika 1899 (S)

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COMMITTEE (1977-78) PRESENTED TO LOK SABHA ON  
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## PUBLIC ACCOUNTS COMMITTEE

(1977-78)

### CHAIRMAN

Shri C. M. Stephen

### MEMBERS

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2. Shri Balak Ram
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4. Shri Tulsidas Dasappa
5. Shri Asoke Krishna Dutt
6. Shri Kanwar Lal Gupta
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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 Adivarekar
17. Shri Sardar Amjad Ali
18. Shri M. Kadershah
19. Shri Piare Lall Kureel *urf* Piare Lall Talib
20. Shri S. A. Khaja Mohideen
21. Shri Bezawada Papireddi
22. Shri Zawar Hussain

### SECRETARIAT

1. Shri B. K. Mukherjee—*Joint Secretary.*
2. Shri Bipin Behari—*Senior Financial Committee Officer.*

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

## INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Thirty-sixth Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their 158th Report (Fifth Lok Sabha) on 'Irregular release of woollen garments under a misdeclaration as rags'.

2. On 10 August, 1977, an 'Action Taken Sub-Committee' (1977-78) consisting of the following Members, was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri C. M. Stephen—*Chairman*
  2. Shri Asoke Krishna Dutt—*Convener*
  3. Shri Gauri Shankar Rai
  4. Shri Tulsidas Dasappa
  5. Shri Kanwar Lal Gupta
  6. Shri Zawar Hussain
  7. Shri Vasant Sathe
- } —*Members*

3. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted this Report at their sitting held on 13th October, 1977. The Report was finally adopted by the Public Accounts Committee (1977-78) on 16 November, 1977.

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

(vi)

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

NEW DELHI;

C. M. STEPHEN,

*Chairman,*

*Public Accounts Committee..*

*November 18, 1977.*

*Kartika 27, 1899 (S).*



## CHAPTER I

### REPORT

1.1. This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their 158th Report (Fifth Lok Sabha) on paragraph 16 of the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government (Civil), Revenue Receipts, Volume I—Irregular release of woollen garments under a misdeclaration as rags.

1.2. The 158th Report contained 14 recommendations/observations and the Ministries of Finance and Commerce etc. were requested on 13 May, 1975 to furnish the Action Taken Notes on these recommendations by the 16 August, 1975, so as to facilitate the Committee's work. However, by that date, no Action Taken Note was received. As a result of the subsequent reminders to the said Ministries, advance Action Taken Notes on the recommendations/observations contained in paragraphs 20.1 to 20.4, 20.7, 20.9, 20.11 to 20.14, duly approved by the Finance Minister, had been received from the Department of Revenue and Insurance on 16 December, 1975 and advance Action Taken Notes on the recommendations contained in paragraphs 20.4, 20.5, 20.6, 20.7, 20.8 and 20.10 had been received from the Ministry of Commerce on the 23 December, 1975.

1.3. As the vetted Action Taken Notes were still awaited, Secretaries, Ministries of Finance and Commerce were requested on 19th October, 1976, to furnish the vetted Action Taken Notes immediately and in any case not later than 31st October, 1976. Vetted Action Taken Notes for the recommendations contained in paragraphs 20.4, 20.5, 20.6, 20.7, 20.8 and 20.10 were received from the Ministry of Commerce on 1st December, 1976. On 1st November, 1976, the Finance Secretary *vide* his d.o. letter No. F. No. 411/14/75-Cus.III, dated 1st November, 1976, intimated the Lok Sabha Secretariat as follows:

“The Action Taken Notes on the Committee's recommendations/observations contained in their 158th Report (Fifth Lok Sabha) were sent to the Lok Sabha Secretariat on the 16 December, 1975. Simultaneously an endorsement was made and copies of the Action Taken Notes were sent to

the Comptroller and Auditor General with the request for vetting of these notes. You will kindly appreciate that so far as vetting of the Notes by the Audit is concerned, this Department is neither expected to have, nor does it exercise any control."

1.4. However, office of the C&AC *vide* their d.o. letter No. 819-205-Rec.A/75 (IDT), dated 20 October, 1976, intimated the Lok Sabha Secretariat as follows:

"As for the paras, namely, 20.1 to 20.4, 20.7, 20.9 and 20.11 to 20.14, files of the Ministry of Finance were called for in our U.O. No. 176/Rec.A/205-75 (IDT), dated 25 March 1976. The files are still awaited."

1.5. At the instance of the Chairman of the Committee, a demi-official letter No. 2/7/1/6 8scl' CMFWY HRDL HRDLU HRDLUM dix I) was addressed to the Finance Secretary to which the Finance Secretary *vide* his d.o. letter No. F. No. I-186/FS/71, dated 17 December, 1976 (Appendix II) replied, *inter alia*, as follows:

"As regards paragraph 8 of the Standing Guard File of the Department of Expenditure, the position has since been reviewed by the Government generally. The Government is advised that files containing the views of the Government officers at different levels, Cabinet notes and decisions etc. in the course of formulation of governmental policies may not be submitted to the Audit Authorities.

It will be appreciated that in this matter facts and information have been checked and re-checked several times through correspondence or during the discussions in the Public Accounts Committee. The facts and information supplied have been verified at the level of an Additional Secretary. In these circumstances, it is felt that the C&AG may not need the files on this subject for the purpose of vetting the Action Taken Notes. It is also relevant to mention that even otherwise a good number of these files are confidential and deal with formulation of policy and it may not be possible to part with them."

1.6. The vetted Action Taken Notes on the recommendations contained in paragraphs 20.1 to 20.4, 20.7, 20.9 and 20.11 to 20.14 are still awaited from the Ministry of Finance.

1.7. The Committee are unhappy to note that the Audit was unable to vet facts and figures furnished by Government to the Committee in reply to some of the recommendations of the Committee contained in their original report on account of the non-availability of the relevant files to Audit. Consequently the Committee have to formulate this report on the basis of the facts and figures largely unverified by C&AG. The reasons for not making available the relevant files to Audit have been indicated in a communication dated 17th December, 1976 addressed to the Committee (reproduced in Appendix II) which prima facie appears to be a departure from the convention well established in this behalf. The Committee would like to examine this matter in greater detail and they reserve the right to present a separate report to Parliament on the subject, if found necessary.

1.8. The Action Taken Notes on the recommendations of the Committee have been categorised as follows:

(i) *Recommendations/observations that have been accepted by Government:*

Sl. Nos. 2, 3, 4, 5, 7, 8 and 10.

(ii) *Recommendations/observations which the Committee do not desire to pursue in the light of the replies of Government:*

NIL

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

Sl. Nos. 1, 6, 9, 12, 13 and 14.

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

Sl. No. 11.

1.9. The Committee hope that final reply in regard to the recommendation to which only an interim reply has so far been furnished will be submitted to them expeditiously after getting it vetted by audit.

1.10. The Committee will now deal with the Action Taken Notes on their recommendations.

*Discrepancies in figures relating to import of woollen rags—  
Paragraph 20.1 (Sl. No. 1)*

1.11. The Committee in Chapter XX of their Report dealing with Conclusions and Recommendations had made the following prefatory remarks:

“The Committee are extremely concerned that various acts of commissions and omissions, not all of which appear to be *bona fide*, resulted in an unprecedented importation of serviceable woollen garments in the guise of rags in contravention of Customs, Import Control and Foreign Exchange Regulations in recent years.”

1.12. While commenting upon the fact that contradictory figures of import of rags were furnished by Government to them at various stages of the enquiry, the Committee had regretted that no reliable figures of imports of so-called rags were given to them. The Committee had pointed out that the extent of variation between the figures initially given to them and those indicated in a secret note recorded by the Chairman, Central Board of Excise and Customs on 18 November 1972, would be known from the fact that the value of imports during 1971-72, according to these two sets of figures were Rs. 190 lakhs and Rs. 491 lakhs respectively. Commenting upon the magnitude of the offence and the extent of manipulations, the Committee had drawn a reference to the letter written by the then Minister of Foreign Trade to the Minister of Finance on 20 July 1972 (Appendix III) which stated that about Rs. 2 crores worth of underclared made up garments imported in lieu of rags were pending clearance at various ports especially at Bombay, according to which the amount of customs duty and penalty leviable would have been of the order of Rs. 4.40 crores.

1.13. In their Action Taken Note,\* the Department of Revenue & Insurance have stated “when the PAC asked for figures of imports of woollen rags right from August 1961 to March 1972 in the questionnaire sent in advance of the taking of oral evidence, the Ministry supplied the yearly figures from the only available Government publication, i.e., the March issues of Monthly Statistics of Foreign Trade published by the Director General of Commercial Intelligence & Statistics and indicated the source in the reply to the PAC. In the brief prepared by the Ministry's Secretariat for use of official witnesses, the figures of imports of rags as specially compiled by the Collector of Customs, Bombay for the recent past from 1 January 1970, had been included alongwith the other material given by the Collector and these figures were given on the spot by the official witnesses to the PAC during oral evidence. There was no attempt to hold back anything from the PAC. Since these figures

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\*Not Vetted by Audit.

were higher than the figures given in the DGCI&S's publication, an enquiry was made by the Ministry and it was found that in many instances the entries reported by the Customs House against Code No. 2670209 (which stands for rags) had been transferred by some scrutiny staff of DGCI&S to commodity code 2629000 (which stands for wool waste) and thus the DGCI&S's figures of woollen rags were considerably less than the actual figures."

1.14. About the figures mentioned in the secret note recorded by the Chairman, Central Board of Excise and Customs on 18 November 1972, the Department have stated that these were supplied to them by the Ministry of Foreign Trade in their letter, dated 16 November 1972 and were recorded as much in this note.

1.15. As regards the amount of custom duty and penalty leviable it has been stated that clearances were getting delayed because of imports on a larger scale and also because of closer scrutiny. Some percentage of serviceable garments were present in some of bales. According to the Department this, however, cannot be a basis for calculating the loss of duty and penalty because there was a long standing policy decision right from 1960, taken in the interest of saving foreign exchange, permitting import of serviceable garments in consignments of rags and mutilation thereof without charging any duty or penalty, which still continues. The Department have further stated that there has been no loss of revenue except in those cases where wearable garments may have been cleared as a result of mistake, negligence or collusion on the part of the examining staff and as far as these cases are concerned action is being taken against the importers as well as the concerned officers on the basis of full-scale CBI investigations.

1.16. The Committee are not satisfied with the explanation given by the Government for discrepancies in statistics relating to import of rags furnished by Government to the Committee at various stages of the enquiry.

1.17. The plea that Government have been using at different points of time different statistics compiled by different agencies speaks eloquently of the perfunctory manner in which information was furnished to the Committee. The Ministry have furnished a third set of revised figures at the time of evidence. This has, however, not satisfied the Committee as to the actual quantum and value of the rags imported. The fact remains that Government publication which is quoted and referred to as the authentic source of

**information abounded in half-truths. The Committee need hardly emphasise that Government should have exercised utmost care in furnishing the basic data to the Committee and pre-verified its authenticity so as to enable the Committee to consider the matter in the correct perspective.**

*Illegal concessions given by Customs to import unstripped woollens (Paragraphs 20.2—20.3—Sl. Nos. 2 and 3).*

1.18. Between 1957 and 1966 import of rags was allowed to shoddy spinning units under the category of actual users as well as to exporters of woollen goods under Export Promotion Scheme, which was withdrawn following devaluation in 1966. In August 1961, the exemption so far given to woollen rags was extended through executive instructions to unstripped woollen imported, subject to the condition that the goods before clearance from the docks were cut to small pieces so as to render them unfit for any use other than as rags. The instructions also contemplated the Central Board of Excise and Customs specifically allowing serviceable garments to be mutilated at a place near the destination, a power which in 1962 was delegated to be exercised by the local customs authority. Questioning the legality of these executive decisions, which were initially given in favour of certain firms—three of which were connected with each other and the principal among them was also acting as supplier's agent in India—the Committee felt that these firms might have been in league with certain officials incharge of Licensing, Importing and Clearing of the so-called rags.

1.19. In the Action Taken Note\* furnished by the Department of Revenue & Insurance, the following reasons have been advanced for permitting mutilation after import:

- (1) Mutilation abroad cost 60 per cent to 100 per cent more in terms of foreign exchange to the country;
- (2) Cheaper cost of importation results in encouraging the handloom sector producing blankets; and
- (3) Making blankets etc. available to the poor and middle classes at cheaper prices.

1.20. As regards mutilation at destination, the reasons were that these bales were hydraulically packed and when opened they occupied large space.

1.21. As regards the legality of the said executive instructions which were followed by a public notice No. 108, dated 29 November

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\*Not vetted by Audit.

1961, issued by Bombay Customs extending the facility to all the importers, it has been stated that during the period when these instructions were issued it was felt that the Government had the authority to issue such instructions since the procedure prescribed for mutilation of serviceable garments was on the analogy of a procedure already in vogue for mutilation under Customs supervision of articles like used cartridges cases and used old files before clearance as scrap. However, after the Customs Act 52 of 1962, came into force, the Central Government was empowered to grant exemption from duty subject to conditions to be fulfilled after clearance of the goods.

1.22. The Action Taken Notes further state that from the point of view of the grant of this concession, no enquiry into the antecedents or ownership of the firms making the request was made.

*Laxity in conducting checks on the importation of rags (Paragraph 20.4—Sl. No. 4).*

1.23. The Committee had felt that the relaxation dealt with in the preceding paragraphs coupled with laxity in conducting the check at the dock and at the factory by the Customs Department was responsible for unlawful gains by the vested interests. The Committee also pointed out that other Government organisations such as Foreign Trade Ministry and the State Trading Corporation also did not exercise greater vigilance, which they should have.

1.24. In their Action Taken Note\*, the Department of Revenue & Insurance have stated that as regards laxity in conducting the check at the docks or at factories CBI have made full investigations and action is being taken against all who are responsible.

1.25. In another action taken note furnished by the Ministry of Commerce, it has been stated that State Trading Corporation while bringing to the notice of the Bombay Customs House on 27 May 1971, their suspicion that ready-made garments were being imported under the garb of rags had also suggested the formation of a Committee, consisting of the representative of the Textile Commissioner, State Trading Corporation and Customs, to carry out sample inspection of shoddy consignments, which was not agreed to by the Customs House.

1.26. The State Trading Corporation had also written to the shoddy suppliers and their agents in India, warning them that if any irregularity was reported against their supplies, their names would be removed from the list of suppliers.

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\*Not vetted by Audit.

1.27. The note further states that the State Trading Corporation and the Textile Commissioner's office were alive to the situation and were taking steps to stop unauthorised imports of ready-made garments in the guise of rags. The Textile Commissioner had on 8/9 November 1971, called for from the State Trading Corporation particulars of all shoddy imports, when the same had been allowed to persons who were not authorised shoddy spinners with a view to enable the Textile Commissioners to verify the utilisation of the goods imported. These were furnished on 23 February, 1972.

1.28. On 16 October 1971, the State Trading Corporation had reiterated their suggestion that hosiery exporters should be allowed to import raw wool and not shoddy woollen rags.

1.29. As regards the Ministry of Foreign Trade, it has been stated that when it came to the notice of the Ministry that large-scale unauthorised imports of rags were taking place, the Ministry of Foreign Trade took a decision to delete woollen rags from the shopping list in the Red Book open to the exporters of hosiery and other products except those which actually utilised woollen rags in their manufacture.

1.30. The Committee would like to be apprised of the precise action taken by Government in pursuance of the report of the Central Bureau of Investigation.

*Liberalisation of Import Policy—Paragraph 20.5 (Serial No. 5)*

1.31. From November 1967, the imports of rags were canalised through the State Trading Corporation and during the period 1966—68 only actual users were allowed to import woollen rags as one of the items. The Committee had regretted the liberalisation and lack of proper control by State Trading Corporation especially over the imports by the Registered Exporters in view of the fact that though from 1 April 1968, the Registered Exporters were allowed to import only 'Raw Wool', but from 1 May 1968, this was changed to allow the choice to import any one of the items—raw wool, waste wool, shoddy woollen rags, which encouraged them to bring in serviceable garments in collusion with the suppliers and customs officials. The Committee had also felt that even allowing imports of rags only against exports of blankets or by actual users from May 1972, did not affect imports against the licences already issued.

1.32. According to the action taken note furnished by the Ministry of Commerce, the aforesaid liberalisation in May 1968 was allowed



on the advice of the Textile Commissioner in the larger interest of export promotion with the stipulation that:

- (i) No worsted spinner if he had no shoddy spindles should be allowed to import shoddy rags unless he nominates a shoddy spinner for the purpose; and
- (ii) No shoddy spinner should be allowed wool tops if he has no worsted spindles unless he nominates a worsted spinner for the purpose.

1.33. The note further states that when it was found that serviceable garments were being imported in large quantities, under the guise of rags, from May 1972, even under REP woollen rags were permitted to be imported only by the exporters of shoddy blankets who require this raw material.

1.34. The Committee cannot help reiterating that the liberalisation of import policy in May 1968 allowing the registered importers to import woollen rags as one of the items against REP entitlements without instituting proper inspection and control was an unwise step inasmuch as it encouraged the importers to bring in serviceable garments in collusion with the suppliers and customs officials. The view of the Textile Commissioner that this liberalisation was "in the larger interest of Export Promotion" was distinctly short-sighted and the policy was bound to be abused, as it was resulting in sizeable loss to the Exchequer. This fact has been admitted by the Ministry when they say that "serviceable garments were being imported in large quantities, under the guise of rags from May 1972 even under REP."

*Loopholes in operations of the State Trading Corporation—Paragraph 20.6 (Serial No. 6).*

1.35. The Committee took note of the following loopholes in the working of the State Trading Corporation in this case, as pointed out by the Finance Secretary:

- (i) The global tenders were issued only in the case of actual users and for 50 per cent of the registered export licences.
- (ii) Though special condition was laid down that the garments should be mutilated before they were exported out of a country, no pre-inspection was done.
- (iii) Goods were delivered to the actual users and importers-cum-exporters on the high seas and as such there was no inspection on their landing also.

- (iv) There was no condition for mutilation abroad in the case of 50 per cent of the Registered exporters, who as per the letters of authority were free to book their own goods.
- (v) It was only in May 1973 that the State Trading Corporation made it obligatory that the certificate from approved inspection agencies should be attached before the export.

1.36. With regard to pre-inspection the Ministry of Commerce have stated in their note that as the contract by the State Trading Corporation was for mutilated and unserviceable old woollen rags, it could not be expected that un-mutilated garments would be sent out. The suppliers had also undertaken to supply duly cut and mutilated garments. Moreover, Customs had also been adopting the practice of mutilation of the garments detected after arrival and their release on a penalty.

1.37. About the sale on the high seas, it has been stated that this did not make any difference in the responsibility of the seller under the contract, as it was resorted to for avoiding payment of sales tax, thereby making the imported raw material cheaper to the importer.

1.38. The steps taken by the State Trading Corporation as the canalising agency so that only the right type of raw material was imported had been indicated in the reply given in respect of Sl. No. 4 (*vide* paras 1.26 to 1.29 of the report).

1.39. The Committee feel that the State Trading Corporation should have exercised forethought and caution in handling import of woollen rags. The procedure of pre-shipment inspection should have been resorted to prior to the despatch of the goods. In any case, it should have been introduced as soon as the abuse of the import policy was brought to light.

*Fulfilment in the conditions of the licences and delay in amending the import policy—Paragraphs 20.7, 20.8 and 20.10 (Serial Nos. 7 and 10).*

1.40. The imports of rags were subject to actual user condition. The Committee had noted that the capacity of the shoddy sector in terms of raw material on the basis of 2 shifts was 8.85 and 9.15 million kgs. during 1971-72 and 1972-73 and as against this the quantity of woollen rags, shoddy wool and wool-waste imported was 15.01 and 17.5 million kgs. The Committee felt that even if all the mills worked for three shifts the capacity would be 11.7 million kgs. On the basis of the proven capacity of the shoddy sector, the Committee had felt

that the imports have been far in excess of requirement of the industry which meant that there have been no check or review of the replenishment scheme.

1.41. The Committee had noted that although on complaints about misuse of rags the State Trading Corporation of India took up the question of changing the import policy and amendment of the Red Book so as not to allow hosiery and textile exporters replenishment in the form of import of woollen rags in August, 1971, the import policy was amended only in May 1972.

1.42. The Committee had also noted that on 8/9 November, 1971, the Textile Commissioner had asked for from the State Trading Corporation particulars of all shoddy imports where the same had been allowed to persons who were not authorised shoddy spinners with a view to enable the Textile Commissioner to verify the utilisation of the goods imported. This was furnished on 23 February, 1972.

1.43. The Committee had taken a serious view of the delay in taking action on the part of both the State Trading Corporation and the Textile Commissioner as also the reluctance of the Ministry of Commerce to plug the obvious loopholes in the import policy.

1.44. In their action taken notes the Ministry of Commerce have admitted that adequate attention was not given to the verification of actual use of the imported raw material being brought in under replenishment licences.

1.45. About the delay in changing the import policy the Ministry of Commerce have stated: "Even before S.T.C. had taken up the matter with the Ministry on 2 August, 1971, a decision had been taken that the importers of raw wool should only nominate a worsted spinner and that the importers of shoddy material should similarly nominate a shoddy spinner. STC pointed out that it would be a better arrangement to restrict REP import of raw material strictly required by the particular manufacturer. When this was referred to the Textile Commissioner, he had, however, felt that the facility of importing raw wool, wool waste or shoddy material should continue and that the nomination of the authorised spinner alone need be ensured.

1.46. With the import of serviceable garments in the guise of rags, shoddy consignments were held up by the Customs authorities. This had created a shortage of raw material for the shoddy sector. Representatives of this sector had met Secretary, Foreign Trade, in May 1972 and it was then decided that the import of shoddy material, against replenishment should be allowed only for these exporters who require this material for the manufacture of the products exported by them. Thus the import of shoddy material was restricted to the exporters of shoddy blankets."

1.47. The Committee are not satisfied with the explanation furnished by the Government. They regard it as unfortunate that although the import of woollen rags was subject to actual use condition there was no system of check of fulfilment of this condition and that even when the misuse of the import was noticed, it took the STC and the Textile Commissioner considerably long time to have the bona fides of the importers verified. Further, no explanation has been offered to the observations of the Committee that while the maximum annual capacity of the shoddy sector in terms of consumption of raw materials was less than 10 million kgs. during 1971-72 and 1972-73 the annual import of woollen rags, shoddy wool and wool waste was more than 15 million kgs. giving enough scope for the excess quantity being sold in the market to unauthorised persons and agencies etc.

*Clearance of Rags by the Customs Department—(Paragraph 20.9—Serial No. 9).*

1.48. On July 7 1972, Secretary, Foreign Trade wrote to Member (Customs) (Appendix IV) enclosing a copy of the representation (Appendix V) addressed to him by the Wool and Woollen export Promotion Council, stating that 14,000 bales valued roughly at about 1.5 crores were on the docks awaiting clearance causing heavy demurrage and the imposition of duty at the rate of 220 per cent on import of garments though justified, "was punishing". It was, therefore, suggested that wearable apparel which might have arrived for which incidentally the importer could not be held entirely responsible may be ripped and rendered unserviceable for utilisation as garments thereafter the consignments could be cleared.

1.49. On 15 July 1972, the Member (Customs) sent a reply (Appendix VI) to Foreign Trade Secretary in which it was stated that the Collector of Customs, Bombay, who was contacted by the Member, explained that majority of importers had not submitted their bills of entry for clearance of consignments. It was also stated in the letter that Member CBEC had issued instructions to the Collector that ordinarily he might allow clearance of the goods on condition that the "clothes are rendered unserviceable in the factories under Customs supervision for which expenses will have to be borne by the importer."

1.50. According to the Departmental order of 4 July, 1972 of Bombay Customs House (Appendix VII) prescribing procedure for examination and clearance of woollen rags, mutilation of serviceable garments was restricted to be done under the customs supervision only in Bombay.

1.51. On 20 July 1972, former Minister of Foreign Trade wrote to the Finance Minister (Appendix III) stating that there were reports that in lieu of shoddy rags made-up woollen garments were being imported for curbing which imposition of duty-cum-penalty at the rate of 220 per cent was justified. Minister of Foreign Trade also asked the Finance Minister to instruct the Central Board of Revenue to suitably direct their port officers to ensure against any laxity on the part of customs field staff in clearing serviceable garments without payment of duty. It was stated that about Rs. 2 crores worth of undeclared made-up garment imported in lieu of rags were pending clearance at various ports especially at Bombay.

1.52. In their "Conclusion and Recommendations", the Committee had pointed out contradiction in the letter dated 7 July 1972 from the Secretary, Foreign Trade addressed to the Member (Customs) and that written by the Minister of Foreign Trade on 20 July 1972 to the Minister of Finance. The Committee had also expressed surprise over the instruction issued by the Member, Customs to the Collector of Customs, Bombay on receipt of the letter from Secretary, Foreign Trade, to clear the goods on the condition that the clothes were rendered unserviceable in the factories under the Customs supervision.

1.53. The Ministry of Finance in their action taken replies\* have stated with reference to the instructions issued by the Member (Customs) that these instructions were merely a continuation of the existing policy right from 1972. Further, the Commerce Secretary was not aware of the details of the existing customs procedure in this regard as otherwise he would have drawn attention to its non-implementation in his letter instead of making a suggestion of his own.

1.54. Referring to the factual position stated in paragraph 12.14 (c) of the 158th Report (dealing with Import of Rags) viz. "Certain revised instructions were issued on the 24 July 1972 as stated in paragraph 2 of the Collectors' letter (A copy of these instructions has not been sent)", the Ministry have stated in the action taken note\* that "a copy of the instructions issued by the Collector on 24 July 1972 was supplied to the Committee alongwith Collector's letter dated 5 August 1972 and are titled 'Guidelines for classifying woollen Garments as unserviceable and hence rags'. These guidelines do not constitute any relaxation nor were these the instructions of the Board. These were the Collector's own instructions as indicated in para 2 of his aforesaid letter. Similarly, the reduction in the percentage of examination of bales, referred to in the last sentence of para 2 of the Collector's letter of 5 August 1972 was made by the Collector (and not by the Board) because of practical difficulties as stated in that sentence."

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\*Not vetted by Audit.

1.55. Letter dated 5 August 1972 from the Collector of Customs, Bombay to the Deputy Secretary, Ministry of Finance, referred to above is at Appendix VIII. It would be seen therefrom that a copy claimed by the Ministry to have been sent therewith (enclosure to Appendix VIII) was undated, unnumbered, unsigned and without bearing the name of the issuing authority. While referring to the instructions issued *vide* letter of the 4 July 1972 indicating above, the Committee stated in paragraph 6.5 of the Report that "the Bombay Customs House tightened the procedure relating to test-check of the consignment in view of the admitted fact that several firms were indulging in the import of serviceable garments, nylon sarees, suit-*ings*, sweaters under the guise of woollen rags. Surprisingly, however, this was relaxed subsequently on 30 December 1972 (Appendix IX). The Committee tried to find out the reasons for this relaxation given by the Bombay Customs House. But they were not furnished with the complete and true background of this except that some instructions appeared to have been given to the Bombay Customs by the Member Customs during a visit to Bombay Customs House in November 1972, when he was met by the representatives of the Wool and Woollen Export Promotion Council led by one Shri Adya. It also came to light that the Member's visit to Bombay and instructions which changed the departmental order dated 4 July 1972 was a sequel to a letter received by him on 7 July 1972 from the then Secretary, Foreign Trade. The reversal of the policy of tight control to liberalised check and the reasons thereof were indicated in a copy of a letter No. NSE/129/72/IE dated 6 October 1972 (Appendix X from Collector of Customs House, Bombay to the Secretary, Central Board of Excise and Customs, New Delhi. The following extract from this letter is relevant:

"Member, Customs had expressed that we should not deviate very much from the policy which we have been following in the recent past."

1.56. About paragraph 6.5 of the Report, it has been stated by the Ministry of Finance in the action taken note\* "Also, the Bombay Customs departmental order dated 30 December 1972, referred to in para 6.5 of the Committee's report was issued by the Collector for the reasons mentioned in the beginning of the order, *viz.*, 'in view of the very heavy accumulation of woollen rags consignments in the docks awaiting examination and clearance and limited availability of space as well as staff'. These were not based on any instructions of the Board. It would also be relevant to state that the malpractices in

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\*Not vetted by Audit.

regard to rags had occurred prior to the all India raids in August/September 1972 and there was hardly any abuse of the instructions dated 30 December 1972.

1.57. As regards the other observations made in para 6.5. of the Committee's report, it is submitted that nothing was withheld from the Committee. The position is as follows:

1.58. The sentence quoted from the Collector's letter dated 6 October 1972 refers to policy and the sentence immediately following that reads: "It was felt that the Custom House would receive certain directions in this regard from the Board but so far we have not received any further directions from the Board." It will be seen from this that it refers to some policy directions which had yet to be received by the Collector. These policy directions were issued by the Board's letter dated 23 December 1972 (Appendix XI). In fact in para 4 of its letter dated 13 October 1972 (Appendix XII) the Board had tightened the procedure for sampling and had also directed in para 5 thereof that in dealing with consignments of garments no time should be wasted to find out the percentage of serviceable garments but entire consignment should be mutilated under customs supervision. Though these instructions were in respect of consignments of garments, the Custom House proceeded to apply these to consignments of garments mutilated abroad where some stray garments may have remained unmutilated. This point was represented to the Member (Customs) during his visit to the Bombay Custom House in November 1972 by the Export Promotion Council and Indian Shoddy Mills Association. It was clarified that in consignments of garments mutilated abroad the presence of a few serviceable garments may be ignored. This would be clear from para 2 of Collector's letter dated 16 November 1972 (Appendix XIII) and the Ministry's letter dated 30 November 1972 (Appendix XIV). It may be added that the clarification given at Bombay was in respect of consignments of garments mutilated abroad whereas para 5 of the Board's letter dated 13 October 1972 was in respect of consignment of garments.."

1.59. The Committee had pointed out contradiction in the letter dated 7th July 1972 from the Secretary, Foreign Trade addressed to the Member (Customs) and that written by the Minister of Foreign Trade on 20th July 1972 to the Minister of Finance. While the Secretary, Foreign Trade suggested that 'wearable apparel which may have arrived, for which incidentally the importers cannot be held entirely responsible, may be ripped and rendered unserviceable for utilisation as garments. Thereafter, the consignment can be cleared', the Minister suggested "I hope you have simultane-

ously instructed the Central Board of Revenue to suitably direct their Port Officers to ensure against any laxity on the part of Customs field staff in clearing serviceable garments without payment of required duty." On receipt of the letter of Secretary, Foreign Trade, the Member (Customs) instructed the Collector of Customs, Bombay on 4th July 1972 that "in all cases where serviceable garments in a consignment are more than 5 per cent the goods must not be released without proper mutilation, which should take place under Customs supervision on payment of overtime fees and in Bombay only. In no case mutilation should be permitted outside Bombay." The routine explanation of the Ministry of Finance that these instructions of the Member (Customs) were merely a continuation of the existing policy followed right from 1962 is hardly convincing, considering the special situation created by the large scale importation of serviceable garments under the garb of rags.

1.60. The attention of the Committee has been drawn to the "Guidelines for classifying woollen garments as unserviceable and hence rags" which are stated to have been issued on 24th July 1972 (these were stated "as not having been sent" in the Committee's report). A copy sent by the Ministry (enclosure to Appendix VIII) was undated, unnumbered, unsigned and without bearing the name of the issuing authority. There is no indication that these were the instructions issued on 24th July 1972 by the Collector. The Ministry of Finance have stated that these guidelines do not constitute any relaxation nor were these instructions of the Board. The Committee are surprised at this statement. The guide lines laid down criteria for classifying garments as unserviceable and rags. These were different from those laid down in the earlier instructions of the Collector issued on 4th July 1972. While instructions of 4th July 1972 provided that woollen rags should consist of only clipping and cuttings or torn pieces, the guidelines of 24th July 1972 provided for woollen garments to be classified as rags subject to certain conditions. In the opinion of the Committee, these guidelines constitute a material relaxation involving clearing of garments instead of cuttings and clippings.

1.62. In paragraph 6.5 of the Report while referring to the liberalised procedure introduced by the Custom House in the department order dated 30th December 1972 for test check of consignments, the Committee had observed that "the Bombay Customs House tightened the procedure relating to test-check of the consignment in view of the admitted fact that several firms were indulging in the import of serviceable garments, nylon sarees, suitings, sweaters under the



guise of woollen rags. Surprisingly, however, this was relaxed subsequently on 30th December 1972. The Committee tried to find out the reasons for this relaxation given by the Bombay Customs House. But they were not furnished with the complete and true background of this except that some instructions appeared to have been given to the Bombay Customs by the Member Customs, Shri Abrol, during a visit to Bombay Customs House in November 1972, when he was met by the representatives of the Wool and Woollen Export Promotion Council led by one Shri Adya". In their reply, the Ministry have stated that the procedure was not based on any instructions of the Board. The order was issued by the Collector for the reasons mentioned in the beginning of the order viz. "In view of the very heavy accumulation of woollen rags consignments in the docks awaiting examination and clearance and limited availability of space as well as staff". The Ministry have further stated that during the visit of the Member (Customs) to the Bombay Customs House in November 1972 the only clarification given was in respect of consignments of garments mutilated abroad in which case presence of a few serviceable garments could be ignored. The Committee are not satisfied with the reply and feel that the complete background of the procedure laid down on 30 December 1972 needs to be fully investigated.

1.62. The Ministry have stated that the sentence "Member Customs had expressed that we should not deviate very much from the policy which we have been following in the recent past" quoted from the Collector's letter dated 6, October 1972 mentioned in para 6.5 of the report refers to policy and that the sentence immediately following "It was felt that the Custom House would receive certain directions in this regard from the Board but so far we have not received any further directions from the Board" refers to the subsequent policy directions forwarded on 23 December 1972. The Committee would like to observe that the fact remains that the Member Customs advice referred to in the Collector's letter dated 6 October 1972 was the reversal of the policy of right control adopted by the Custom House envisaged in the Collector's instructions dated 4 July 1972. It is not clear why the Member (Customs) gave this advice.

*Progress of Investigation by the Central Bureau of Investigation—  
Paragraph 20.11 (Sl. No. 11).*

1.63. Out of the rags imported through Bombay and Calcutta Ports during the period 1 April 1971 to 30 July 1973, the Committee were informed that 24,065 bales of rags were found to contain serviceable garments, which were ordered to be mutilated outside the

city of import. Subsequently, 14,400 or so bales were seized from the importers premises or from their dealing agents or bankers, 2,400 or odd bales were seized from sellers or at places such as Siliguri where evidently there were no facilities for conversion into shoddy yarn. The CBI investigations had revealed the involvement of Customs Officers in matters like issuing false examination and mutilation certificates etc. In some cases the importers who had been given REP licences for importing rags deliberately imported serviceable garments and sold them in violation of the conditions of the licences. The Committee also found that the imports in some cases were grossly and deliberately under-invoiced.

1.64. The Committee had regretted that the progress of investigation by the various authorities was very tardy and slow.

1.65. It has been stated in the action taken note\* that in the initial stages of investigation there may have been some delays due to paucity of staff but as a result of opening of the woollen rags cell at Bombay Customs House, out of one lakh bales pending on 30 July 1973, cases relating to only about 7,500 bales are pending in Bombay Customs House. These are pending mainly because of the High Court judgment in the case of Nagesh Hosiery Mills which has been decided in favour of the importers that even serviceable garments and synthetics can be cleared on the licence for rags. The department has since preferred an appeal before the Division Bench of the Bombay High Court against the said judgment which is pending.

1.66. The Committee would like to be informed of the outcome of the appeal preferred by the Department against the judgment of the High Court in the case of Nagesh Hosiery Mills that even serviceable garments and synthetics can be cleared on the licence for rags.

*Unsatisfactory Legal opinion—Paragraph 20.13 (Sl. No. 13).*

1.67. The Committee had expressed dissatisfaction with the opinion of the Ministry of Law that second hand clothing can also be regarded as rags despite the fact that there was a separate item for second hand clothing in the I.T.C. Schedule.

1.68. In the action taken note\*, it has been stated that there is a distinction between second-hand garments on the one hand and discarded garments sold as rags on the other. As per the ordinary trade practice second-hand garments are sold by the price whereas

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\*Not vetted Audit.

discarded garments as rags are sold by weight. Further, the prices of the former are much higher than the latter. In the correspondence of the indentors etc. seized by the Customs, Directorate of Revenue Intelligence or the CBI there was no evidence that the goods had been purchased as second-hand garments on weight basis. The opinion given by the Ministry of Law is that the discarded garments sold by weight may be construed as rags. It has also been stated that the Bombay High Court has in the case of Nagesh Hosiery Mills (Misc. Petition No. 92 of 74) delivered a judgment ruling that discarded garments even though serviceable are rags thus confirming the opinion given by the Ministry of Law.

1.69. The Committee have been informed that the Bombay High Court in the case of Nagesh Hosiery Mills delivered a judgment ruling that discarded garments even though serviceable are rags thus confirming the opinion given by the Law Ministry.

1.70. The Committee have also been informed that the Department has preferred an appeal before the Division Bench of the Bombay High Court against the said judgment which is pending. As already stated in paragraph 1.66, the Committee would await the outcome of the appeal.

*Need for a high level enquiry—Paragraphs 20.12 and 20.14 (Sl. Nos. 12 and 14).*

1.71. The Committee had felt that those who committed gross offences against import trade control, foreign exchange regulations and the Customs Act were let off lightly and there had not been any attempt to find out those really guilty in managing and permitting the operations. According to the Committee, the CBI were asked to chase a few low ranked officials.

1.72. The Committee had recommended for the institution of a high level enquiry into the entire matter under the Commission of Enquiry Act by a Commission presided over by a Supreme Court Judge, preferably a sitting one.

1.73. In the action taken note\* it has been stated that whenever the imported goods had been sold or seized from dealers or seized at places where there were no facilities for conversion into shoddy yarn, or where the goods were mainly synthetics, or where serviceable garments were imported in a manner indicating intention to deliberately by-pass Customs, or where there was evidence of undervaluation, goods have been confiscated or adjudication proceedings are in progress.

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\*Not vetted by Audit.

1.74. With regard to action against the officers concerned, it has been stated that since it appeared that there had been offences on the part of importers and also that some customs officers may have been negligent or had colluded, the whole matter was referred to the CBI for investigations. The CBI were free to look into the conduct of officers of all levels and action is being taken as per CBI's recommendations.

1.75. It has also been stated\* all that has happened with regard to the import of rags is already fully known in all its aspects, remedial action wherever called for has been taken and those against whom there is *prima facie* case are being proceeded against. Having regard to these factors Government are of the view that there is no need for further enquiry.

1.76. The Committee are not satisfied with the Government's reply. There are many facets in the entire transaction which require to be elucidated in public interest. The Committee would, therefore, like to reiterate the need for a judicial inquiry.

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\*Not vetted by Audit.

## **CHAPTER II**

### **RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT**

#### **Recommendations**

Between 1957 and 1966 imports of rags allowed to shoddy spinning units under the category of actual users as well as to exporters of woollen goods under Export Promotion Scheme, which was withdrawn following devaluation in 1966. In August, 1961, the Government announced through executive instructions its decision to extend the exemption so far given to woollen rags to unstripped woollens imported, subject to the condition that the goods before clearance from the docks were cut to small pieces so as to render them unfit for any use other than as rags. The instructions also contemplated Central Board of Excise and Customs specifically allowing serviceable garments to be mutilated at a place near the destination.

This power was later on (1962) delegated to be exercised by the local customs authority. The Committee fail to understand the reason the wisdom and the legality of these executive decisions initially given in favour of certain firms, three of which were connected with each other, the principal among which was also acting as supplier's agent in India. The Committee cannot escape the impression that these firms and their associates have been in league with certain officials incharge of licensing, importing and clearing of the so-called rags and it is not insignificant that one of them had come out with a disclosure of a concealed income before the Income-tax Department, even this disclosure was found to be inescapable to the department.

[Sl. Nos. 2 and 3 (Paragraphs 20.2 and 20.3 of Appendix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha)]

#### **Action Taken**

It may be mentioned that though the Export Promotion Scheme was withdrawn following devaluation in June, 1966, import of rags was again allowed under the Registered Exporters Scheme from May, 1968 onwards.

2. As explained in the Ministry's reply to Point 41 (arising out of evidence tendered before the P.A.C. in September, 1973), the

reasons for permitting mutilation after import were:—

- (1) Mutilation abroad cost 60 per cent to 100 per cent more in terms of foreign exchange to the country;
- (2) Cheaper cost of importation results in encouraging the handloom sector producing blankets; and
- (3) Making blankets etc. available to the poor and middle classes at cheaper prices.

3. As regards mutilation at destination, the reasons were that these bales were hydraulically packed and when opened they occupied large space. The sorting out of serviceable garments and their mutilation took considerable time and space, thus causing congestion in the docks. Repacking the mutilated contents of a bale would result in a number of packages necessitating additional packing and transport costs.

4. As regards the legality of the executive instructions, there were issued to give effect to a policy decision taken by the Government for the reasons explained above. These instructions were followed up by a public Notice No. 108, dated 29 November 1961, issued by Bombay Customs and the facility was thus available to all the importers. During the period when these instructions were issued it was felt that the Government had the authority to issue such instructions since the procedure prescribed for mutilation of serviceable garments was on the analogy of a procedure already in vogue for mutilation under Customs supervision of articles like used cartridges cases and used old files before clearance as scrap. Another way would have been to issue a notification under Section 100(A)(4) of the Sea Customs Act, 1878, and declare the places of mutilation as bonded warehouses. After the Customs Act 52 of 1962 came into force, there was a power given to the Government to frame rules under Section 24 of the said Act for such purposes. Section 25 *ibid* also empowered the Central Government to grant exemption from duty subject to conditions to be fulfilled after clearance of the goods.

5. It was a policy decision of the Government taken on merits of the case and the facility was given to whosoever asked for it. From the point of view of the grant of this concession, no enquiry into the antecedents or ownership of the firms making the request was relevant and none was made.

[Department of Revenue and Insurance O.M. No. 411/14/75-Cus.III,  
dated 16 December 1975]

### Recommendations

It is this relaxation coupled with laxity in conducting the check at the dock and at the factory by the Customs Department that was so successfully exploited by the vested interests to make unlawful gains to the detriment of the economy and the country. It was also unfortunate that other Government Organisations such as Foreign Trade Ministry and the State Trading Corporation who ought to have exercised greater vigilance did not do so.

[Serial No. 4 (Paragraph 20.4 of Appendix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha)]

### Action Taken

As explained in the Ministry's reply to paras 20.2 and 20.3 above, the Government took a policy decision in 1960 to 1962 on various sound considerations to allow mutilation of serviceable garments present in consignments of rags and no relaxation was made in that decision thereafter.

2. As regards laxity in conducting the check at the docks or at factories CBI have made full investigations and action is being taken against all who are responsible.

[Department of Revenue and Insurance O.M. No. 411/14/75-Cus.III, dated 16 December 1975]

As has been mentioned in the Report (para 8.4) the State Trading Corporation of India Ltd. had, on 27 May 1971, brought to the notice of the Bombay Customs, their suspicion that ready-made garments were being imported under the garb of rags. The State Trading Corporation of India Ltd. had also suggested the formation of a Committee, consisting of the representatives of the Textile Commissioner, State Trading Corporation and Customs, to carry out sample inspection of shoddy consignments.

2. However, in their reply dated 29 June 1971, the Customs House, Bombay had taken the stand that no difficulty was being experienced in respect of examination of consignments of the woollen rags, and that wherever any infraction was noticed, the Custom House had been releasing the consignment after penalising the importers and mutilation of goods. The Custom House expressed the view that no useful purpose was likely to be served by constituting a Committee. The State Trading Corporation of India also wrote to the shoddy suppliers and their agents in India, warning them that if any irregularity is reported against their supplies, State Trading

Corporation would be constrained to remove their name from the list of suppliers and would cease to deal with them for any item. A specimen copy of State Trading Corporation's purchase enquiry is enclosed (Annexure). It would be evident that State Trading Corporation had made it amply clear that usable woollen garments were not to be supplied to India and if the foreign supplier did not conform to the specifications mentioned by the State Trading Corporation, he did so at his own risk.

3. It would thus be seen that the State Trading Corporation of India Ltd, which is the canalising agency under the administrative control of the Ministry of Commerce, had been the first organisation to draw the attention of the Custom House, to the suspected irregularity, as soon as they came to know about this.

4. As regards further vigilance, the State Trading Corporation addressed a letter [No. RW/309(7)/71, dated the 27th May, 1971] simultaneously to all the shoddy suppliers and their agents in India. It was a warning to the shoddy suppliers that in case the suppliers did not ensure that shipments of shoddy/rags were made in accordance with the specifications prescribed in the contract, they were liable to be black-listed. This letter was expected to have the desired effect in stopping the foreign suppliers from shipping unauthorised consignments in future. Nevertheless, the Textile Commissioner's Office and the State Trading Corporation were alive to the situation and were taking steps to stop unauthorised imports of ready-made garments in the garb of rags. The Textile Commissioner *vide* their letter No. 5/121/71/Wool/4306/7, dated the 8/9th November, 1971, addressed to the State Trading Corporation, had asked for particulars of all shoddy imports where the same had been allowed to persons who were not authorised shoddy spinners with a view to enable the Textile Commissioner to verify the utilisation of the goods imported. A list of 75 exporters holding release orders, and against whom the State Trading Corporation had made purchases of woollen rags, was furnished by the State Trading Corporation to the Textile Commissioner *vide* their letter, dated the 23rd February, 1972. On going through this list, the Textile Commissioner observed that there were three duplicate names in this list. Out of the balance 72, no contravention under Import Control Rules was noticed in three cases as per report of the Regional Office of the Textile Commissioner. In the remaining 69 cases either there was contravention by or non-cooperation from the importers or there were other reasons due to which verification could not be completed.

5. It may also be mentioned that in the meantime, the State Trading Corporation *vide* their letter of 16th October, 1971, reiterated



their suggestion that hosiery exporters should be allowed to import raw wool and not shoddy woollen rags. This was referred by this Ministry to Textile Commissioner, who expressed the views that the suggested amendment of the Red Book was not necessary as allocations were subject to the Actual User Condition. The State Trading Corporation should, therefore, submit to the Textile Commissioner a list of allocations of shoddy rags given to such persons who did not get any shoddy Actual User allocation. The Textile Commissioner could proceed against them after examining as to whether Actual User conditions had been violated by them. It would be relevant to mention that the list mentioned above had been asked for in accordance with the suggestion.

6. The above facts will show that Government machinery was vigilant and was considering *pros* and *cons* of allowing import of rags against export of hosiery. When it came to the notice of the Ministry that large scale unauthorised imports of rags were taking place, Ministry of Foreign Trade took a decision to delete woollen rags from the shopping list in the Red Book open to the exporters of hosiery and other products except those which actually utilised woollen rags in their manufacture.

[Ministry of Commerce's O.M. No. 18/5/75-*Tex.VI*, dated 1 December 1976.]

#### ANNEXURE

STATE TRADING CORPORATION OF INDIA LTD.

EXPRESS BUILDING

POST BOX 79

NEW DELHI-1

REF: PURCHASE SHODDY A/70

CABLE: ESTICTTEXT

PHONE: 277095 272625

TELEX

sajdeh

BOMBAY—011/2924

MENON TO SAJDEH SECY INTI WOOL SUPPLIERS AGENTS:  
ASSN STOP INTERESTED PURCHASE WOOLLEN RAGS FOR  
SHODDY INDUSTRY APPRXIMATELY 500 TONS IN  
THE FOLLOWING SPECIFICATIONS:

- (i) UNSORTED ORIGINAL WOOLLEN GARMENTS:  
MUTILATED

(ii) UNSORTED ORIGINAL WOOLLEN KNITWEAR  
GARMENT MUTILATED

(iii) OLD GARMENT MUTILATED IN SORTED SHAPS

APPROXIMATE PERCENTAGE OF EACH SHAPE IN THE UNSORTED RAGS SHOULD BE INDICATED INVARIABLY STOP FRESH SAMPLES SHOULD BE SUMITTED ALONG WITH OFFERS STOP TERMS OF PAYMENT SHOULD BE INDICATED SEPARATELY VIZ WHETHER ON ICDA OR SIGHT DRAFT STOP RATES SHOULD BE QUOTED ON CIF PRICES IN STG PENCE PER POUND STOP REQUEST TO SUBMIT DETAILED OFFERS IN TERMS OF QUALITY AND QUANTITY AGAINST THE ABOVE ENQUIRY ADDRESSED TO SHRI KV MENON MARKETING MANAGER STC NEW DELHI SO AS TO REACH US LATEST BY 12 NOON ON SATURDAY THE 28TH FEBRUARY 1970 STOP OFFERS SHOULD BE VALID FOR SEVEN CLEAR DAYS FROM THE DUE DATE STOP OFFERS WITH INADEQUATE PARTICULARS MENTIONED ABOVE ABOVE ARE LIABLE TO BE REJECTED STOP REPEAT SAMPLES SHOULD BE SENT ALONGWITH OFFERS POSITIVELY (.) KINDLY CIRCULATE TO YOUR MEMBERS CONFIRM

N.T.T.

FEBRUARY 13, 1970

STC: TEX/SHODDY/301(A)/70

Sd/- K. V. MENON

MARKETING MANAGER

Copy forwarded for information and necessary action to all the Indian AGENTS of Foreign Suppliers.

Sd/- K. V. MENON

#### Recommendation

The Ministry of Commerce seems to have become aware as early as 1965 that the concession was being abused by the importers of rags. The imports were being canalised through the State Trading Corporation from November, 1967. During the period 1966—68 only actual users were allowed to import woollen rags as one of the items. The Registered Exporters were allowed from 1 April 1968 to import only "Raw wool". This was, however, changed after a month (from 1 May 1968) to allow the choice to import any one of the item—raw wool, waste wool, shoddy wool and woollen rags.

This liberalisation and the lack of proper control by State Trading Corporation especially over the imports by the Registered Exporters have encouraged the latter to bring in serviceable garments in collusion with the suppliers and Customs officials. However, from May, 1972, imports of rags were allowed only against exports of blankets or by actual users. This did not affect imports against the licences already issued.

[Sl. No. 5 (Paragraph 20.5) of Appendix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha)]

#### Action Taken

The import of woollen rags, even against exports of woollen goods, which do not require shoddy raw material had been allowed till devaluation in 1966 as an export incentive measure. Soon after devaluation the R.E.P. entitlements were discontinued, as were other export incentive measures. However, even in those years, under Import Trade Control Policy (Vol. I) governing the issue of Actual User licences, the items permissible had been clubbed together as one entry, namely, "raw wool, wool waste, shoddy wool and woollen rags". Soon after the announcement of Import Trade Control Policy, 1968-69 (Vol. I) initially it was thought that it would be desirable to include all the items covered under S. No. 47 of part V of the Import Trade Control Policy Schedule. Since it included wool waste, shoddy wool and woollen rags also, these items were made admissible for import against export of woollen products like woollen hosiery carpets and fabrics. However, as against "raw wool" figuring in the I.T.C. Policy, through Public Notice issued on the 9th May, 1968, "raw wool, wool waste, shoddy wool and woollen rags" was included in col. 4 under R.E.P. Subsequently, when the question of taking away woollen rags as an item of replenishment was considered the Textile Commissioner expressed the view that "woollen raw material has been taken as a group and the exporter is permitted the option to import any type of raw material used by him in the goods exported". He had also stated that in view of the larger interest of export promotion it appears necessary not to disturb this arrangement. In view of this advice given by the Textile Commissioner, the liberalisation was allowed to continue with the stipulations that:

- (i) No worsted spinner if he had no shoddy spindles should be allowed to import shoddy rags unless he nominates a shoddy spinner for the purpose; and
- (ii) No shoddy spinner should be allowed wool tops if he has no worsted spindles unless he nominates a worsted spinner for the purpose.

2. However, when it was found that serviceable garments were being imported in large quantities, under the guise of rags, from May, 1972, even under R.E.P. woollen rags were permitted to be imported only by the exporters of shoddy blankets who require this raw material.

[Ministry of Commerce's O.M. No. 18/5/75-Tex.VI, dated 1 December, 1976]

### Recommendations

The imports were subject to actual user condition. The Check of fulfilment of this condition seems to have been nobody's job all these years. According to a letter written (October, 1972) by the Chairman, Central Board of Excise and Customs, the importers had stated that their factories had no use for these goods and this was known all along to the authorities. They had alleged that they had been impliedly permitted to make good their losses on the export of hosiery by sale of imported goods. They had also stated that they had not been given any cash incentive and that the import of raw wool had ceased to be attractive; they were, therefore, to make good their losses by sale of imported goods. It was also represented that the totality of the licence issued was far in excess of the general requirement. These statements were denied by the O.S.D. Ministry of Foreign Trade. The following position, however, emerges from the information placed before the Committee.

The capacity of the shoddy sector in terms of raw material on the basis of 2 shifts was 8.85 and 9.15 million Kgs. during 1971-72 and 1972-73. As against this, the quantity of woollen rags, shoddy wool and wool waste imported was 15.01 and 17.5 million Kgs. For the reasons brought out earlier the Committee doubt the veracity of even these figures and believe that the imports must have been far higher. Assuming that all the mills worked for three shifts the capacity would be 11.7 million Kgs. Thus the imports during 1971-72 and 1972-73 would appear to have been in fact far in excess of requirement of the industry. There seems to have been no check or review of the replenishment scheme under which imports of rags were allowed to those who did not need them for their use with the result that what was ostensibly means as an 'incentive' was grossly abused to amass illegal wealth by importing second-hand garments and selling them as such. To what extent this was deliberately allowed is anybody's guess.

[Sl. Nos. 7 and 8 (Paragraphs 20.7 and 20.8) of Appendix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha)]

### Action taken

It has to be admitted that adequate attention was not given to the verification of actual use of the imported raw material being brought in under replenishment licences. In February, 1971, the Textile Commissioner had asked S.T.C. for a list of firms, who were not shoddy spinners, but for whom shoddy material had been imported. State Trading Corporation could give the list only in February 1972, of firms for whom release orders had been issued and purchases of woollen rags had been made by the State Trading Corporation of India Ltd. After the list was received, the Regional Officers of the Textile Commissioner's Organisation were instructed to verify actual utilisation. State Trading Corporation had given a list of 75 firms. Out of which three names were found to be duplicates, thus requiring verification in respect of 72 firms. No contravention was found in the case of 3 firms. In the case of the remaining 69 firms, either contravention was established or the Textile Commissioner's Organisation could not verify on account of lack of cooperation from the unit concerned. Reports, except on one unit, sent in November, 1972, were forwarded by the Textile Commissioner only in the period between January 1974 and March 1974.

2. While reintroducing import of woollen rags sales under REP in May, 1968, there was no intention on the part of the Government. The such import should be allowed as an inducement. As explained in the replies above, items like woollen rags were included in the shopping list with a view to rationalise the Scheme so that all the items covered by one group in the Import Trade Control Policy Schedule were made admissible. The exact context in which the statement referred to in para 7.11 of the Report was made by the representatives of this Ministry is not known. However, there was no intention to provide an incentive. The intention always has been to allow import of all the items covered by one Group in the I.T.C. Schedule as a matter of rationalisation, most probably, the word "incentive" used by the representative of the Commerce Ministry was used in a general sense. What was intended to be conveyed was that like any other replenishment which is also an incentive to export, permission to import woollen rags under R.E.P. scheme was only to facilitate exports. The circumstances in which the import was allowed have already been explained in the notes on para 20.5.

[Ministry of Commerce's O.M. No. 18/5/75-*Tex.VI*,  
dated 1 December, 1976]

### **Action taken on Serial No. 7**

The D.O. letter No. 478/49/72-Cus.VII, dated 13 October 1972, from the Chairman, Central Board of Excise & Customs to the Officer on Special Duty, Ministry of Foreign Trade merely stated the position as represented by the importers. This position was brought to the notice of the Ministry of Foreign Trade by the said demi-official letter.

[Department of Revenue and Insurance O.M. No. 411/14/75-Cus.III, dated 16 December, 1965]

### **Recommendation**

Although on complaints about misuse of rags the State Trading Corporation of India Ltd., took up the question of changing the import policy and amendment of the Red Book not to allow hosiery and textile exporters replenishment in the form of import of woollen rags in August, 1971, the import policy was amended only in May 1972. In the meanwhile (23 February 1972) the S.T.C. had furnished to the Textile Commissioner a list of 73 exporters holding release orders and against whom S.T.C. had made purchases of woollen rags. This list contained only five authorised shoddy spinners and the rest were exporters (66 in Amritsar Region and 2 in Bombay Region). On verification of consumption of imported rags, misuse of licences by hosiery exporters had been noticed in a number of cases. The C.B.I. had also seized records in some cases. Further, as many as 30 units in Amritsar Region neither any responsible person nor any record was available for verification and one unit could not be located. The Committee cannot but take a serious view of the delay in taking action on the part of both the State Trading Corporation and the Textile Commissioner as also the reluctance of the Ministry of Commerce to plug the obvious loophole in the import policy.

[Sl. No. 10 (Paragraph 20.10) of Appendix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha)]

### **Action Taken**

In regard to delay on the part of the S.T.C. or the Textile Commissioner in reporting the names of firms for whom shoddy material had been imported or in verification of actual use, comments have already been given against paras 20.7 and 20.8.

2. Even before S.T.C. had taken up the matter with the Ministry on 2 August 1971, a decision had been taken that the importers of

raw wool should only nominate a worsted spinner and that the importers of shoddy material should similarly nominate a shoddy spinner. STC pointed out that it would be a better arrangement to restrict REP. import of raw material strictly required by the particular manufacturer. When this was referred to the Textile Commissioner, he had, however, felt that the facility of importing raw wool, wool waste or shoddy material should continue and that the nomination of the authorised spinner alone need be ensured.

3. With the import of serviceable garments in the guise of rags, shoddy consignments were held up by the Customs Authorities. This had created a shortage of raw material for the shoddy sector. Representatives of this sector had met Secretary, Foreign Trade, in May, 1972 and it was then decided that the import of shoddy material, against replenishment should be allowed only for these exporters who require this material for the manufacture of the products exported by them. Thus the import of shoddy material was restricted to the exporters of shoddy blankets.

[Ministry of Commerce's O.M. No. 18/5/75-*Tex.VI*, dated 1 December 1976.]

**CHAPTER III**

**RECOMMENDATIONS/OBSERVATIONS WHICH THE  
COMMITTEE DO NOT DESIRE TO PURSUE IN THE  
LIGHT OF THE REPLIES OF THE GOVERNMENT**

**"NIL"**



## CHAPTER IV.

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

#### Recommendation

The Committee are extremely concerned that various acts of commissions and omissions, not all of which appear to be *bona fide*, resulted in an unprecedented importation of serviceable woollen garments in the guise of rags in contravention of Customs, Import Control and foreign exchange regulations in recent years. They regret to record that no reliable figures of imports of so-called rags were given to them. The narration in Chapter II of the Report would show how various sets of figures were given to them, one contradicting another. Ultimately they came across an altogether different but revealing set of figures in a secret note recorded on 18 November, 1972 by the Chairman, Central Board of Excise and Customs. The extent of variation between the figures initially given to the Committee and those indicated in this note will be known from the facts that the value of imports during 1971-72, according to these were Rs. 190 lakhs and Rs. 491 lakhs respectively. The then Minister of Foreign Trade had himself stated in his letter of 20th July, 1972 that he understood that about Rs. 2 crores worth of undeclared made up garments imported in lieu of rags were pending clearance at various Ports especially at Bombay. The amount of Customs duty and penalty leviable would, according to his own reckoning have been of the order of Rs. 4.40 crores. If this gives any indication of the magnitude of offence at a given point of time, the Committee can well imagine the extent of manipulations all these years.

[Sl. No. 1 (Paragraph 20.1) of Appedix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha).]

#### Action Taken

This para refers to the discrepancies in the figures concerning imports of rags. The position here is that when the PAC asked for figures of imports of woollen rags right from August, 1961 to March, 1972 in the questionnaire sent in advance of the taking of oral evidence, the Ministry supplied the yearly figures from the only available Government publication i.e. the March issues of Monthly Statistics of

Foreign Trade published by the Director General of Commercial Intelligence and Statistics and indicated the source in the reply to the PAC. In the brief prepared by the Ministry's Secretariat for use of official witnesses, the figures of imports of rags as specially compiled by the Collector of Customs, Bombay, for the recent past from 1 January, 1970 had been included alongwith the other material given by the Collector and these figures were given on the spot by the official witnesses to the PAC during oral evidence. There was no attempt to hold back anything from the P.A.C. Since these figures were higher than the figures given in the D.G.C.I.&S.'s publication, an enquiry was made by the Ministry and it was found that in many instances the entries reported by the Customs House against Code No. 2670209 (which stands for rags) had been transferred by some scrutiny staff of DGCI&S to commodity code 2629000 (which stands for wool waste) and thus the DGCI&S's figure of woollen rags were considerably less than the actual figures. This was explained to the PAC in Ministry's letter No. 411/45/73 Cus.III dated 7 January, 1974 in reply to Point 14(a) arising out of the oral evidence. The figures of clearances allowed by Customs as supplied to the PAC in the Ministry's letter, dated 17-9-73 and contained in para 2.3 of PAC report are correct except for minor errors explained in Collector's letter dated 10 October, 1973, copy sent to the PAC with the Ministry's aforesaid letter dated 7 January, 1974.

2. As regards the figures in the note dated 18 November, 1972 referred to by the Committee, this was a note prepared, as a result of various inter-ministerial discussions and meetings, for the purpose of getting Government's final order on the problem of rags. It had been marked 'Secret' as per usual classification and not for hiding anything. In the historical background given this note, the pattern of import of rags since 1968-69 by Actual Users *vis-a-vis* exporters against replenishment (REP) licences was given. These figures were supplied by the Ministry of Foreign Trade in their letter dated 16 November, 1972 and were recorded as such in the note dated 18 November, 1972. It is seen from para 2.6 of PAC report that the Ministry of Commerce have since intimated to the PAC the correct figures of imports as distinct from clearances by Customs. These figures are contained in para 2.6. It will be seen that these figures are comparable to the figures compiled by the Collector of Customs, keeping in view of the fact that (1) there is a varying time lag between imports and recording of clearances by Customs and (2) after August, 1972 a number of consignments remained in the docks for months pending clearance.

3. As regards the amount of custom duty and penalty leviable reckoned at Rs. 4.40 crores on the basis of consignments pending clearance, it may be mentioned that though as per letter dated 7th July, 1972 from the Secretary, Ministry of Foreign Trade, consignments valued roughly at about Rs. 1.5 crores were pending clearance in the docks, that letter itself make it clear that "it may be that some of the bales instead of containing rags include wearable apparel". Clearances were getting delayed because of imports on a larger scale and also because of closer scrutiny and it cannot be said that because goods worth about Rs. 1.5 crores were pending clearance they were all wearable garments. Some percentage of serviceable garments were present in some of the bales. However, even this cannot be a basis for calculating the loss of duty and penalty because there was a long standing policy decision right from 1960, taken in the interest of saving foreign exchange, permitting import of serviceable garments in consignments of rags and mutilation thereof without charging any duty or penalty. This policy decision is still continuing after the matter has been fully considered by the Government in all its aspects. Once mutilated, there is no duty or penalty. There has thus been no loss of revenue except in those cases where wearable garments may have been cleared as a result of mistake, negligence or collusion on the part of the examining staff, and as far as these cases are concerned action is being taken against the importers as well as the concerned officers on the basis of full scale CBI investigations.

[Department of Revenue and Insurance, O.M. No. 411/14/75-Cus.III, dated 16 December, 1975]

#### Recommendation

The Finance Secretary informed the Committee of the loopholes in the STC operations thus: "In the first place, the STC issued global tanders only in the case of actual users and for 50 per cent of the registered export licence. A special condition was laid down that they should be mutilated before they are exported out of a country. But there was no pre-inspection. Not only that, goods were delivered by the State Trading Corporation to the actual users and importers-cum-exporters on the high seas with the result that there was no inspection on their landing also. 50 per cent of the Registered exporters were given letters of authority and they were free to book mutilation abroad. It was only in May, 1973 that the State Trading Corporation only checked up the prices; there was no condition for mutilation abroad. It was only in May 1973 that the State Trading Corporation made it obligatory that the certificate from approved inspection agencies overseas should be attached before the export. There were a lot of loopholes there".

[Sl. No. 6 (Paragraph 20.6) of Appendix IX to 158th Report of the Public Accounts Committee (5th Lok Sabha)]

### Action taken

Contracting by the State Trading Corporation of India Ltd., was for "mutilated and unserviceable old woollen rags" and the quotations were also for prices which were for lower than those applicable for serviceable garments. In the circumstances, it would hardly be anticipated by the State Trading Corporation that un-mutilated garments would be sent out, thus requiring an arrangement for pre-shipment inspection abroad. The following undertaking also used to be obtained:—

"The suppliers undertook to supply such goods which are duly cut, mutilated and which cannot be used for wearing purposes". Customs had also been adopting the practice of mutilating such detected garments after arrival and their release on a penalty.

2. The fact that high seas sales were being effected by the State Trading Corporation of India Ltd. does not make any difference to the responsibility of the seller under the contract. Sale on the high seas was being resorted to so as to avoid payment of sales tax thus making imported raw material cheaper to that extent to the importer. Even if the sale had been effected on the high seas, the Customs verification on arrival in Indian Port is to be carried out in the same manner as though no sales on the high seas had been effected.

3. The steps taken by the State Trading Corporation as the canalising agency so that only the right type of raw material was imported are covered by this Ministry's reply against para 20.4.

[Ministry of Commerce, O.M. No. 18/5/75-Tex.VI,  
dated 1 January, 1976]

### Recommendation

On 7th July, 1972 the Secretary, Foreign Trade wrote to the Members (Customs) enclosing a copy of a representation by the woollen Export Promotion Council. It was suggested by the Secretary, Foreign Trade that the wearable apparel may be ripped and rendered unserviceable for utilisation as garments and thereafter consignments cleared. As there is no noting on the file, it is not clear why the Foreign Trade Secretary made this suggestion although the representation was not addressed to him. The Member, Customs on receipt of the letter instructed the Collector of Customs, Bombay to clear the goods on the condition that the clothes were rendered unserviceable in the factories under the Customs supervision. It is not

clear why these orders were issued, when neither the Woollen Export Promotion Council nor the Foreign Trade Secretary had asked specifically for this concession. On the contrary on 20th July, 1972, the then Minister of Foreign Trade wrote to the Finance Minister suggesting to him to instruct the Central Board of Revenue to ensure against any laxity on the part of the Customs staff in clearing serviceable garments without payment of duty. The Committee have brought out how these contrary instructions have helped the offenders to go scot-free.

[Sl. No. 9 (Paragraph 20.9) of Appendix IX to 158th Report of Public Accounts Committee (5th Lok Sabha)]

#### **Action Taken**

With reference to instructions given by Member (Customs) referred to above and in para 12.14(a) of the Committee's report, it may be mentioned that these instructions were merely a continuation of the existing policy followed right from 1962. Mutilation at the factories was necessary for the reasons explained in para 3 of Ministry's reply to Para 20.3. As is evident from his letter, the Commerce Secretary was not aware of the details of the existing Customs procedure in this regard, otherwise he would have drawn attention to its non-implementation in his letter instead of making a suggestion of his own.

2. With reference to para 12.14(b) of the Committee's report, it may be mentioned that the 4th July, 1972 instructions of Bombay Custom House did not insist upon payment of duty involved on serviceable garments before their removal from the docks for mutilation in the mills' premises. Para 6 thereof provided for a bond with bank surety. In this connection it is pointed out that in the copy of Collector's letter dated 5th August, 1972 supplied to the Committee, in para 3 thereof there has been an unfortunate typographical error and a line in the original letter *viz.*, "bonds should be supported by a bank surety for the amount of" had been left out between the words "the Custom House insisted that the" and the words "duty involved".

3. With reference to para 12.14(c) of the Committee's report it may be mentioned that a copy of the instructions issued by the Collector on 24th July, 1972 was supplied to the Committee alongwith Collector's letter dated 5th August, 1972 and are titled "Guidelines for classifying woollen garments as unserviceable and hence rags". These guidelines do not constitute any relaxation nor were these the instructions of the Board. These were the Collector's own instructions as indicated in para 2 of his aforesaid letter. Similarly, the reduction in the percentage of examination of bales, referred to in the last sentence

of para 2 of the Collector's letter of 5th August, 1972, was made by the Collector (and not by the Board) because of practical difficulties as stated in that sentence.

4. Also, the Bombay Customs departmental order dated 30th December, 1972, referred to in para 6.5. of the Committee's report, was issued by the Collector for the reasons mentioned in the beginning of the order, viz., "in view of the very heavy accumulation of woollen rags consignments in the docks awaiting examination and clearance and limited availability of space as well as staff". These were not based on any instructions of the Board. It would also be relevant to state that the malpractices in regard to rags had occurred prior to the all India raids in August/September, 1972 and there was hardly any abuse of the instructions dated 30th December, 1972.

5. As regards the other observations made in para 6.5. of the Committee's report, it is submitted that nothing was withheld from the Committee. The position is as follows:—The sentence quoted from the Collector's letter dated the 6th October, 1972 refers to policy and the sentence immediately following that reads: "It was felt that the Customs House would receive certain directions in this regard from the Board but so far we have not received any further directions from the Board's. It will be seen from this that it refers to some policy directions which had yet to be received by the Collector. These policy directions were issued by the Board's letter dated 23rd December, 1972. In fact, in para 4 of its letter dated 13th October, 1972 the Board had tightened the procedure for sampling and had also directed in para 5 thereof that in dealing with consignments of garments no time should be wasted to find out the percentage of serviceable garments but, the entire consignment should be mutilated under Customs supervision. Though these instructions were in respect of consignments of garments, the Custom House proceeded to apply these to consignments of garments mutilated abroad where some stray garments may have remained unmutilated. This point was represented to the Member (Customs) during his visit to the Bombay Custom House in November, 1972 by the Export Promotion Council and Indian Shoddy Mills Association. It was clarified that in consignments of garments mutilated abroad the presence of a few serviceable garments may be ignored. This would be clear from para 2 of Collector's letter dated 16th November, 1972 and the Ministry's letter dated 30th November, 1972. It may be added that the clarification given at Bombay was in respect of consignments of garments mutilated abroad whereas para 5 of the Board's letter dated 13th October, 1972 was in respect of consignments of garments.

[Department of Revenue and Insurance O.M. No. 411/14/75-Cus.IIIII  
dated 16th December, 1975.]

### Recommendation

The Committee's findings recorded in this report would further indicate how those who committed gross offences against import trade control, foreign exchange regulations and the Customs Act were let off lightly and as regards the officials there has not been any attempt to find out those really guilty in managing and permitting these operations. The CBI were asked to chase a few low ranked officials who in the Committee's view are only sacrificial goats. The Committee would in particular refer to the disposal of a typical case reported by the Directorate of Revenue Intelligence dealt with in Chapter XIX.

[Sl. No. 12 (Paragraph 20.12) of Appendix IX to 158 Report of the Public Accounts Committee (Lok Sabha)]

### Action Taken

With great respect to the Public Accounts Committee it may be stated that the case referred by the D.R.I. in Chapter XIX of the Public Accounts Committee's Report is not a typical case. This was decided by the Collector after personal inspection of the goods by him in his quasi-judicial capacity. As the goods were not available for examination by the Board, it was not possible for the Board to say that the Collector's finding of fact was incorrect. This is a rare case and not typical of the very large number of cases concerning rags where examination and supervision thereof or supervision over mutilation were done by the usual Customs officers.

2. Wherever the imported goods had been sold or seized from dealers or seized at places where there were no facilities for conversion into shoddy yarn, or where the goods were mainly synthetics, or where serviceable garments were imported in a manner indicating intentions to deliberately by-pass Customs, or where there was evidence of under-valuation, goods have been confiscated or adjudication proceedings are in progress.

3. In so far as action against the officers is concerned the C.B.I. were free to look into the conduct of officers of all levels and action is being taken as per C.B.I.'s recommendations. Majority of officers against whom action is being taken are gazetted officers, who cannot be said to be low ranking officials.

[Department of Revenue and Insurance, O.M. No. 411/14/75-Cus.III, dated 16 December, 1975]

### **Recommendations**

The Committee find that legal opinion was sought for from the Ministry of Law by the Ministry of Finance only on 23rd November, 1972, although decisions taken in the inter-Ministerial meeting held in the Cabinet Secretary's room on 17th November 1972, refer to a legal opinion. Nevertheless the Committee are not satisfied with the opinion of the Ministry of Law that second-hand clothing can also be regarded as rags despite the fact that there was a separate item for second-hand clothing in the I.T.C. Schelude. The Committee also note the contrary views sworn before the court.

[Sl. No. 13 (Paragraph 20.13) of Appendix IX to 158th Report of Public Accounts Committee (5th Lok Sabha)]

### **Action taken**

Before the meeting in Cabinet Secretary's room on 17th November 1972, the matter had been discussed with Joint Secretary in the Ministry of Law by Member (Customs), Joint Secretary, Ministry of Foreign Trade and the Deputy Legal Adviser, CBI. The legal opinion given orally by the Joint Secretary, Ministry of Law was intimated to the inter-ministerial meeting in Cabinet Secretary's room and later on the opinion was obtained in writing.

2. As regards the affidavit filed by the Collector of Customs, Bombay, before the High Court, the position has been explained in paras, 13.8, 13.9, 13.10 and para 4.7 of the Committee's report. All along the Government had been prepared to treat serviceable garments as rags provided they were mutilated. This position had also been accepted by the trade. This arrangement helped the importers to get the raw material at cheaper price and it saved considerable amount of foreign exchange to the country besides other advantages to the handloom sector and the supply of cheap blankets to the poor and middle-classes. Now, suddenly a new situation developed and an importer went to the High Court with submissions that discarded garments, even though serviceable should be allowed clearance without mutilation. This was a completely new situation and the Government had to protect its position and prevent the release of goods without mutilation. For this purpose the Collector put forth certain arguments and submissions before the court. If these had not been made the result would have been acceptance of the party's claim and the goods would have been allowed clearance without mutilation, thus defeating the Government's policy on the one hand and on the other it may have resulted in unmerited windfall



profit to the importer by the sale of goods as second-hand garments. The situation was so complex and peculiar that even Bombay High Court itself suggested in a case that it was a fit case for compromise on the basis of mutilation.

3. As regards the Committee's observations that second-hand clothing cannot be regarded as rags, it may be stated that there is a distinction between second-hand garments on the one hand and discarded garments sold as rags on the other. As per the ordinary trade practice second-hand garments are sold by the price whereas discarded garments as rags are sold by weight. Further, the prices of the former are much higher than the latter. In the correspondence of the indentors etc. seized by the Customs, Directorate of Revenue Intelligence or the CBI there was no evidence that the goods had been purchased as second-hand garments on weight basis. The opinion given by the Ministry of Law is that the discarded garments sold by weight may be construed as rags. It may also be added here that the Bombay High Court has in the case of Nagesh Hosiery Mills (Misc. Petition No. 92 of 74) delivered a judgment rulling that discarded garments even though serviceable are rags thus confirming the opinion given by the Ministry of Law.

4. With reference to para 4.8 of the Committee's report it may be stated that the definition of rags quoted in that para is not contained in Board's letter No. 25/173/61-Cus. II dated 12th January, 1962 (51 in the Committee's Report is a printing error for 61). The letter dealt with the question of determination of the percentage of wool in wool waste and woollen rags and not with the definition of rags. The Board does not appear to have issued any definition of rags. The definition quoted in para 4.8 of the Committee's report would not be correct because this would exclude even unserviceable garments from being classified as rags.

[Department of Revenue and Insurance, O.M. No. 411/14/75-Cus.III, dated 16 December, 1975]

#### **Action taken**

The correct position was explained in detail to the Committee by a representative of this Ministry in the course of his oral evidence. This Ministry has, therefore, nothing more to add to the submission already made to the Committee.

[Ministry of Law, Justice and Company Affairs (Legislative Department), D.O. No. G. 25015(23)175-B and A dated 25th October 1975]

### **Recommendation**

Having regard to the facts narrated above which strongly raise suspicion of *mala fides* and having regard to the discrepancies in figures of imports of rags, contradictions in regard to various other matters, an almost total inaction of the various authorities concerned despite their awareness of malpractices right from 1965 and the limited scope of the CBI enquiry, the Committee are constrained to observe that the malady is far more deep-seated than what meets the eye. Nothing short of high level enquiry into the entire matter under the Commission of Enquiry Act by a Commission presided over by a Supreme Court Judge, preferably sitting, would bring to light the true magnitude of the loss to the exchequer by way of loss to duty and penalty, under invoicing of goods, misdescription of goods and the various malpractices indulged in by both the Officials and trade interests and those who are responsible for permitting these abuses. Accordingly the Committee recommended that such an enquiry should be instituted forthwith.

[Sl. No. 14 (Paragraph 20.14) of Appendix to 158th Report  
of the Public Accounts Committee (5th Lok Sabha)]

### **Action Taken**

Regarding the discrepancies in figures of imports of rags attention is invited to the Ministry's reply to para 20.1 where the position has been explained. The figures regarding imports have been furnished to the Committee by the Ministry of Commerce and are contained in para 2.6 of the Committee's report. As has been explained in para 2 of Ministry's reply to para 20.1 these figures are comparable with the figures compiled by the Collector of Customs and given in para 2.3 of the Committee's report.

2. The contradiction referred to in para 20.9 has been explained in the reply to that para. As regards those referred to in paras 20.13 and 4.8, it has been explained in paras 2 and 4 of this Ministry's reply to para 20.13 that there was no contradiction.

3. As regards the reference to malpractices in 1965, the authorities had not noticed abuse on any significant scale to change the policy, which as has been explained in reply to para 20.2 and 20.3 above, had been adopted on sound considerations. The Board had, however, directed the Collectors to take care against such abuses. In the middle of 1971 when abuses again came to the notice of the Collector of Customs, he alerted the staff about it. The Ministry of Foreign Trade moved into the matter to find out whether there had been any abuse of the conditions of the import licences requiring use of the

imported goods by the importers and on finding that there had been abuses amended the policy in May, 1972. When the matter was brought to the notice of Ministry of Finance by the Minister of Foreign Trade by his letter dated 20th July, 1972 about laxity on the part of Customs Staff, reports were called for from Collector of Customs and raids were organised in Bombay and all over northern India in the end of August and the beginning of September 1972 under the directions of the Central Board of Excise and Customs. As a result of these, 16,800 or so bales were seized at various places and a number of incriminating documents were also seized. Since it appeared that there had been offences on the part of importers and also that some Customs officers may have been negligent or had colluded, the whole matter was referred to the CBI for investigations. The CBI were free to look into the conduct of officers of all levels and action is being taken as per their reports.

4. The various problems arising in this connection have been gone into in inter-ministerial consultations and meetings and decisions on various issues have been taken by the Government at very high levels from time to time after full consideration of all aspects of the question.

5. In view of the position explained above it will be seen that all that has happened with regard to the import of rags is already fully known in all its aspects, remedial action wherever called for has been taken and those against whom there is *prima facie* case are being proceeded against. Having regard to these factors Government are of the view that there is no need for further enquiry.

[Department of Revenue and Insurance, O.M. No. 411/14/75-  
Cus. III, dated 16th December, 1975]

## **CHAPTER V**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

#### **Recommendations**

The Committee have been informed that during the period 1-4-1971 to 30-7-1973, 1,16,592 bales of rags were imported through Bombay Port and 30,306 bales through Calcutta Port. Of these, 24,065 found to contain serviceable garments were ordered to be mutilated largely outside the city of import and 7,006 were confiscated. Subsequently, 14,400 or so bales were seized from the importers premises or from their dealing agents or bankers, 2,400 or odd bales were seized from sellers or at places such as Siliguri where evidently there were no facilities for conversion into shoddy yarn. The CBI investigation had revealed that some customs officials had recorded false examination reports. Some of the Customs officers had given mutilation certificates where the bales actually contained serviceable garments. In some cases the importers who had been given REP licences for importing rags deliberately imported serviceable garments and sold them in violation of the conditions of the licences. The Committee also find that the imports in some cases were grossly and deliberately under-invoiced. They regret that the progress of investigation by the various authorities is very tardy and slow.

[Sl. No. 11 (Paragraph 20.11) of Appendix IX to 158th Report of Public Accounts Committee (5th Lok Sabha)]

#### **Action Taken**

The figure of 30.306 bales for Calcutta given in this para appears to be a printing error in P.A.C. Report, for 3,306.

In the initial stages of investigation there may have been some delays due to paucity of staff, difficulties in opening and examining the bales in the places where they had been stored after detention.

However, in order to deal with such cases expeditiously "Woollen Rags Cell" was opened at Bombay Custom House where most of the

imports had taken place. This cell is placed under the charge of an Additional Collector of Customs. As a result of this special drive, most of the cases have been decided. Out of one lakh bales pending on 30 July 1973, cases relating to only about 7,500 bales are pending in Bombay Custom House. These are pending mainly because of the High Court Judgement in the case of Nagesh Hosiery Mills which has been decided in favour of the importers that even serviceable garments and synthetics can be cleared on the licence for rags. The department has since preferred an appeal before the Division Bench of the Bombay High Court against the said judgement which is pending.

[Department of Revenue and Insurance, O.M. No. 411/14/75-Cus. III, dated 16th December, 1975]

NEW DELHI;  
November, 1977.  

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Kartika 27, 1899 (S).

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

## APPENDIX I

N. SUNDER RAJAN,  
OFFICER ON SPECIAL DUTY

D.O. No. 2|7|1|6|73|PAC

Dated 8 November, 1976.

Dear

**SUBJECT**—158th Report of the PAC (Fifth Lok Sabha) on paragraph 16 of the Report of the C&AG for the year 1971-72, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes—Irregular release of woollen garments under a misdeclaration as rags.

Kindly refer to the correspondence resting with your d.o. letter No. 411/14/75-Cus.III, dated 1st November, 1976, on the above subject.

2. In this context, I may invite your attention to paragraph 8 of the Standing Guard File on 'Procedure for dealing with action on the Reports of the Public Accounts Committee and the Estimates Committee' issued by the Ministry of Finance, according to which while referring the draft Notes/memoranda for the Public Accounts Committee to Audit for verification of facts, they should be accompanied by the relevant files and other documents on the basis of which the Notes had been prepared. We have, however, been informed by the Office of the Comptroller and Auditor General of India that in the present case, the relevant files have not so far been made available to Audit to enable them to vet the Action Taken Notes, even though the advance copies of the Action Taken Notes had been furnished in December 1975 and the files had also been specifically called for by Audit in March 1976 [CAG's U.O. No 176/Rc.A/205-75(IDT), dated 25th March, 1976, refers in this connection].

3. The matter was, therefore, placed before the Chairman, Public Accounts Committee, who has observed as follows:

"I find it difficult to accept the plea of Finance Secretary. The relevant files on the basis of which Action Taken Notes meant for the Committee had been prepared are, it seems,

yet to be made available to Audit to enable them to vet the notes in spite of the lapse of almost a year. PAC is not interested in probing the mysteries of the relationship of Finance Ministry and Audit. Vetting normally is and for years has been done without hitch and generally also in time. Why it does not happen in this case is the disquieting query in our minds. It is hoped that PAC's work will not be halted by such apparently unwarranted and avoidable delays."

4. I would, therefore, request you to kindly ensure that the relevant files are made available to Audit urgently and the vetted Action Taken Notes are submitted to the Committee without further loss of time.

Yours sincerely,

Sd/- N. Sunder Rajan

Shri H. N. Ray,  
Secretary,  
Ministry of Finance,  
Government of India.  
New Delhi.

Copy forwarded to Shri V. Gauri Shanker, Director, Receipt Audit, Office of the Comptroller and Auditor General of India, with reference to his d.o. letter No. 819-205-Rec.A/75(IDT), dated 20th October, 1976.

Sd/- N. Sunder Rajan.

## APPENDIX II

H. N. Ray,  
Finance Secretary.

Ministry of Finance,  
New Delhi.

D.O. No. F. No. I-186/FS/76

17 December, 1976.

My dear Sunder Rajan,

**SUBJECT**—158th Report of the PAC (Fifth Lok Sabha) on paragraph 16 of the Report of the C&AG for the year 1971-72, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes—Irregular release of woollen garments under a misdeclaration as rags.

Please refer to your D.O. No. 2/7/1/6/73/PAC, dated 8th November 1976 on the above subject.

2. It seems an impression has been created that the delay in vetting the Action Taken Notes is because of certain files not being made available to the Comptroller and Auditor General. This, however, is not the fact. The factual information relating to the Action Taken Notes sent to the C&AG for vetting *vide* the Ministry's letter of 16th December, 1975, is already contained in various replies and information earlier furnished with reference to the PAC's questionnaires and additional points. In case Audit wishes to verify any particular fact(s), they could indicate the same to facilitate compliance. It may also be mentioned that the correctness of factual information submitted to C&AG from time to time, including that contained in the Action Taken Notes has already been attested by Additional Secretary.

3. As regards paragraph 8 of the Standing Guard File of the Department of Expenditure, the position has since been reviewed by the Government generally. The Government is advised that files containing the views of the Government officers at different levels, Cabinet notes and decisions etc. in the course of formulation of governmental policies may not be submitted to the Audit authorities.

4. It will be appreciated that in this matter facts and information have been checked and re-checked several times through correspon-



dence or during the discussions in the Public Accounts Committee. The facts and information supplied have been verified at the level of an Additional Secretary. In these circumstances, it is felt that the C&AG may not need the files on this subject for the purpose of vetting the Action Taken Notes. It is also relevant to mention that even otherwise a good number of these files are confidential and deal with formulation of policy and it may not be possible to part with them.

5. I would request you to kindly bring the correct position to the notice of the Chairman, Public Accounts Committee.

Yours sincerely,

Sd/- H. N. Ray

Shri N. Sunder Rajan,  
Officer on Special Duty,  
Lok Sabha Secretariat,  
New Delhi—110001.

### APPENDIX III

MINISTER OF FOREIGN TRADE INDIA

New Delhi, the July 20, 1972.

My dear Chavan Sahib.

As you are aware, import of woollen rags is permissible to actual users and registered exporters. Of late there were reports that in lieu of shoddy rags, made-up woollen garments were being imported. For curbing these illegal imports, you have rightly imposed duty-cum-penalty at the rate of 220 per cent of the value of imports of undeclared made-up garments in lieu of rags. I hope you have simultaneously instructed the Central Board of Revenue to suitably direct their Port Officers to ensure against any laxity on the part of Customs field staff in clearing serviceable garments without payment of required duty.

I understand that about Rs. 2 crores worth of undeclared made-up garments imported in lieu of rags are pending clearance at various ports, especially at Bombay.

With kind regards,

Yours sincerely,

Sd/- L. N. Mishra.

Shri Y. B. Chavan,  
Minister of Finance,  
Government of India,  
New Delhi.

## APPENDIX IV

No. SFT/72/119

Government of India,  
Secretary, Foreign Trade,  
New Delhi,  
7 July, 1972.

My dear Abrol,

I enclose a copy of representation addressed to me by the Wool and Woollen Export Promotion Council regarding the import of woollen rags against exports. The representation is self-explanatory.

2. I am told that about 14,000 bales, valued roughly at about Rs. 1.5 crores, are on the docks. Additional quantities are also in the pipeline. Customs clearance, in view of the recent instructions, is taking considerable time. This is also involving heavy demurrage on the importers. The imposition of a duty at the rate of 220 per cent on import of garments though justified, is punishing. If a mid-way solution is not found, I fear, many consignments may not be cleared at all.

3. I would clarify that these rags have been validly imported in replenishment against exports already effected. It may be that some of the bales, instead of containing rags, include wearable apparel. It is not the policy of Government that wearable apparel should be imported in lieu of rags and in this context, clearance of wearable apparel by imposing a 220 per cent duty would be fully justified. This measure would, however, choke exports and a way has to be found so that, without any infringement of law, the consignments which have already arrived and which are in the pipeline are cleared without any loss of time. I suggest that wearable apparel which

may have arrived, for which incidentally the importers cannot be held entirely responsible, may be ripped and rendered unserviceable for utilisation as garments. Thereafter, the consignment can be cleared.

4. I shall be grateful if action on the lines indicated above can be taken at your earliest convenience.

With kind regards,

Yours sincerely,

Sd/- H. Lal.

Shri M. G. Abrol.  
Member, CBE&C,  
Ministry of Finance.  
New Delhi.

## APPENDIX V

Copy of letter dated 7th July, 1972, from Shri R. K. Adya, Chairman, Wool and Woollen Export Promotion Council, Bombay to Shri K. Kishore.

**SUBJECT.—***Import of woollen rags against export of woollens.*

The import of woollen rags has been allowed against exports of woollens for a number of years. We are sorry to say that the consignments of woollen rags arrived at Bombay dock are not being cleared by the Customs in view of some instructions issued to them recently. The exporters are being told that they will have to pay nearly 220 per cent of the value of consignments by way of import duty and penalty for importing these rags in an unripped manner. All orders whether directly or, through STC are placed for imports of rags in a ripped condition and if the suppliers send them unripped or half ripped for saving themselves from an exorbitant labour charge, it should not recoil on the exporters at home.

2. We request that the imports be allowed to be cleared in accordance with the practice followed over the last many years. We may say that the instructions, if any, have been issued rather abruptly with the result that the entire export trade has been landed in a mess. Heavy demurrages are accruing on the consignments lying in the port and in case remedial action is not taken immediately, we are afraid, irreparable damage will be done to exports of woollens which we are trying to boost to a figure of over Rs. 50 crores in the next few years.

3. We may however say that wherever the customs feel that the imported rags need further ripping or mutilations, they may do so before clearing such consignments. It would, thus be clear that the imported rags when released will be an industrial raw material which will not incur duty or penalty.

4. In view of these facts, instructions may kindly be flashed to the Bombay Customs for kindly falling in line with this procedure. This advice will truly be an act of export promotion.

Thanking you.

## APPENDIX VI

M. G. ABROL

MEMBER (CUSTOMS)

D.O. Dy. No. 3294-M (Cus)|72

15 July, 1972.

Dear Shri Lal,

Please refer to your D.O. letter No. STF/72/119, dated the 7th July, 1972, delivered to me on the 10th, immediately I got in touch with our Collector at Bombay. He explained that a majority of importers have not submitted their bills of entry for clearance of the consignments. Bills of entry had been submitted only for 4,000 bales and these were being processed expeditiously. On the 11th July, I gave instructions to the Collector that ordinarily he may allow clearance of the goods on the condition that the "clothes" are rendered unserviceable in the factories under customs supervision. The expenses of this supervision will have to be borne by the importers.

2. Incidentally I may mention that extra scrutiny by customs staff started on a reference made by the Chief Controller of Imports and Exports to the Collector of Customs, Bombay on the 19th May.

With kind regards,

Yours sincerely,

Sd/- M. G. Abrol.

Shri H. Lal,  
Secretary,  
Foreign Trade,  
Ministry of Foreign Trade,  
New Delhi.

Copy with a copy of the letter under reply forwarded to the Collector of Customs, Bombay.

Encl: As above.

Sd/- M. G. Abrol  
Member (Cus.)

## APPENDIX VII

No. 1

Appraising Deptt.,  
New Custom House,  
Bombay, the 4th July, 1972.

### DEPARTMENTAL ORDER

**SUBJECT:** *Procedure for examination and clearance of woollen rags.*

It has been brought to the notice of the Department that several firms are indulging in the import of serviceable garments, nylon sarees, full length suitings, sweaters etc. under the garb of woollen rags. This is a serious contravention not only for evading the Customs duty but also for flouting of Import Trade Control regulations. The following procedure should be followed with immediate effect for clearance of consignments said to contain woollen rags.

2. The Scrutinising Appraiser in the Group will order thorough examination of 10 per cent of the total number of bales (in the case of suspected parties, the percentage should be 25 per cent) after specifying 50 per cent of his choice and the remaining 50 per cent to be selected by the Docks Staff after inspection of the lot. The examination order will also direct the Docks Staff to indicate whether the consignments consist of serviceable garments or whether the consignments consist of different parts of garments which could be ultimately stitched to form complete serviceable garment. If on examination it is found that the consignments consist of serviceable garments, the Shed Staff should indicate the approximate percentage of such serviceable garments bale-wise and report the matter to the Scrutinising Appraiser accordingly.

3. The Shed Staff at the Docks will invariably inspect the lot and examine thoroughly the bales specified by the Scrutinising Appraiser and select the remaining after proper inspection of the lot. The representative samples from each bale should be forwarded to the Scrutinising Appraiser before the goods could be finally considered as *bona fide* rags or otherwise. The examination should also be occasionally supervised by AC (Docks) by surprise.

4. If the consignment is found to contain various parts of a garment namely front portion of a half coat or full coat, sleeves or back portion packed in such a way as to be stitched later on to form a complete serviceable garment such parts of garments should not be treated as rags. These will have to be mutilated to make them unserviceable before they are released.

5. If the consignment is found to contain only a small percentage, say upto 5 per cent (five per cent) of serviceable garments, the matter could be reported in the examination report; neither mutilation nor ITC penal action need be taken. If the serviceable garments are found to be more than 5 per cent, the case should be put up for ITC action on merits. If the consignment is found to consist predominantly, i.e., more than 50 per cent of serviceable garments, penal action should have to be stiff. In all cases where serviceable garments in a consignment are more than 5 per cent, the goods must not be released without proper mutilation, which should take place under Customs supervision on payment of overtime fees and in Bombay only. In no case mutilation should be permitted outside Bombay.

6. Whenever, any mutilation is permitted outside the Docks but in Bombay, a bond on a stamp paper of Rs. 16.50 for the amount of duty should be taken from the importers or his authorised agents, binding them to pay the duty if mutilation is not done under Customs supervision within one month from the date of removal of the goods from the Docks or such extended period as the Assistant Collector incharge of the Group may allow. The Bond should be supported with a bank surety.

7. The order for mutilation will be given by the Assistant Collector incharge of the Group after going through the examination report and the inspection of the samples forwarded by the Docks Staff. The goods should be removed from the Docks to the place of mutilation under Customs seal. The Officer of Customs supervising mutilation should examine Customs seal on the bales before they are opened for mutilation, after mutilation is over, he should send a certificate to the Group Assistant Collector.

8. The Docks Staff should also bear in mind Board's instructions regarding woollen waste and woollen rags in its letter No. 25/173/61-Cus.II of 12th January, 1962, viz., "That in view of the enhancement of the tolerance limits in respect of woollen waste and woollen rags, strict determination of percentage of wool contents is not necessary in large majority of cases. For this purpose visual exa-



mination may be resorted to in each case and those which appear to be of a doubtful nature on such examination may only be referred to the laboratory for analysis.

9. The following procedure shall be followed to implement above decision:—

- (1) Woollen waste may consist of (a) Waste formed at the stage of combing preliminary to spinning, (b) waste from spinning, (c) waste from weaving, and (d) sweepings from the floor, or a mixture of 2 or more of these.
- (2) Woollen rags consist of cuttings and clippings from tailoring establishments cuttings from new or used old garments. Ordinarily care is taken to remove the cotton or art-silk lining materials from the garments but a little may find its way into the garments.

A physical examination of the material should be made first. Material declared as woollen rags should consist of clippings, cuttings or torn pieces none of which shall be suitable for being made directly into garments for consumer use. Material declared as woollen waste may consist of free fibres and clippings and cuttings etc. They should not contain long lengths of yarns or rovings or slivers.

Woollen knitted material such as socks, sweaters, jersey etc. are ordinarily composed of wool and this therefore should not normally present any difficulty. In case of other garments of composite type, examination should be carried out after drawing representative samples from all sides of the bale and then should be subjected to the "Burning test" smell with wool. Enough care should be exercised by 'feel' to see that the overall composition of the wool contents is not less than 60 per cent in case of woollen rags and 80 per cent in case of wool waste.

In case the Shed Staff feel doubtful about the composition, representative sample should be drawn in duplicate and sent for chemical test, through the Group Assistant Collector.

10. The Shed Staff is hereby directed to examine the consignments of woollen rags carefully as indicated above. Any discrepancy noticed in the examination report would be viewed seriously.

11. D.O. No. 1258 of 26th May, 1962, is hereby cancelled.

Sd/- K. L. Rekhi,  
Dy. Collector of Customs.

## APPENDIX VIII

M. S. Mehta,  
Collector of Customs

New Custom House,  
Bombay

D.O. No. NSE/129/72E

Dated the 5th August, 1972.

My dear Sonalkar,

**SUBJECT:** *Import of rags.*

Kindly refer to your D.O. letter No. Dy. 3647/DSLDC, dated 28th July, 1972, which was received by us on 2nd August 1972.

2. The Custom House had received complaints in the month of May, 1972, that some firms were indulging in the importation of serviceable woollen garments under the garb of woollen rags. Similar information was also communicated by the Chief Controller of Imports and Exports *vide* his letter No. 1/86/REP/72-EPC/1557, dated the 19th May, 1972, addressed to all Collectors of Customs. The Chief Controller of Imports and Exports had also simultaneously issued a Public Notice No. 66 ITC(PN)/72, dated 11th May, 1972, whereby woollen rags were allowed to be imported only against export of shoddy woollen blankets instead of by Actual Users and registered exporters according to the prevailing policy. Registered exporters generally do not export shoddy woollen blankets. On the basis of various complaints and the informations received from the Chief Controller of Imports and Exports the Custom House tightened up the procedure for the examination of woollen rags. Till then the consignments of woollen rags were being dealt with in accordance with the Departmental Order No. 1258 of 26 May 1962. After taking into consideration various points the Custom House issued a new Departmental Order No. 1 on 4th July, 1972 (copy enclosed for ready reference). After issue of this Departmental Order, the importers delayed completing formalities for clearing their consignments of woollen rags for a considerable time and in many cases did not even file Bills of Entry. It seems that the Dock Staff initially classified

some ripped garments also as serviceable on the ground that the cut could be stitched and the garment sold. A number of representations and complaints from various importers and the Indian Shoddy Mills Association were received complaining that due to the introduction of the new Department Order, a large number of consignments of rags were held up though according to them the consignments were virtually choking up the port. There was no sufficient space available for examining 10 per cent of the bales. Each bale weighs from 300 kg. to 600 kg. and when opened for examination piece by piece, it occupies a large space in the Dock Shed. After careful consideration certain norms were laid down and instructions were issued to the Shed Staff on the 24th July, 1972, to enable them to distinguish between the serviceable garments and the non-serviceable woollen rags. A copy of these instructions is also enclosed for ready reference. Percentage of examination of bales had also to be reduced because of practical difficulties.

3. With the introduction of these norms, the Customs House finds that most of the consignments of old and used woollen garments are *bona fide* woollen rags and in some cases serviceable garments were found to the extent of 8 per cent. to 30 per cent. Serviceable garments though old and used, cannot be cleared against the licences issued for woollen rags and therefore such importations contravene the Import Trade Control Regulations. It will be observed from the new Departmental Order that serviceable garments upto 5 per cent of the consignment are allowed to be released without any penal action but those having serviceable garments more than 5 per cent are subject to Import Trade Control action. Serviceable garments are not allowed to be cleared through the Docks and released through the Customs unless and until they are properly mutilated to make them unserviceable. However, because of the practical difficulties such mutilation in the past was being allowed to be done in the Importers premises on their giving an undertaking to that effect. Due to the non-receipt of mutilation certificates from up-country Central Excise authorities for considerable time, mutilation of serviceable garments was restricted to be done under the Custom supervision only in Bombay. But the importers were somewhat carry about the whole thing as we were faced with a sudden import of thousands of bales. The importers therefore represented their case to the Member (Cus.) as well as the Custom House and it was decided to give permission for mutilation of the serviceable garments either in the Mills of the importers or at the final destination under the supervision of Custom/Local Central Excise authorities as

before. The goods (i.e. the serviceable garments along with rags) were allowed to be cleared on the importers executing a bond for production of satisfactory proof of the serviceable garments having been duly mutilated under Customs/Central Excise supervision. Originally, the Custom House insisted that the duty involved on the serviceable garments, but taking into consideration the financial hardship and the status of importers, viz., that they are mill-owners and/or exporters of standing, Customs House agreed to accept the bonds with surety from Central Excise licences who were paying sufficient amount of Central Excise duty. This was done again on account of the representation made by the Trade to Member (Customs) and the Custom House.

4. It has been observed by the Custom House that most of the consignments now under clearance are actually *bona fide* woollen rags as per the norms laid down and these are being released without any action. However, there were a few consignments which consisted of more than five per cent of serviceable garments and these were released on a caution (as the consignments had incurred heavy demurrage) but subject to the conditions mentioned in para 3 above. So far, none of the importers have had to pay duty or fine on the serviceable garments. The duty payable on serviceable garments is nearly 131 per cent including the regulatory duty and countervailing duty besides the penalty amount, if levied. The penal action for the contravention of the Import Trade Control Regulations is being taken on merits of each case.

5. It is understood from the Bombay Port Trust that after introduction of the new Departmental Order and the norms laid down for determining the serviceability of the woollen garments, most of the consignments have been released either as they are or after taking action for mutilation, the congestion in the Docks has been considerably reduced. On 21st July, 1972, there were 15,000 bales awaiting clearance, but as on 3rd August, 1972, there are only about 5,700 bales lying uncleared in the Docks either because of the fact that the importers have not presented the documents for clearance of these bales, due to stacking of the bales at random, in the landing sheds in the Docks.

Detailed reports, dated 19th July, 1972, and 11th July, 1972, in the matter were also sent by the Custom House to the Ministry of Finance. In reply to their letters No. 478/49/72-Cus.VII, dated 25th May, 1972, respectively.

7. The concerned officers have been duly alerted to examine the consignments of woollen rags properly and to ensure that serviceable garments are not allowed to be cleared without proper action.

Encl: As above.

Yours sincerely,  
Sd/- M. S. MEHTA.

Shri V. R. Sonalkar  
Deputy Secretary,  
Ministry of Finance,  
(Deptt. of Rev. & Ins.),  
New Delhi.

*Guidelines for classifying woollen garments as unserviceable and hence rags.*

In order to qualify as a 'rag', the garments must be old and used and should satisfy any one or more of the following conditions:—

- (1) The garment should have a major cut or cuts in the body.
- (2) The garment should be completely work out, i.e., it should be torn on the seat or on the collar or on the elbows, cuffs, etc.
- (3) The garment should have holes in the body indicating rough use, wear and tear or damage by insects.
- (4) The garment should have been badly soiled or its colour should have been sufficiently faded so as to ruin its sale value.

In case of doubt, it may also be seen whether the fibre of the garments has become sufficiently tender due to loss of strength on account of prolonged wear or not. The basic object is to classify those garments as rags which would not fetch a profitable price as garment. A distinction should be made between a genuine cut or ripping and a clever removal of stitches. Stitches can easily be replaced to make the garment fully serviceable while in the case of genuine cut or ripping, the stitches would result in old patches which would ruin the sale value of the garment.

## APPENDIX IX

No. 8

APPRAISING DEPARTMENT,

NEW CUSTOMS HOUSE,

Bombay-400001,

Dated 30th December, 1972.

### DEPARTMENTAL ORDER

**SUBJECT:** *Procedure for examination and clearance of woollen rags.*

In view of the very heavy accumulation of woollen rags consignments in the Docks awaiting examination and clearance and limited availability of space as well as staff, the following modified instructions are issued for examination of woollen Rags consignments:

1. Selection of packages for examination should be done intelligently and in the manner laid down in para 4 of M(Cus)'s D.O. F. No. 478/49/72-Cus.VII, dated 13th October, 1972. All bales in a consignment should first be classified into different homogenous lots on the basis of their (i) sizes, (ii) manner of package, (iii) type of packing material used, and (iv) marks and numbers on the bales. Care should be taken to see whether the bales have any marks and numbers which may not have been shown in the documents. Division of the consignment into such homogenous lots should be done jointly by Shed Appraiser and Shed Examiner. Therefore, A.C. Docks and Shed Appraiser should jointly select at least one bale from each homogenous lot for examination.
2. A total of 5 per cent of the bales have to be examined from each consignment. If the bales selected on the basis of one bale from each homogenous lot do not add upto 5 per cent of the consignment, further representative bales from the consignment should be selected by Assistant Collector and Appraiser so as to make the selected bales come up to 5 per cent of the consignment.

3. All the bales selected as above should be examined jointly by the Shed Appraiser and Shed Examiner. While A.C. Docks need not be present throughout the examination of the bales it is necessary that he should exercise close supervision to ensure that the Appraiser and Examiner conduct the examination properly.
4. The examination report should state clearly that representative bales have been selected in the manner prescribed above. The examination report should further give the results of examination in respect of each selected bale separately. It is not necessary to calculate meticulously percentage of woollen rags and serviceable garments in a bale. Instead bale-wise results of examination should be described to give an idea of the contents of serviceable garments in each bale on the following lines:
  - (a) Nil—meaning that there are no serviceable garments at all in the bale;
  - (b) Negligible—meaning that portion of serviceable garment in the bale is so small that it is not worth taking notice of and that such stray presence of serviceable garments could only be unintentional;
  - (c) Substantial—meaning those cases where serviceable garments are present in considerable quantity but do not form major portion of the bale;
  - (d) Predominant—meaning that major portion of the contents of the bale consists of serviceable garments.
5. Total number of bales in each homogenous lot should be stated.
6. If on visual examination rags and garments made of non-wool material (e.g. synthetic) are found, their presence should also be reported on the above lines, viz., negligible, substantial or predominant.
7. Representative samples should be forwarded along with the examination report.
8. The above scale of examination of one bale from each homogenous lot subject to a minimum of 5 per cent of the consignment should be followed in respect of all consignments. There need be no enhanced scale of examination unless the group A.C. or A.C. Docks considers, such enhanced scale necessary in any particular case.

The above orders are in partial modification of the instructions contained in Departmental Order No. 1, dated 4th July 1972 and shall remain in force till 31st March, 1973, unless extended further by Collector.

Regarding classification of the goods into rags and serviceable garments attention is invited to the definition and guidelines sent to A.C. Docks with D.S(R)'s note bearing F. No. NSE-129/72-E, dated 7th September 1972 (copy attached).

Sd/-

(M. R. Ramachandran)  
Collector of Customs.



## APPENDIX X

Copy of letter No. NSE-129/72LE, dated 6th October, 1972, from Collector of Customs to the Secretary, Central Board of Excise and Customs, New Delhi.

**SUBJECT:** *Import of woollen rags containing woollen garments-- request for instructions in respect of--*

Kindly refer to Collector Shri Mehta's D.O. letter of even number, dated 5th August, 1972, addressed to Shri Sonalkar, Deputy Secretary.

The matter regarding examination and clearance of consignment of woollen rags alleged to be containing serviceable garments has since been discussed with Member (Customs) by the then Collector Shri M. S. Mehta and the undersigned. It was then considered that the Custom House should formulate some clear lines on which action should be taken in future in respect of the consignments of woollen rags so that the complaints regarding mal-practices could be eliminated. Member (Cus) had expressed that we should not deviate very much from the policy, which we have been following in the recent past. It was felt that the Custom House would receive certain directions in this regard from the Board but so far we have not received any further direction from the Board.

It may be pointed out that as on 3rd October, 1972, there are about 12,900 bales awaiting clearance in the Bombay Docks. We have also seized about 14,000 bales in the city of Bombay. On these, about 2,000 bales have since been released after mutilation, to the actual spinners. Thus, there are about 12,000 bales which are seized and awaiting further release. It is also gathered that a vessel from Australia is bringing about five to six thousand bales containing woollen rags in a couple of days. There would thus be about 25 to 30 thousand bales which would need clearance through this port. It has already been pointed out that the bales in which the woollen rags have been packed are hydrolically pressed and examination of a bale containing serviceable garments may take about three or four hours. It has come to the notice of this Custom House that in spite of various safeguards built into the past schemes there have been still allegations that usable garments are being cleared in the guise of woollen rags. As pointed out earlier, it was a practice of the

Custom House to allow clearance of woollen rags containing serviceable garments after taking bond on the condition that the serviceable garments would be mutilated in the presence of a Customs or Central Excise Officer within a stipulated period. In such cases where mutilation was carried out only R/D duty was charged on woollen rags and no ITC penalties were imposed and the licences produced were accepted on a caution. According to the latest departmental order No. 1 of 4th July, 1972, issued by this Custom any consignments found to contain of less than 5 per cent serviceable garments were released as in the same condition and in the case of those consignments which consisted of 5 per cent to 50 per cent serviceable garments, ITC action was considered. But due to the enormous demurrage charges already incurred no fine or personal penalty was imposed. According to the stricter definition of woollen rags, it is now observed that some of the consignments are found to contain more than 50 per cent serviceable garments. In view of this it is felt that the Custom House should follow the following procedure with regard to the consignments of woollen rags so as to avoid any mal-practice.

*A. Consignments under detention in the docks and those which are still to arrive.*

Sample bales should be drawn from these consignments as at present and the sample bales should be examined as at present. If the examination report reveals that the sample bales (taken together) contained 50 per cent or more by weight of wearable garments, ITC action should be initiated. If ultimately the consignment is to be released without mutilation Custom duty will also have to be charged as if the entire packages consist of wearable garments and not woollen rags. Alternatively the consignments may be allowed to be mutilated so that from the point of view of customs duty the party may not have to pay duty in excess of that leviable on woollen rags. But even in such cases, ITC action would be taken. If the sample bales (taken together) contains wearable garments less than 50 per cent by weight (this would include even less than 5 per cent) the importer should be given option to clear the entire consignment for mutilation within a specified period in the presence of Customs or Central Excise Officers (bond similar to the type which have been taking so far). If the importer does not accept this option for clearing such consignments on bond the entire consignment should be opened for examination and ITC action should be taken.

**B. Bales which have been seized from the town after clearance.**

The action to be taken in regard to those bales will be on the same lines as that indicated above in regard to the consignments under clearance from the docks, but the legal position especially with regard to acceptance of a bond for mutilation would need to be checked up with the Ministry of Law.

The basis of following the above procedure are mainly the following:

- (i) It will not permit any loopholes by which dishonest importers can manage to clear wearable garments in the guise of woollen rags.
- (ii) Since it is likely that most of the importers will opt for the bond procedure there may not be many bales to be opened for detailed examination.
- (iii) The mutilation of the contents of the bales will have to be supervised by a customs or Central Excise Officer, but this is inevitable under the present scheme whereby such mutilation enables the importer to escape both payment of duty and ITC penalty. The supervision, however, will be spread out over a large area so that it does not throw a burden on the staff of the Bombay Custom House alone or cause any congestion in Bombay Port or nearby.

In view of the foregoing, Board may kindly consider giving approval to the proposed procedure as indicated above. Board's approval to the proposed procedure may kindly be communicated urgently.

## APPENDIX XI

Copy of Secret D.O. No. 478/49/72-Cus.VII, dated 23rd December, 1972, from Shri M. G. Abrol, Member (Customs), Government of India, Central Board of Excise and Customs, New Delhi, addressed to Shri M. R. Ramachandran, Collector of Customs, New Custom House, Bombay.

My dear Ramachandran,

As you know some actual users and exporters-cum-importers have taken or may take the plea that they had indented for the importation of rags to be used for the purpose of making shoddy yarn as provided in the import licence/letter of authority and if some discarded garments have arrived in their consignments it is because these have been sold as rags in the foreign countries. Another argument put forth is that the term 'rags' includes discarded garments according to some literature. They have taken the further plea that a practice for mutilation of discarded garments had been in vogue for a number of years. We understood from you that along with such an order a warning was generally given. While the Government do not wish to fetter the discretion of the adjudication officers, Government have no doubt that adjudicating officers will duly consider such pleas and will keep in view the past practice while dealing with goods which are under clearance or which have been seized from importers, their bankers or clearing agents. However, serious view would be necessary in deliberate cases. Generally, these cases would seem to be:—

- (1) Where wearable garments had been sold, seized from dealers or seized at places where there were no facilities for conversion into shoddy yarn.
- (2) Where there is evidence of undervaluation.
- (3) Where synthetic garments, except in small percentages have been imported.
- (4) Where there is evidence that garments had been cut at the seams to deliberately by-pass Customs.

2. In addition to departmental adjudication by Customs, CBI will be taking action regarding offences referred to at (1), (2) and (3)

above. CBI will also be investigating into the vigilance aspect, e.g., in cases where wearable garments, in whole or cut at seams, were passed without mutilation or bond for mutilation, in violation of departmental instructions.

3. This is in confirmation of my telephonic conversation with you a few days ago when I had said that you may proceed as per discussions held by you with Chairman and myself during your visit to Delhi.

Yours sincerely,  
Sd/- M. G. Abrol.

Shri M. R. Ramachandran,  
Collector of Customs,  
Bombay.

Copy to Shri G. Sankaran, Collector of Central Excise,  
Chandigarh.

## APPENDIX XII

Copy of Secret D.O. letter No. F. No. 478/49/72-Cus.VII, dated 13th October, 1972, from Shri M. G. Abrol, Joint Secretary, Central Board of Excise and Customs, addressed to the Collector of Customs, Bombay.

Representatives of some shoddy mills met Chairman this evening. They said that their consignments had been held up in Bombay docks and shortly some of them will be without raw materials.

2. The representatives stated that even in the past the consignments of rags imported by them sometimes contained a substantial percentage of serviceable garments and that is why a procedure for mutilation had been prescribed. They added that they had imported these consignments for use in their factories and these may be cleared, subject to mutilation, if necessary. Since the shoddy mills have genuine need for raw material, it appears to us that the practice that has been going on since 1961 under the Board's orders need not be changed in respect of imports against actual user licences. Care will, of course, have to be taken that there is no deliberate importation of serviceable garments for sale. This will be evident if (i) the goods have been imported from a supplier/indentor against which incriminating evidence has been found in the documents seized, or (ii) if an examination of a few representative bales reveals a deliberate attempt, e.g., serviceable garments cut at the seams or having a small cut of a few inches, a substantial percentage of garments made of synthetic fabrics or hosiery made of synthetic yarn, or an unusually high percentage of serviceable garments. A meticulous calculation of the percentage of serviceable garments appears impracticable, but officers who have been dealing with importations by actual users prior to June, 1971, would have a broad idea of the extent of serviceable garments and only where it is clearly much higher than the usual, should the importation be considered deliberate.

3. As regards the first factor, Sankaran has already sent to you the names of indentors/suppliers against whom some incriminatory evidence has been seized. Similar list should be available with you in respect of documents seized by your officers or seized by the DRI

and transferred to you. Accidentally, the list of indentors/suppliers against whom there is an incriminatory evidence may be sent to other Custom Houses also.

4. As regards the second factor, I presume there are instructions existing in the Custom House regarding the selection of representative samples. I need hardly stress that for this purpose the bales should first be classified into different homogenous lots on the basis of their size, manner of packing, or make and Nos. Care should be taken to see whether the bales have any marks and Nos. which may not have been shown in the documents. Having classified the consignment into different homogenous lots each lot having similar dimensions, similar manner of packing and similar marks and Nos. at least one bale should be examined from each lot.

5. It also appears to us that no time need be wasted to find out whether the percentage of serviceable garments is so negligible as not to insist on mutilation of the consignment. In all cases of importations of garments, mutilation in the mills under Customs supervision must be insisted. Deliberate importation of serviceable garments will, of course, have to be adjudicated.

## APPENDIX XIII

Copy of the Collector of Customs D.O. No. NSE-129/72, dated 16th November, 1972, to Shri M. G. Abrol, M(Customs).

**SUBJECT: Woollen rags—regarding.**

Kindly refer to your visit to the Custom House on 13th November, 1972, and the discussions which you had with me and my officers.

2. As directed by you, we have started processing the Bills of Entry for consignments imported against registered exporter licences provided the goods on examination are found to be genuine rags, irrespective of the fact whether the importer is an actual user or not. We are awaiting your further instructions in respect of the consignments which on examination are found to contain a substantial quantity of serviceable garments.

3. During your discussions with a delegation from the Export Promotion Council, led by Shri Adya, you stated that Customs would release consignments consisting predominantly of genuine rags and no objection would be taken on the presence of a few pieces of serviceable garments. As it is necessary for me to indicate to my officers some precise limit upto which they could ignore the presence of serviceable garments, I have, in accordance with the long established practice of this Custom House, decided that presence of serviceable garments upto 5 per cent by weight of the consignment should be ignored both for duty and ITC purposes. As this decision, which I have taken in the light of your verbal instructions of 13th November 1972, is in modification of the instructions contained in para 5 of your D.O. F. No. 478/49/72-Cus.VII, dated 13th October, 1972. I am bringing it to your notice.

4. During your visit you had also desired to have certain further statistics which had not been sent earlier with my D.O. endorsement of 8/10th November, 1972, in response to your 3 telexes, dated 4th November, 1972, I enclose the following further statements:

- (1) Case-wise particulars of consignments cleared on caution/ fine and mutilation.
- (2) Statement of bales under seizure, showing approximate quantity and value also.



(3) Statement of imports/month-wise, for the period from 1st January, 1970, to 31st October, 1972, as per D.T.Rs.

You had also desired to have information on the following points which is given below:

- (1) It is confirmed that only 6 consignments were sent for mutilation at Ludhiana in September 1971. An undertaking on a stamp paper of Rs. 3.50, without surety or security, was obtained from the concerned importers to the effect that if the goods are not mutilated under the supervision of Central Excise authorities, the importer would have to pay duty and penalty that may be imposed by the Collector. Mutilation certificates signed by Superintendent, Central Excise, Range II, Ludhiana, have been received in respect of all these 6 consignments during the end of June/early July, 1972. Thereafter, no request has been received for sending a consignment for mutilation to Ludhiana or Amritsar.
- (2) A check up of old Bills of Entry made in the M.C.D. reveals that the practice of the scrutinising appraiser giving a range of packages of woollen rags for examination was in vogue from June, 1970 onwards. It has not yet been possible to pinpoint as to under what circumstances this practice started.

In the case of the commodities like raw cotton, raw wool the practice of the Group is to order out examination without specifying any range or any numbers. However, in the case of precious commodities like staple fibre or staple yarn the practice of the Group has been to specify numbers in small consignments and give range from 1 to 5 for large consignments.

However, as directed by you during your visit the practice of indicating a range of packages is being stopped.

With best regards.

## APPENDIX XIV

Copy of letter F. No. 478/49/72-Cus.VII, dated 30th November, 1972, from Shri P. K. Kapoor, Under Secretary, Government of India, Ministry of Finance (Department of Revenue and Insurance), New Delhi, addressed to the Secretary, Indian Shoddy Mills Association, C/o Simplex Woollen Mills, Sadhana Rayon House, Dr. D. N. Road, Bombay—1.

**SUBJECT:** *Clearance of consignments of woollen rags imported by Actual User Mills.*

Please refer to your Representation No. ISMA/4/72/788, dated the 24th November, 1972, addressed to the Prime Minister, copy endorsed to Member (Customs), Central Board of Excise and Customs, on the above subject.

2. In para 7 of your Representation it is mentioned that Shri M. G. Abrol, Member, Central Board of Excise and Customs assured the Members of your Association during their meeting with him at Bombay last week that consignments of actual users would be allowed clearance after full mutilation either in the presence of Customs officials or before a team of officers representing the different authorities. In this regard there appears to be some misunderstanding, since the question that was raised before the Member, Central Board of Excise and Customs was with regard to goods which have been mutilated abroad and the Member had said that these should be allowed, whoever be the importer. I am directed to point out this inaccuracy in your letter.

**APPENDIX XV**  
**CONCLUSIONS/RECOMMENDATIONS**

Sl. No.	Para No of the Report	Ministry/Department Concerned	Conclusions/Recomendation
1	2	3	4
I	I.17	Ministry of Finance (Department of Revenue and Banking)	<p>The Committee are unhappy to note that the Audit was unable to get facts and figures furnished by Government to the Committee in reply to some of the recommendations of the Committee contained in their original report on account of the non-availability of the relevant files to Audit. Consequently the Committee have to formulate this Report on the basis of the facts and figures largely unverified by C&amp;AG. The reasons for not making available the relevant files to Audit have been indicated in a communication dated 17 December, 1976 addressed to the Committee (reproduced in Appendix II) which <i>prima facie</i> appears to be a departure from the convention well established in this behalf. The Committee would like to examine this matter in greater detail and they reserve the right to present a separate report to Parliament on the subject, if found necessary.</p>

1	2	3	4
2	I.9	Ministry of Finance (Department of Revenue and Banking)	The Committee hope that final reply in regard to the recommendation to which only an interim reply has so far been furnished will be submitted to them expeditiously after getting it vetted by Audit.
3	I.16	Do.	The Committee are not satisfied with the explanation given by the Government for discrepancies in statistics relating to import of rags furnished by Government to the Committee at various stages of the enquiry.
4	I.17	Do.	The plea that Government have been using at different points of time different statistics compiled by different agencies speaks eloquently of the perfunctory manner in which information was furnished to the Committee. The Ministry have furnished a third set of revised figures at the time of evidence. This has, however, not satisfied the Committee as to the actual quantum and value of the rags imported. The fact remains that Government publication which is quoted and referred to as the authentic source of information abounded in half-truths. The Committee need hardly emphasise that Government should have exercised utmost care in furnishing the basic data to the Committee and pre-verified its authenticity so as to enable the Committee consider the matter in the correct perspective.
5	I.30	Do.	The Committee would like to be apprised of the precise action taken by Government in pursuance of the Report of the Central Bureau of Investigation.

- 6      1.34      Ministry of Commerce      The Committee cannot help reiterating that the liberalisation of import policy in May 1968 allowing registered importers to import woollen rags as one of the items against REP entitlements without instituting proper inspection and control was an unwise step inasmuch as it encouraged the importers to bring in serviceable garments in collusion with the suppliers and customs officials. The view of the Textile Commissioner that this liberalisation was "in the larger interest of Export Promotion" was distinctly short-sighted and the policy was bound to be abused, as it was resulting in sizeable loss to the Exchequer. This fact has been admitted by the Ministry when they say that "serviceable garments were being imported in large quantities, under the guise of rags from May 1972 even under REP."
- 7      1.39      Do.      The Committee feel that the State Trading Corporation should have exercised forethought and caution in handling import of woollen rags. The procedure of pre-shipment inspection should have been resorted to prior to the despatch of the goods. In any case, it should have been introduced as soon as the abuse of the import policy was brought to light. 77
- 8      1.47      Do.      The Committee are not satisfied with the explanation furnished by the Government. They regard it as unfortunate that although the import of woollen rags was subject to actual user condition there was no system of check of fulfilment of this condition and that even when the misuse of the import was noticed, it took the STC and the Textile Commissioner considerably long time to have the *bona fides* of the importers verified. Further, no explanation has been offered to the observations of the Committee that while the maximum annual
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Ministry of Finance  
(Department of Revenue  
and Banking).

capacity of the shoddy sector in terms of consumption of raw material was less than 10 million kgs. during 1971-72 and 1972-73 the annual import of woollen rags, shoddy wool and wool waste was more than 15 million kgs. giving enough scope for the excess quantity being sold in the market to unauthorised persons and agencies etc.

The Committee had pointed out contradiction in the letter dated 7 July 1972 from the Secretary, Foreign Trade addressed to the Member (Customs) and that written by the Minister of Foreign Trade on 20 July 1972 to the Minister of Finance. While the Secretary, Foreign Trade suggested that "wearable apparel which may have arrived, for which incidentally the importers cannot be held entirely responsible, may be ripped and rendered unserviceable for utilisation as garments. Thereafter, the consignment can be cleared", the Minister suggested "I hope you have simultaneously instructed the Central Board of Revenue to suitably direct their Port Officers to ensure against any laxity on the part of Customs field staff in clearing serviceable garments without payment of required duty." On receipt of the letter of Secretary, Foreign Trade, the Member (Customs) instructed the Collector of Customs, Bombay on 4 July 1972 that "in all cases where serviceable garments in a consignment are more than 5 per cent the goods must not be released without proper mutilation, which should take place under Customs supervision on payment of overtime fees and in Bombay only. In no case mutilation should be permitted outside Bombay." The routine ex-

planation of the Ministry of Finance that these instructions of the Member (Customs) were merely a continuation of the existing policy followed right from 1962 is hardly convincing, considering the special situation created by the large scale importation of serviceable garments under the garb of rags.

10 I.60 -do-

The attention of the Committee has been drawn to the "Guidelines for classifying woollen garments as unserviceable and hence rags" which are stated to have been issued on 24 July 1972 (these were stated "as not having been sent" in the Committee's report). A copy sent by the Ministry (enclosure to Appendix VIII) was undated, unnumbered, unsigned and without bearing the name of the issuing authority. There is no indication that these were the instructions issued on 24 July 1972 by the Collector. The Ministry of Finance have stated that these guidelines do not constitute any relaxation nor were these instructions of the Board. The Committee are surprised at this statement. The guidelines laid down criteria for classifying garments as unserviceable and rags. These were different from those laid down in the earlier instructions of the Collector issued on 6 July 1972. While instructions of 4 July 1972 provided that woollen rags should consist of only clipping and cuttings or torn pieces, the guidelines of 24 July 1972 provided for woollen garments to be classified as rags subject to certain conditions. In the opinion of the Committee these guidelines constitute a material relevation involving clearing of garments instead of cuttings and clippings.

11 I.61 Ministry of Finance  
(Department of Revenue and Banking)

In paragraph 6.5 of the Report while referring to the liberalised procedure introduced by the Custom House in the department order dated 30 December 1972 for test check of consignments, the Com-

mittee had observed that "the Bombay Customs House tightened the procedure relating to test-check of the consignment in view of the admitted fact that several firms were indulging in the import of serviceable garments, nylon sarees, suitings, sweaters under the guise of woollen rags. Surprisingly, however, this was relaxed subsequently on 30 December 1972. The Committee tried to find out the reasons for this relaxation given by the Bombay Customs House. But they were not furnished with the complete and true background of this except that some instructions appeared to have been given to the Bombay Customs by the Member Customs, Shri Abrol, during a visit to Bombay Customs House in November 1972, when he was met by the representatives of the Wool and Woollen Export Promotion Council led by one Shri Adya". In their reply, the Ministry have stated that the procedure was not based on any instructions of the Board. The order was issued by the Collector for the reasons mentioned in the beginning of the order viz., "In view of the very heavy accumulation of woollen rags consignments in the docks awaiting examination and clearance and limited availability of space as well as staff." The Ministry have further stated that during the visit of the Member (Customs) to the Bombay Custom House in November 1972 the only clarification given was in respect of consignments of garments mutilated abroad in which case presence of a few serviceable garments could be ignored. The Committee are not satisfied with the reply and feel that the complete background of the procedure laid down on 30 December 1972 needs to be fully investigated



12     1.62     -do-

The Ministry have stated that the sentence "Member Customs had expressed that we should not deviate very much from the policy which we have been following in the recent past" quoted from the Collector's letter dated 6 October 1972 mentioned in para 6.5 of the report refers to policy and that the sentence immediately following, "It was felt that the Custom House would receive certain directions in this regard from the Board but so far we have not received any further directions from the Board" refers to the subsequent policy directions forwarded on 23 December, 1972. The Committee would like to observe that the fact remains that the Member Customs advice referred to in the Collector's letter dated 6 October, 1972 was the reversal of the policy of tight control adopted by the Custom House envisaged in the Collector's instructions dated 6 July, 1972. It is not clear why the Member (Customs) gave this advice.

13     1.65     -do-

The Committee would like to be informed of the outcome of the appeal preferred by the Department against the judgement of the High Court in the case of Nagesh Hosiery Mills that even serviceable garments and synthetics can be cleared on the licence for rags.

14     1.69     -do-

The Committee have been informed that the Bombay High Court in the case of Nagesh Hosiery Mills delivered a judgement ruling that discarded garments even though serviceable are rags thus confirming the opinion given by the Law Ministry.

1.70     -do-

The Committee have also been informed that the Department has preferred an appeal before the Division Bench of the Bombay High

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Court against the said judgment which is pending. As already stated in paragraph 1.66, the Committee would await the outcome of the appeal.

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The Committee are not satisfied with the Government's reply. There are many facts in the entire transaction which require to be elucidated in public interest. The Committee would, therefore, like to reiterate the need for a Judicial inquiry.

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