

**HUNDRED AND NINETY-FIFTH
REPORT
PUBLIC ACCOUNTS COMMITTEE
(1983-84)**

(SEVENTH LOK SABHA)

CUSTOMS RECEIPTS—DELAY IN REVISION OF TARIFF VALUES AND EXEMPTION ORDERS ISSUED UNDER THE CUSTOMS ACT, 1962

**MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)**

[Action Taken on 105th Report (Seventh Lok Sabha)]



LOK SABHA SECRETARIAT
NEW DELHI

March, 1984/Chaitra, 1906 (S)

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CORRIGENDA TO 195TH REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE (7TH LOK SABHA)

| <u>Page</u> | <u>Para</u> | <u>Line</u> | <u>For</u> | <u>Read</u> |
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| 57 | 1.9 | 9 of Col.4 | Delete the words "the Committee would like to mention" | |
| 57 | 1.12 | 6 of Col.4 | Delete ", " after the word "edible" | |
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(1983-84)

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INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this 195th Report on Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 105th Report (7th Lok Sabha) on Customs Receipts relating to the Ministry of Finance (Department of Revenue).

2. In their earlier Report, the Committee had observed that in the absence of any guidelines for grant of exemption from Customs duty, the exercise of such power under Section 25(2) of the Customs Act, 1962 by the Executive had become a matter of arbitrary discretion, and the Parliament and people were not able to judge whether such powers had been properly exercised. As the revenue foregone as a result of such exemptions had increased from Rs. 9.44 crores in 1976-77 to as much as Rs. 245.18 crores in 1979-80, it had become all the more necessary that there should be some guidelines so that the exemptions granted satisfied the intention of Parliament in regard to the existence of public interest and circumstances of an exceptional nature. In their Action Taken Note, the Ministry have now stated that it would not be practicable to lay down specific guidelines in this regard. The Committee are not satisfied with this reply of Government. They have re-stressed that the power to grant exemption from duty is an unusual, extraordinary and exceptional power delegated by Parliament to the Executive and it is therefore imperative that adequate safeguards are provided to ensure that such power is not abused. With this end in view, the Committee have in this Report reiterated their earlier recommendation that guidelines clearly spelling out the circumstances in which the power to grant exemption can be exercised by the Executive should be laid down without any further delay. They have further recommended that details of *ad hoc* exemptions under Section 25(2) other than those relating to special imports made by Government for their use or imports of less than Rs. 10,000 granted in any financial year together with the reasons for granting the same may be mentioned in the Annual Report of the Ministry of Finance.

3. The Committee had pointed out in their earlier Report that the basic objective of granting exemption in duty on the imported edible oils was to ensure the supply of these oils to the consumers at reasonable prices. With fall in the prices of imported edible oils, the benefit should have been passed on to the consumers so that the consumers could get some relief. However,

Government continued to charge the same price for imported oils even after fall in the STC's purchase price which enabled private parties to exploit the situation and make exorbitant profits by selling oils, imported at cheaper prices on the basis of contracts entered into before canalisation, at high prices then prevailing in the open market. In their Action Taken Note, the Ministry of Civil Supplies have *inter alia* stated that a reduction in the prices of imported oils might have acted as a disincentive to the domestic production. Disagreeing with this argument, the committee have, while reiterating their earlier view that Government had displayed scant regard towards the interest of vast multitudes of consumers in the country by their failure to reduce the prices of imported edible oils, expressed the hope that Government would take care to avoid such lapses in future and with fall in the prices of imported oils, pass on the benefits to consumers.

4. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 20 March, 1984. Minutes of the sitting form Part II of the Report.

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

6. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the office of the C & A.G. of India.

NEW DELHI;
March 26, 1984
Chaitra 6, 1906 (S)

SUNIL MAITRA
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations and observations contained in their Hundred and Fifth Report (Seventh Lok Sabha) on Paragraphs 1.23 and 1.24 of the Report of the C & AG of India for the year 1979-80—Union Government (Civil) Revenue Receipts, Vol. I—Indirect Taxes relating to Delay in the revision of Tariff Values and Exemption Orders issued under the Customs Act, 1962.

1.2 The Hundred and Fifth Report which was presented to Lok Sabha on 29 April, 1982 contained 42 recommendations/observations. Action Taken Notes in respect of all the recommendations/observations have been received from Government. These have been categorised as follows :

- (i) *Recommendations and observations that have been accepted by Government*

S. Nos. 1, 2, 3, 5, 8-13, 16-22, 26, 28, 32, 33, 34, 35, 37 and 38.

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

S. Nos. 4, 6, 25, 27, 29-31, 36, 39, 40, 41 and 42.

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

S. Nos. 14, 15, 23 and 24.

- (iv) *Recommendations and observations in respect of which Govt. have furnished interim replies*

S. No. 7

1.3 In para 1.50 of their 105th Report, the Committee had desired to be furnished with a detailed list of the importers in whose case the total of invoice values of imports and, hence of counter-balancing exports during the years 1975-79, exceeded Rs. 50 lakhs each, the details of cases booked against them by the Directorate of Enforcement, the amount involved and the result of enquiries so far completed. In their reply, the Ministry have stated that the "data in regard to the importers in whose case the totals of invoice values of imports and hence of counter-balancing of exports during the years 1975-79 exceeded Rs. 50 lakhs each, is being collected and will be furnished to the Committee as soon as it is

available". The Committee are surprised at this reply of the Ministry. It is distressing that the Ministry should not have been able to collect the relevant information and supply the same to the Committee even after a elapse of about 21 months since the presentation of their Report, with the result that it has not been possible for the Committee to formulate their conclusions in the matter. The Committee would like to express their severe displeasure at this and desire that the Ministry should furnish the information to the Committee without any further delay.

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

Laying down of guidelines for grant of exemption from duty
(S. No. 14, Para 2.36)

1.4 Emphasising the need for laying down guidelines in regard to grant of exemption from duty, the Committee have, in para 2.36 of their 105th report, observed :

"The Committee have been informed that no guidelines have been laid down spelling out the circumstances under which exemption from duty is granted. In the absence of any such guidelines the exercise of such power has, in the opinion of the Committee, become a matter of arbitrary exercise of discretion and Parliament and the people are not able to judge whether such powers have been properly exercised. The need for some guidelines is still more necessary in view of the fact that the revenue foregone as a result of these exemptions have increased from Rs. 9.44 crores in 1976-77 to as much as 245.18 crores in 1979-80. The Committee feel that the power to grant exemption is an unusual, extraordinary and exceptional power given to the executive and it is imperative that adequate safeguards should be there to ensure that these powers are used sparingly and there are no chances of their being misused. Further, the Committee expect that occasions on which powers under section 25 (2) have to be exercised will be rare and the test of these being in the public interest and satisfy the circumstances of an exceptional nature as intended by Parliament".

1.5 In their Action Taken Note dated 2.6.83 the Ministry of Finance (Department of Revenue) have stated :

"Each case of Customs duty exemption is examined on merit to satisfy that the conditions laid down under Section 25 of the Customs Act 62 are satisfied. For this purpose different factors such as, cost data, demand and supply position of the goods in question, extent of its shortfall necessitating its imports etc., supplied by the administrative ministry concerned are analysed to arrive at the extent of Customs duty concession required. This applies to cases of exemption under Sec. 25 (2) also. It would, therefore, appear that the powers to grant exemptions under Sec. 25 of the Customs Act 62 are exercised with due care and not arbitrarily.

The circumstances necessitating customs duty exemptions depend on the nature of the commodity and the situation existing from time to time. It would not be practicable to lay down specific guidelines in this regard, though guidelines such as removal of tariff anomalies and subserving of national interests are always kept in view”.

1.6 The Committee had in their earlier Report observed that in the absence of any guidelines for grant of exemption from Customs duty, the exercise of such power under Section 25 (2) of the Customs Act, 1962 by the Executive had become a matter of arbitrary discretion, and the Parliament and people were not able to judge whether such powers had been properly exercised. As the revenue foregone as a result of such exemptions had increased from Rs. 9.44 crores in 1976-77 to as much as Rs. 245.18 crores in 1979-80, it had become all the more necessary that there should be some guidelines so that the exemptions granted satisfied the intention of the Parliament in regard to the existence of public interest and circumstances of an exceptional nature. In their reply, the Ministry have stated that it would not be practicable to lay down specific guidelines in this regard. It has further been stated that Government examine each case of Customs duty exemption on merit to see that the conditions laid down under Section 25 of the Customs Act, 1962 are satisfied. The Committee are not satisfied with this reply of Government. It is hardly necessary for the Committee to re-stress that the power to grant exemption from duty is an unusual, extraordinary and exceptional power delegated by Parliament to the Executive and it is therefore imperative that adequate safeguards are provided to ensure that such powers are not abused. With this end in view, the Committee reiterate that guidelines clearly spelling out the circumstances in which the power to grant exemptions can be exercised by the Executive should be laid down without any further delay. The Committee further recommend that details of *ad hoc* exemptions under Section 25 (2) granted in any financial year together with the reasons for granting the same may be mentioned in the Annual Report of the Ministry of Finance. However, special imports made by Government for their use or imports of less than Rs. 10,000 need not be mentioned”.

Monitoring and Review of the exemptions granted
(S. No. 15—Para 2.37)

1.7 Commenting upon the lack of monitoring and review of the exemptions granted by the Ministry of Finance, the Committee had in para 2.37 recommended as follows :

“The Committee observe that after the grant of exemption by the Ministry of Finance, on the recommendation of the Administrative Ministry, the Ministry of Finance have no feed-back from the latter to evaluate whether the exemption has served the purpose for which it was granted. It is left to the administrative Ministry to evaluate whether the conditions laid down in the exemption notification have actually been fulfilled. The Committee consider this arrangement to be totally unsatisfactory because except for assessment of public interest at the time

of grant for renewal of the exemption, the Ministry of Finance does not get any information from the administrative Ministry nor the Finance Ministry cares to find out from the administrative Ministry as to whether the purpose for which an exemption has been granted has actually been achieved. The Committee, therefore, recommend that the Ministry of Finance should evolve suitable mechanism to establish a monitoring system to review periodically how far the objectives behind the grant of exemption have been achieved. On the basis of the requisite data obtained from the administrative Ministry in regard to each exemption granted under section 25 (1) or 25 (2) of Customs Act and after ensuring that the revenue forgone by grant of exemption has not been misused, the Ministry of Finance should decide whether the exemption should be allowed to continue”.

1.8 In their Action Taken Note dated 2.6.83, the Ministry of Finance (Department of Revenue) have stated :

“The exemption notifications are generally issued without any validity period, when sufficient justification exists for their continuance on a long term basis. It is the responsibility of the Administrative Ministry to ensure that the purpose for which a customs duty exemption has been obtained is actually achieved. They are equipped to monitor the progress, being the Ministry responsible to administer the problems relating to the goods in question. Establishment of a separate mechanism by the Ministry of Finance will not only amount to duplication of work but also overlapping of the functions of the administrative Ministry, which is another wing of the Government”.

1.9 The Committee had in their earlier Report observed that the Ministry of Finance after the grant of an exemption from duty have no feed-back from the administrative Ministry to evaluate whether the exemption has served the purpose for which it was granted. It is left to the administrative Ministry to evaluate whether the conditions laid down in the exemption notification have actually been fulfilled. Finding this arrangement to be totally unsatisfactory, the Committee had recommended that the Ministry of Finance should evolve some mechanism to establish a monitoring system to review periodically how far the objectives behind the grant of an exemption have been achieved and if the exemption should be allowed to continue. The Ministry of Finance have not accepted the above recommendation of the Committee on the ground that this would not only amount to duplication of work but also overlapping of the functions of the administrative Ministry, which is another wing of Government. The Committee regret to observe that the Ministry of Finance have not properly appreciated their recommendation. It was not the intention of the Committee that the Ministry of Finance should establish an independent machinery of their own for watching the effect of exemptions granted by them and thereby duplicate the machinery already existing (where it exists) in any other Ministry. All that the Committee had intended was that the Ministry of Finance should make an independent appraisal as to how far the object underlying an exemption

was being achieved. This the Ministry of Finance could do by requiring the administrative Ministry to furnish periodical data for enabling them to make such an appraisal in case of requests for continuance of such exemptions and other requests for *ad hoc* exemptions. It has *inter alia* been argued that the administrative Ministry is as much a part of Government as the Ministry of Finance. While the Committee do not disagree with this view, they would like to point out that the Ministry of Finance being the nodal Ministry for managing the finances of the Central Government have an added responsibility to see that no revenue is lost purposelessly. The Committee, therefore, feel that the Ministry of Finance should not continue an exemption just as a matter of course, simply on the recommendation of the concerned Ministry, but should apply their mind independently on the basis of the relevant data to see how far the objectives underlying an exemption are being achieved and whether as a result of their appraisal, there is justification for the continuance of the exemption. For this purpose the Ministry of Finance must demand to see evaluation, done, if any, in the Administrative Ministry and where the same has not been done to get it done without delay. In this connection the Committee would like to mention that the Public Accounts Committee (1982-83) had come across a case where since its issue, the exemption notification issued in regard to import of watch parts had never been reviewed and the data called for by the Committee showed that the objective underlying the exemption had not been achieved. The Committee were informed that 83 exemptions were in force where monitoring the achievement of purpose required verification of end use by the importer enjoying the exemption. The Committee understand that the Ministry of Finance have already started review of such general exemption notifications. A review in respect of *ad hoc* exemptions should, therefore, not only be feasible but even simpler and should be done in consultation with the administrative Ministry. The Committee, therefore, reiterate their earlier recommendation that without needless duplication of work a system be evolved whereby the Ministry of Finance may be in a position to review periodically and make an independent appraisal as to how far the objectives underlying the grant of *ad hoc* exemptions have been achieved and whether, as a result of such appraisal, there is justification for the continuance of the exemption.

Failure to reduce the prices of imported oils

(Serial No. 23—Para 2.92)

1.10 Commenting adversely on the failure of the Government to reduce the prices of imported edible oils while supplying the same to the consumers when its purchase price in the international market had fallen, the Committee in para 2.92 of their 105th Report had observed/recommended as follows :

“The Committee feel that the plea of the Ministry of Civil Supplies that the prices were not reduced in order to maintain stability in the prices of edible oils and as a part of overall oil policy is totally unconvincing. They would like to point out that the basic objective of granting exemption in duty on the imported edible oils was to ensure the supply of these oils to the consumers at reasonable prices. With the fall in the

STC's purchase prices of imported oils, benefit should have been passed on to the consumers so that the consumer could have got some relief at least on one count ; in this era of spiralling price rise. Since imported oils made available through the public distribution system constituted about 20 per cent of the total household consumption of edible oils in the country, any reduction in the prices of imported oils would have made an impact on the prices of indigenous edible oils leading to a fall in its prices. Further as about 50 to 60 per cent of the imported edible oils was being supplied to vanaspati industry ; Government by supplying these oils to the industry at reduced price could have prevailed upon the manufacturers to reduce the price of vanaspati thus resulting in some relief to the consumers in the availability of vanaspati. What is still more shocking is that the Government's continuance to charge the same prices for imported oils even after the fall in the State Trading Corporation's purchase prices enabled private parties to exploit the situation and make exorbitant profits by selling oil, imported at cheaper prices on the basis of contracts entered into before canalisation at the high prices prevailing in the open market.

All these facts clearly demonstrate the scant regard Government displayed towards the interest of vast multitudes of helpless consumers in the country. The Committee cannot but express their deep anguish at this lapse on the part of the Government".

1.11 In their Action Taken Note, the Ministry of Civil Supplies have stated as follows :

"The import of edible oils is to bridge the gap between the domestic production and the demand and at the same time ensure availability of edible oils at reasonable prices to the consumers. It has also been the view of the Government that a wide gap between the prices of imported oils and that in the domestic market would put a severe pressure on the Public Distribution System requiring larger imports. This might also run the risk of malpractices in as much as the edible oils will leak into other directions. Another important consideration is that this might act as a disincentive to domestic production. It may also be mentioned that the operations are undertaken by the State Trading Corporation of India on behalf of the Government and any surplus on this account would accrue to the Government and not to the S.T.C.

In so far as its usage in vanaspati is concerned there is a voluntary price control of Rs. 217 per tin of 16.5 kg. and this is based on present issue price of imported oils. If the prices of imported oils are reduced and the vanaspati prices are also reduced correspondingly it would lead to a wide disparity of prices between indigenous edible oils and the vanaspati prices resulting in the diversion of consumers from oils to vanaspati putting undue pressure not only on imported edible oils but also on vanaspati.

Taking these into account a reasonable price has to be fixed for the imported edible oils also and not merely based on the imported cost”.

1.12 In their earlier Report, the Committee had pointed out that the basic objective of granting exemption in duty on the imported edible oils was to ensure the supply of these oils to the consumers at reasonable prices. With fall in the prices of imported edible oils, the benefit should have been passed on to the consumers so that the consumers could get some relief. However, Government continued to charge the same price for imported oils even after fall in the STC's purchase price which enabled private parties to exploit the situation and make exorbitant profits by selling oils, imported at cheaper prices on the basis of contracts entered into before canalisation, at high prices then prevailing in the open market. The Committee had observed that by not giving a relief to the consumers, Government had displayed scant regard towards the interest of vast multitudes of consumers in the country. In their reply, the Ministry of Civil Supplies have *inter alia* stated that a reduction in the prices of imported oils might have acted as a disincentive to the domestic production. The Committee are not convinced by this argument, for, as they observe, imported edible oils mainly cater, through the Public Distribution System, to the needs of relatively poorer sections of society who do not have the means to purchase sufficient quantities of high-priced indigenous edible oils. Nor does a small decrease in the price of vanaspati oil, in which imported oils are used, tangibly affect the production of indigenous oils. The Committee, therefore, reiterate their earlier view that by their failure to reduce the prices of imported edible oils, Government had displayed scant regard towards the interest of vast multitudes of consumers in the country. The Committee trust that Government would take care to avoid such lapses in future and with fall in the prices of imported oils, pass on the benefits to consumers.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

1.44. The value of goods for purposes of assessment to Customs duty is determined under section 14 of the Customs Act, 1962. Sub-Section (2) thereof empowers the Government to fix tariff values for any class of imported goods having regard to the trend of values of such or like goods for the purpose of levying customs duty on *ad valorem* basis. Accordingly, Government have fixed tariff values in respect of dry fruits, fresh fruits and other specified goods. These values are revised from time to time. The Tariff values of dry fruits as fixed in 1975 were not revised till 1979. According to the audit paragraph, the invoice values of dry fruits imported during the years 1975 to 1979 were so much more than the tariff values fixed in 1971 that the non-revision of tariff values during these years resulted in short realisation of Customs duty to the extent of Rs. 22.40 crores.

1.45. The Ministry of Finance have not accepted the above figures of Rs. 22.40 crores. They have stated that assuming that the tariff values fixed in 1975 would have been in operation at least for a year or one and a half years and that the rise between 1975 and 1979 in tariff values was of a uniform order, additional revenue which would have accrued on the basis of notional tariff values would be Rs. 6.072 crores approximately during the aforesaid period. It is not, however, the Ministry's case that the prices of dry fruits remained stable during the year 1975-1979; they have, in fact, accepted that the prices did continuously rise during these years. Whatever, therefore, be the exact quantum of loss of revenue between the two extremes of Rs. 6 crores and Rs. 22 crores, the fact remains that the non-revision of the tariff values over a long period of 4 years when the actual prices were going up did result in a very substantial loss of revenue.

1.46. The authority given to the Central Government to fix tariff values in Section 14 (2) of the Customs Act is subject to the guidelines that the tariff values should be fixed "having regard to the trend of value of such or like goods". It is, thus incumbent on the Central Government to ensure that the tariff values fixed by them do keep pace with the trend of actual values. The Committee are, therefore, unable to accept the wide statement that there

is no periodicity laid down in the law for the fixation of tariff values ; the aforesaid provision apparently implies a periodicity in consonance with the movements of actual values of the particular goods. In the Committee's view, the basic principle of valuation under Section 14 is the value in the course of international trade and a tariff value is only a value of convenience which can be adopted in the case of goods whose value fluctuates within narrow limits. Such tariff value has to keep pace with the trend of actual values and a tariff value which loses its relation with the actual value is no more a proper value within the meaning of Section 14.

[S. Nos. 1, 2 and 3—Paras 1.44, 1.45 and 1.46 of 105th Report of P.A.C.
(Seventh Lok Sabha)]

Action Taken

It is true that if the tariff values had been revised with a periodicity of one year, the revenue realisation during the relevant period of four years would have been approximately 6 crores more than what it was, and if it is presumed that the rise in the value of the dry fruits was at a uniform pace throughout this period of 4 years, the addition to the revenue every year would have been 1.5 crores during this period. But as has been explained in the written and the oral submissions, until the then Minister of State for Finance instructed in 1979 that there should be a fixed periodicity of 1 year or six months for the revision of the Tariff values, no fixed periodicity had been observed and in practice the Tariff Values had been fixed about once in four years since 1965. Values fixed in 1965 were changed in 1969, then in 1971 and again in 1979.

[Mo. Finance (Deptt of Revenue) O.M.F. No. 369/3/82—Cus I Date
25.3.83]

Recommendation

The Committee would recommend that in this as well as in all other cases where tariff values are fixed, such values should be kept under constant watch to make sure that they do not, at any point of time, lose their relationship with the actual values. The Committee would reiterate that this is an essential requirement of section 14 (2) of the Customs Act, 1962.

[S. No. 5—Para 1.48 of 105th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

Committee's observations have been noted. In fact, since 1979, periodicity as prescribed by the Government is being observed.

[M. Finance (Deptt. of Revenue) O.M.F. No. 369/3/82—Cus. I Date.
25.3.83]

Recommendation

Section 25 (2) of the Customs Act, 1962 empowers the Central Government to exempt, in the public interest and under circumstances of an exceptional nature, from payment of customs duty, any goods on which duty is leviable. These exemptions fall into two broad categories, viz., exemptions to trade and exemptions to individuals, institutions or organisations. The Committee are informed that exemptions to trade are allowed on broad economic considerations such as the difference in international and domestic prices. The exemptions are recommended in most of the cases by the administrative Ministries and considered by the Ministry of Finance to meet the scarcity of a particular commodity at the relevant time. The exemptions to individuals and institutions are granted keeping in view the socio-economic objectives of the State so as to subserve the public interest. By and large, the exemptions in such cases are granted where the articles have been gifted and no outgo of foreign exchange is involved. The status of the recipient organisation and genuineness of the request of an individual are taken into account. Conditions are imposed for fulfilment either before or after clearance of goods to ensure that the exemptions granted is utilised for the avowed objective.

(S. No. 8 para 2.30 of the 105th Report of P.A.C. (7th Lok Sabha))

Action Taken

This para contains narration of facts and no action is called for.

[Mo. Finance (Deptt. of Revenue) O.M.F. No. 369/7/82—Cus V Date.
15.7.83]

Recommendation

Exemption notifications are issued either with a limited period of validity when the need for exemption from duty is for a limited period or without limitation of any validity period. The Committee are informed that the review of the former type of notifications is undertaken by the Ministry of Finance prior to the expiry of validity in consultation with the administrative Ministry but this practice is not followed in the latter type of cases where the continuation of the exemption is reviewed in consultation with the administrative Ministry only when it is felt necessary in case of a particular notification.

[S. No. 9 para 2.31 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

This para contains narration of facts and no action is called for.

[M/o. Finance (Deptt. of Revenue) O.M.F. No. 369/7/82—Cus. I Date
15.7.83]

Recommendation

The Committee were informed during evidence that it is not possible to define "Public Interest" in precise terms or to spell out the exceptional circumstances under which adhoc exemptions could be granted under section 25(2) of the Customs Act, 1962. According to the procedure in vogue, each case for grant of exemption is examined by the Ministry of Finance in consultation with the administrative Ministry and the exemption notification is issued after obtaining approval of the Minister-in-charge. All such notifications are laid before Parliament.

[S. No. 10 para 2.32 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

This para contains narration of facts and no action is called for.

[M/O Finance (Department of Revenue) O.M.F. No. 369/7/82 Cus. I dated 15.7.83]

Recommendation

The number of exemption notification issued under Section 25(2) of the Customs Act, 1962, was 248, 301, 198 and 100 during the years 1976-77, 1977-78, 1978-79 and 1979-80 respectively. The duty foregone as a result of these exemptions was Rs. 9.44 crores, Rs. 15.52 crores, Rs. 59.98 crores and Rs. 245.18 crores respectively during these years.

[S. No. 11 para 2.33 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

This para contains narration of facts and no action is called for.

(M/O Finance (Department of Revenue) O.M.F. No. 369/7/82-Cus. I dated 15.7.83).

Recommendation

A break up of 11 cases where exemptions Duty effect Rs. 184.52 crores were granted during the year 1978-80 and the amount of duty foregone was more than Rs. 10 crores in each case is given below :

- (i) To SAIL for import of mild steel plates and structurals ; duty effect Rs. 22.71 crores and Rs. 62.75 crores.
- (ii) To STC for import of edible vegetable oil ; duty effect Rs. 23.84 crores and Rs. 13.08 crores.
- (iii) To MMTC for import of aluminium ingots : duty effect—Rs. 10.82 crores and Rs. 13.08 crores.
- (iv) To National Dairy Development Board, Baroda for import of refined soyabean ; duty effect—Rs. 19.25 crores.
- (v) To Government Medical Store, Madras for import of mobile medical clinics and spare parts, duty effect—Rs. 15.29 crores.

[S. No. 12 para 2.34 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

This para contains narration of facts and no action is called for.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 369/7/82-
Cus. I dated 15.7.83]

Recommendation

Section 25(1) of the Customs Act, 1962 empowers the Government to grant in the public interest exemptions generally from payment of customs duty. The Committee have been informed that revenue effect of exemptions granted under Section 25(1) was of the order of Rs. 205 crores in 1979-80. As against this, the revenue effect of advance exemptions granted under Section 25(1) during 1979-80 was Rs. 245.18 crores in 100 cases. Considering the list furnished to the Committee giving details of 68 cases in which exemptions involving a duty effect of over Rs. 25,000/- were given during the year 1979-80, and the cases of grant of exemption of STC for import of edible oil and to SAIL for import of steel, number of such notifications issued were 248, 301, 198 and 100 during the years 1976-77, 1977-78, 1978-79 and 1979-80 respectively, the Committee cannot but conclude that the power vested in the executive to grant exemptions only in "public interest" has "under circumstances of an exceptional nature" has been exercised to too liberally and in some cases in utter disregard of the intentions of Parliament.

[S. No. 13 para 2.35 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

Each case of exemption from Customs duty, whether under Section 25(1) or 25(2) of the Customs Act, 1962, is considered on merit to satisfy that the conditions laid down under section 25 of the Customs Act, 1962 are fully satisfied. For this purpose the cost data, domestic and international prices, demand—supply position, import policy, distribution policy etc. of the goods in question are obtained—from the Ministry Administratively concerned with the goods. These data are analysed and Customs duty exemptions are granted only to the extent justified by the data. In the cases of exemptions granted to STC and SAIL in respect of Vegetable Oils and Steel items also this exercise was undertaken.

It would therefore, appear that there was sufficient justification for granting Custom duty exemption on these goods as per data made available to the Ministry of Finance (Department of Revenue) and that the power vested with the executive to grant exemptions was exercised cautiously.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82
Cus. I dated 15.7.83]

Recommendation

The Committee find that due to acute shortage of edible oils in the country in the year 1976-77, the imports of edible oils were allowed under Open General Licence. Due to continued shortages of edible oils resulting from stagnation in the production of groundnut and mustard seed in the country, it was decided to canalise the imports of such oils through State Trading Corporation with effect from 2.12.1978. The S.T.C. imports edible oils on Government account for supply to vanaspati industry for the manufacture of vanaspati and to the State Governments/Union Territories for supply to consumers under public distribution system. For supply to the vanaspati industry, the S.T.C. imports crude soyabean oil, crude rapeseed oil and crude palm oil/neutralised palm oil. For supply to State/Union Territories for the purpose of public distribution system, the S.T.C. imports RBD palm oil, RBD palmolein and also rapeseed oil.

[S. No. 16, para 2.85 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

Since this para contains only narration of facts, no action is called for.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-Cus. I dated 30.3.83]

Recommendation

Customs Tariff Act, 1975 *vide* entry 15.07 imposed a duty of 60 per cent on imports of vegetable oils. However, prior to 1 March, 1979 total exemption from payment of duty on imports of vegetables oils was allowed in pursuance of notification issued under section 25(1) of the Customs Act, 1962. This policy of exemption was modified with effect from 1 March, 1979 and a duty of 12½ per cent was levied on all imports of such oils. Soon thereafter, the Ministry of Civil Supplies sent a proposal to the Ministry of Finance for total exemption from customs duty on imports of edible oils through STC on the grounds that—

- (i) the imports were meant for exercising moderating influence on the prices of indigenous oils because of which the landed cost should not be increased ;
- (ii) it was not in the public interest to raise the cost of vanaspati ; and
- (iii) the prices fixed for public distribution of edible oils were to be retained at the same levels.

[S. No. 17 para 2.86 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

Since this para contains narration of facts, no action is called for.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-Cus. I dated 30.3.83]

Recommendation

The Ministry of Finance did not agree to total exemption of duty. They, however, agreed to reduction of duty from 12½ per cent to 5 per cent in the case of oils imported by STC consequently an exemption notification allowing STC to import three lakh tonnes of edible oils on payment of concessional rate of duty of 5 per cent was issued on 17.3.1979 under section 25(2) of the Customs Act, 1962. Since then, notifications allowing imports of specified quantities of these oils at the aforesaid concessional rate of duty have been issued from time to time. The latest exemption order No. 28 dated 28.2.1982 is for import of 2 lakh tonnes of edible oils at the concessional rate of duty and is in force upto 31.7.1982.

[S. No. 18 para 2.87 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

Since this para contains narration of facts, no action is called for.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-Cus. I dated 30.3.83]

Recommendation

During the oil year 1979-80, STC imported 11.49 lakh tonnes of the edible oils at a cost of Rs. 617.18 crores. During 1980-81, the quantity imported was 10.74 lakh tonnes at a cost of Rs. 516.00 crores. The indigenous production of edible oils in the country was 24.40 lakh tonnes and 25.03 lakh tonnes during the years 1979-80 and 1980-81.

[S. No. 19 para 2.88 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

This para exclusively relates to Ministry of Commerce and Ministry of Finance has no comments to offer.

[M/O. Finance (Deptt. of Revenue) O.M.F. No. 369/7/82-Cus. I dated 30.3.83]

Recommendation

The Committee have been informed that there was perceptible fall in the prices of edible oils in the international market after September, 1979. For example, the prices of soyabean oil in the international market ranged between Rs. 6188 and Rs. 6358 per metric tonne in July-September, 1979. In October-

December, 1979 the price of this oil ranged between Rs. 5661 and Rs. 6035 and between January-March, 1980, it ranged between Rs. 5117 and 5559. The prices fall to between Rs. 4544 and 5488 in October-December, 1980 and further fell in the range of Rs. 4230-4760 between January-March, 1981. Similar downward trend occurred in the prices of other edible oils. In spite of this downward trend in the international prices of edible oils, and the continuing concessional rate of duty, the consumers were charged the same rate for these oils.

[S. No. 20 Para 2.89 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

This para exclusively relates to Ministry of Commerce and Ministry of Finance has no comments to offer.

[M.O. finance (Deptt. of Revenue) O.M. No. F 369/7/82-Cus. I dated 30.3.83]

Recommendation

The issue price of edible oils per tonne supplied to the States/Union Territories for distribution through public distribution system since April-June, 1979 has been :

Rs. 6300/-rapeseed oil (Crude)
 Rs. 8000/-rapeseed oil (refined)
 Rs. 6000/-RBD palm oil (bulk)
 Rs. 7750/-RBD palm oil (in tine)
 Rs. 6400/-RBD palm oil (in bulk)
 Rs. 7750/-RBD palm oil (in tins)

It will be seen that although STC was purchasing oils at much cheaper rates in the international market and was also availing of duty concession, no reduction in the aforesaid issue prices was effected by the Government. There was also no change since September, 1979 in the prices of soyabean oil (crude), rapeseed oil (crude), crude palm oil and neutralised palm oil to vanaspati industry. These prices ranged between Rs. 7060/- and Rs. 7210/- per tonne. The result was that while the Ministry of Finance had foregone customs duty to the extent of Rs. 40 crores during 1980-81, the surplus available with the STC on account of edible oil imports was to the tune of Rs. 80 crores in that year.

[S.No. 21 para 2.90 of 105th Report of P.A.C. (7th Lok Sabha)].

Action Taken

This para mainly relates to Ministry of Commerce and Ministry of Finance has no comments to offer.

[M.O. Finance (Deptt. of Revenue) O.M F No. 369/7/82-Cus. I Dt. 30.3.83]

Recommendation

The Committee were informed during evidence that STC was operating as an agent of the Government and the surplus generated on this account would be appropriated by Government and deficit, if any, was to be reimbursed to STC. The Committee are of the view that this makes the position still worse as it indicated that Government resorted to profiteering at the cost of the consumers. The Committee were further informed that imports at concessional rate were being allowed as a part of overall edible oil policy and with the objective of maintaining stability in the prices of edible oils in view of the fluctuations in the international edible oil situation. It was further stated that as there was a wide gap in the prices of imported oils supplied through public distribution system and the open market prices of edible oils, it was felt that any reduction in the price of imported oils would further widen the gap.

[S.No. 22 para 2.91 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

This para exclusively relates to Ministry of Commerce and Ministry of Finance has no comments to offer.

[M.O. Finance (Deptt. of Revenue) O.M.F. No. 369/7/82 Cus. F dt. 30.3.83]

Recommendation

The Committee find that there is at present no statutory price control over vanaspati. The vanaspati units about 90 in number and spread all over the country supply vanaspati under the voluntary price discipline arrangement at the stipulated prices and within the ranges agreed to on mutual consultation between the industry and the Government. Under the existing system about 50 to 60 percent of the edible oils imported by the STC is made available to the vanaspati industry for manufacture of vanaspati. The vanaspati units submit to the Government returns of their total production as also the names of parties to whom the supplies are made by them. The voluntary price arrangement implies a certain self-imposed discipline on the part of the manufacturers who are responsible to discipline their wholesalers and retailers. If any wholesaler or retailer sells vanaspati at higher than the stipulated price, it does not constitute an offence but only violation of the voluntary price practice, and if such an instance is brought to the notice of the Government, the latter can only compel the manufacturers to take action against the particular offenders.

[S. No. 26 para 2.95 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

Directorate of Vanaspati, Veg. Oils and Fats is monitoring the availability and prices of vanaspati. A surveillance is kept on the prices of vanaspati to see that the restraint in price discipline is maintained by the industry. However, minor variation/slight increase or decrease in a country

of such magnitude cannot be ruled out. Moreover, there are instances when due to slackness in demand, a tin of vanaspati was sold at a price lower than that fixed under voluntary price arrangement. The overall position of maintenance of price discipline has, by and large, been satisfactory. However, a close watch will be kept in regard to the prices of vanaspati.

[Ministry of Food and Civil Supplies (Deptt. of Civil Supplies) O.M. No. G—25015/3/81/B. and F. Dated 4.7.83]

Recommendation

The Committee note that the production of oilseeds in the country has remained stagnant during the last about 10 years. On the other hand, demand for edible oils has increased with the result that Government had to spend huge amounts on the imports of these oils.

The cost of imports of edible oils through STC was to the tune of Rs. 479.83 crores in 1978-79, Rs. 617.18 crores in 1979-80 and Rs. 516 crores in 1980-81. This is a matter of deep concern particularly at a time when the country is facing a large foreign exchange deficit and has been compelled to go in for large scale foreign borrowings. The Committee are distressed that the vital sector of agricultural economy which provides rich protein to the vast segment of our population has been neglected all these years and has been left untouched by the Green Revolution. The Committee are of the firm view that the country cannot afford to spend large sums of scarce foreign exchange on the import of edible oils when with a little effort indigenous production can be stepped up to meet the entire domestic demand. The Committee therefore, recommend that Government should immediately chalk out a detailed strategy and time-bound programme to increase the production of oilseeds in the country so as to attain self-sufficiency in this vital field at the earliest.

[S. No. 28, para 2.97 of 105th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

Government fully agrees with this recommendation. A number of steps are being taken to increase production and productivity of oilseeds.

A provision of Rs. 65 crores has been made for Central assistance for implementation of the Centrally Sponsored Schemes for oilseeds development in the Sixth Plan in the country.

A sum of Rs. 10 crores was provided for 1980-81 and an outlay of Rs. 14 crores was provided for 1981-82. The provision for 1982-83 is Rs. 17.64 crores. During the Sixth Plan, an area of 40.50 lakh hectares is proposed to be covered under Intensive Oilseed Development Scheme. Under the Scheme of Extension of Oilseeds to new irrigated areas an area of 14.30 lakh hectares is proposed to be covered. Similarly, under the Centrally Sponsored Schemes for the development of soyabean and Sunflower, an area of 3.50 lakh hectares and 6.68 lakh hectares respectively is proposed to be covered.

Keeping in view the importance of oilseeds for the economy of this country, the following programmes are also being implemented :

(i) *Project for Intensive Development of Groundnut in Saurashtra* : An outlay of Rs. 35 crores has been earmarked in the sixth plan for implementation of the Project in the selected districts of the Saurashtra region in Gujarat State. It is proposed to raise groundnut production from 18 lakh tonnes in 1979-80 to 27 lakh tonnes in 1983-84.

(ii) *Soyabean Production Programme in Madhya Pradesh* : An outlay of Rs. 15 crores has been provided for this scheme (1982-86). The area under soyabean in the State is proposed to be increased from 4.5 lakh hectares in 1980-81 to 18 lakh hectares in 1985-86. The production is estimated to be 14.40 lakh tonnes in 1985-86.

(iii) *National Dairy Development Board's Oilseed Project* : Under this project, the techniques of cooperative organisation are being applied to the vegetable oil Sector to achieve vertical integration of production, marketing and processing and thus help the farmers to adopt improved production technique for raising yields, stabilise production and offering year to year price stability at remunerative level.

Other oilseeds

Efforts are also being made to exploit other sources of oil like cottonseed, rice bran and oilseeds of tree origin.

National Oilseeds Development Project

Besides the above mentioned programmes, a national oilseeds development project at an estimated cost of about Rs. 70 crores is being formulated for implementation in the country during the VI Plan. The Project envisages to increase the production by about 25.62 lakh tonnes in the terminal year of the Plan. The Project will continue in the VII Plan also.

The oilseeds production in the country has now gained momentum as a result of the strenuous efforts being made by the farmers, the State Governments and the Government of India. A record production of 120.60 lakh tonnes of oilseeds was achieved in 1981-82 as against the target of 112 lakh tonnes, and the actual production of 93.40 lakh tonnes achieved in 1980-81.

Thus various programmes are under implementation to help improve production of oilseeds and thereby edible oil.

[Ministry of Food and Civil Supplies (Deptt. of Civil Supplies) O.M. No. G-25015/3/81/B. and F. Dated 4.7.83]

Recommendation

The Committee note that the production of oilseeds in the country has remained stagnant during the last about 10 years. On the other hand, demand for edible oils has increased with the result that Government had to spend huge amounts on the import of these oils.

The cost of imports of edible oils through STC was to the tune of Rs. 479.83 crores in 1978-79, Rs. 617.18 crores in 1979-80 and Rs. 516 crores in 1980-81. This is a matter of deep concern particularly at a time when the country is facing a large foreign exchange deficit and has been compelled to go in for large scale foreign borrowings. The Committee are distressed that this vital sector of agricultural economy which provides rich protein to the vast segment of our population has been neglected all these years and has been left untouched by the Green Revolution. The Committee are of the firm view that the country cannot afford to spend large sums of scarce foreign exchange on the import of edible oils when with a little effort indigenous production can be stepped up to meet the entire domestic demand. The Committee therefore, recommend that Government should immediately chalk out a detailed strategy and time-bound programme to increase the production of oilseeds in the country so as to attain self-sufficiency in this vital field at the earliest.

[S. No. 28, para 2.97 of 105th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

The Report recommends detailed strategy and time bound programme to increase the production of oilseeds in the country. The strategy/programme in the context of the oilseed production is set out below :

2. The Government of India have made a provision of Rs. 65 crores on account of the Central assistance for implementation of the Centrally Sponsored Schemes for oilseeds development in the 6th Plan in the country. A sum of Rs. 10 crores was provided for 1980-81 and an outlay of Rs. 14 crores was provided for 1981-82. The provision for 1982-83 is Rs. 17.64 crores. During the Sixth Plan, an areas of 40.50 lakh hectares is proposed to be covered under Intensive Oilseed Development Scheme. Under the scheme of Extension of Oilseeds to new irrigated areas an area of 14.30 lakh hectares is proposed to be covered. Similarly, under the Centrally Sponsored Schemes for the development of soyabean and Sunflower, an area of 3.50 lakh hectares and 6.68 lakh hectares respectively is proposed to be covered.

Keeping in view the importance of oilseeds for the economy of the country, the following programmes are also being implemented.

(i) *Project for Intensive Development of Groundnut in Saurashtra* : An outlay of Rs. 35 crores has been earmarked in the Sixth Plan for implementation of the Project in the selected districts of the Saurashtra region in Gujarat State. It is proposed to raise groundnut production from 18 lakh tonnes in 1979-80 to 27 lakh tonnes in 1983-84.

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(iii) *National Dairy Development Board's Oilseed Project*: Under this Project, the techniques of cooperative organisation are being applied to the vegetable oil Sector to achieve vertical integration of production, marketing and processing and thus help the farmers to adopt production technique for raising yields, stabilise production and offering year to year price stability at remunerative level.

Other oilseeds

Efforts are also being made to exploit other sources of oil like cottonseed, rice bran and oilseeds of tree origin.

National Oilseeds Development Project

Besides the above mentioned programmes, a national oilseeds development project at an estimated cost of about Rs. 70 crores is being formulated for implementation in the country during the VI Plan. The project envisages to increase the production by about 25.62 lakh tonnes in the terminal year of the Plan. The Project will continue in the VII Plan also.

The oilseeds production in the country has now gained momentum as a result of the strenuous efforts being made by the farmers, the State Governments and the Government of India. A record production of 120.60 lakh tonnes of oilseeds was achieved in 1981-82 as against the target of 112 lakh tonnes and the actual production of 93.40 lakh tonnes achieved in 1980-81.

[Ministry of Agriculture, Department of Agriculture and Cooperation,
O.M. No. 26030/1/82—T dated 30.12.1982/16.2.83]

Recommendation

The Committee find that when the Ministry of Steel approached the Ministry of Finance for grant of exemption from duty on import of steel in the year 1978-79, the former had only given information in regard to the extent of shortfall without furnishing figures of the total indigenous demand or actual availability of the material in the country. The representative of the Ministry of Finance admitted during evidence that they had "trusted" that all relevant factors regarding the total production and total demand in the country were taken into consideration by the Ministry of Steel and that the Ministry of Finance granted exemption only on the basis of the figures of shortfall and also the fact that the international price being high, duty will add to the domestic pooled price. The Committee are shocked to find that the Ministry of Finance who are supposed to be fully equipped with all the data essential to examine the proposal for duty exemption should have granted exemption in the absence of such vital information. The Committee cannot but reach at the conclusion that the Ministry of Finance did not apply their mind independently whether the exemptions asked for by the Ministry of Steel from time to time

were actually essential and were in the public interest. The Committee would like the Ministry of Finance to be more careful in future while taking a decision on requests for exemptions. As already stated in para 2.93, they would like the Ministry of Finance to be more careful and obtain all relevant information and arrive at an independent judgement before grant of exemption.

[S.No. 32 para 2.151 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

As already explained in action taken note for para 2.93, each case of customs duty exemption is examined on merits to satisfy that sufficient economic justification exists and that the conditions laid down under Section 25 of the Customs Act, 1962 are fully satisfied. For this purpose the details of cost data, demand and supply position and extent of short fall necessitating the imports, supplied by the Administrative Ministry concerned is relied upon. The Ministry of Finance (Department of Revenue) has no machinery of its own to cross check the data supplied by the Administrative Ministry nor is it considered necessary since they are supplied by another wing of the Government.

In the case of customs duty exemption on steel items when the Ministry of Steel & Mines had indicated the extent of short fall necessitating the imports, it was presumed that they had taken into consideration the total demand and indigenous availability of these items to arrive at the extent of short fall which was required to be covered by imports and for which customs duty exemption was asked for. It would, therefore not be correct to say that this Ministry had not applied the mind while granting the exemptions. Due care was taken in each case to ensure that all relevant data were obtained from the administrative Ministry concerned and analysed for economic justification and to satisfy the conditions laid down under section 25 of the Customs Act, 1962, before decision was taken to grant exemptions.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 369/7/82-Cus. I dt. 15.7.83]

Recommendation

The Committee find that when the Ministry of Steel approached the Ministry of Finance for grant of exemption from duty on import of steel in the year 1978-79, the former had only given information in regard to the extent of short-fall without furnishing figures of the total indigenous demand or actual availability of the material in the country. The representative of the Ministry of Finance admitted during evidence that they had "trusted" that all relevant factors regarding the total production and total demand in the country were taken into consideration by the Ministry of Steel and that the Ministry of Finance granted exemption only on the basis of the figures of shortfall and also the fact that the international price being high duty will add to the domestic pooled price. The Committee are shocked to find that the Ministry of

Finance who are supposed to be fully equipped with all the data essential to examine the proposal for duty exemption should have granted exemption in the absence of such vital information. The Committee cannot but reach at the conclusion that the Ministry of Finance did not apply their mind independently whether the exemptions asked for by the Ministry of Steel from time to time were actually essential and were in the public interest. The Committee would like the Ministry of Finance to be more careful in future, while taking a decision on requests for exemptions. As already stated in para 2.93, they would like the Ministry of Finance to be more careful and obtain all relevant information and arrive at an independent judgement before grant of exemption.

[Sl. No. 32—Para 2.151 of 105th Report of P.A.C. (7th L.S.)]

Action Taken

Department of Steel takes into account all relevant aspects, including demand availability and shortfall before making a specific proposal to the Ministry of Finance for duty exemption, though in respect of proposals in 1978-79 only shortfalls for the items for which duty exemptions were sought were indicated. All relevant data required by the Ministry of Finance to consider duty exemption proposals were being furnished.

[Ministry of Steel & Mines (Deptt. of Steel) O.F. No. S.C.D. II—14(5)/
82 dt. 21.2.83]

Recommendation

In respect of iron and steel items for which SAIL is the canalising agency, imports are made on back to back basis and under buffer scheme. The former are against specific demands of parties. Imports under buffer scheme are distributed at indigenous prices under the price pooling arrangement. The material imported under this scheme is distributed as per the procedure laid down by Joint Plant Committee Iron and Steel Controller from time to time. The Committee were informed that out of the total steel items imported during 1978-79, 68 per cent were supplied to Government and public sector organisations and the remaining 32 per cent to the private sector. Out of 32 per cent of steel items supplied to the private sector, 2 per cent sent to the small scale units. The Committee were also furnished with statements which showed that many private parties were supplied the same steel products both under the back to back arrangement as well as under buffer scheme during the year 1978-79 and 1981-82. While the former paid duty, the latter was exempted. The Committee are unable to appreciate why the same parties who apparently could bear the duty burden were also supplied duty free steel under the buffer scheme. The Committee would therefore urge the Government to examine whether it is necessary to continue to grant exemption from duty in respect of steel supplied under the buffer scheme. The Committee also recommend that the existing policy of supply of duty free steel to the private sector should be critically

reviewed in the interest of revenue as also to prevent malpractices in the distribution and sale of steel products to the consumers.

[S.No. 33 para 2.152 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

It is a matter of accountal and distribution of imported steel items which exclusively concerns the Ministry of Steel & Mines and Ministry of Finance has no comments to offer.

[Ministry of Finance (Deptt. of Revenue) O.M.F. No. 369/7/82/Cus. I dt.
30.3.83]

Recommendation

In respect of iron and steel items for which SAIL is the canalising agency, imports are made on back to back basis and under buffer scheme. The former are against specific demands of parties. Imports under buffer scheme are distributed at indigenous prices under the price pooling arrangement. The material imported under this scheme is distributed as per the procedure laid down by Joint Plant Committee/Iron and Steel Controller from time to time. The Committee were informed that out of the total steel items imported during 1978-79, 68 per cent were supplied to Government and public sector organisations and the remaining 32 per cent to the private sector. Out of the 32 per cent of steel items supplied to the private sector, 2 per cent went to the small scale units. The Committee were also furnished with statements which showed that many private parties were supplied the same steel products both under the back to back arrangement as well as under buffer scheme during the years 1978-79 and 1981-82. While the former paid duty, the latter was exempted. The Committee are unable to appreciate why the same parties who apparently could bear the duty burden were also supplied duty free steel under the buffer scheme. The Committee would therefore urge the Government to examine whether it is necessary to continue to grant exemption from duty in respect of steel supplied under the buffer scheme. The Committee also recommend that the existing policy of supply of duty free steel to the private sector should be critically reviewed in the interest of revenue as also to private malpractices in the distribution and sale of steel products to the consumers.

[Sl. No. 33—Para 2.152 of 105th Report of P.A.C. (7th L.S.)]

Action Taken

The imports under buffer scheme were made to supplement the shortfall in domestic production and were intended to be treated on par with indigenous production both in respect of prices as well as the distribution norms. More-

over, the quantity of buffer imports had to be limited keeping in view the financial limitations of the balance in Import Pool Fund generated through a levy on the indigenous steel. Hence, the same unit could have got steel from both types of imports. It will be unreasonable to burden one unit only with the duty paid imports of steel, thereby burdening the unit with additional costs for the production of steel based items. The distribution norms are such that they take care of a situation where the end user is in a position to use more steel and hence supply from both, buffer and back-to-back imports to the same party cannot be avoided.

[Ministry of Steel and Mines (Deptt. of Steel) O.M. No. S.C. D. II-14(5)/82 dt. 21.2.83]

Recommendation

The Committee find that the Ministry of Finance issued an exemption order on 23 December, 1978 for import of 75,000 tonnes of steel ingots. The exemption was sought by the Ministry of Steel on the ground of shortfall in the availability to the Rourkela and Bokaro steel plants to enable them to roll the same into finished products. However, this order was not operated in 1978-79 and no material was imported in that year against this order. The exemption order was amended twice in the year 1979-80 to substitute for the imports of 75,000 tonnes of steel ingots—first on 5 June, 1979 for import of 30,000 tonnes of steel ingots and 30,000 tonnes of slabs and again on 18.9.1979 for 75,000 tonnes of slabs. Then again in 1980-81, on 21 April, 1980 the order was amended for import of 50,000 tonnes of slabs and 25,000 tonnes of billets. The Committee were informed by the representatives of the Ministry of Finance during evidence that the Ministry agreed to convert the exemption order for ingots to slabs and billets because “The rate of duty was the same” and that “it would have been possible to issue a separate order”.

[(S. No. 34 para 2.153 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

This para contains narration of facts and no action is called for.

[Ministry of Finance (Deptt. of Revenue) O.M.F. No. 369/7/82—Cus. I Dated 30.3.83].

Recommendation

The Committee find that the Ministry of Finance issued an exemption order on 23 December, 1978 for import of 75,000 tonnes of steel ingots. The exemption was sought by the Ministry of Steel on the ground of shortfall in availability to the Rourkela and Bokaro Steel Plants to enable them to roll the same into finished products. However this order was not operated in 1978-79 and no material was imported in that year against this order. The exemption order was amended twice in the year 1979-80 to substitute for the imports

of 75,000 tonnes of steel ingots—first on 5 June, 1979 for import of 30,000 tonnes of steel ingots and 30,000 tonnes of slabs and again on 18-9-79 for 75,000 tonnes of slabs. Then again in 1980-81, on 21 April, 1980 the order was amended for import of 50,000 tonnes of slabs and 25,000 tonnes of billets. The committee were informed by the representative of the Ministry of Finance during evidence that the Ministry agreed to convert the exemption order for ingots to slabs and billets because “the rate of duty was the same” and that “it would have been possible to issue a separate order”.

[S. No. 34—Para 2.153 of 105th Report of P.A.C. (7th L.S.)]

Action taken

The exemption order No. 308 dated 23.12.1978 for import of 75,000 tonnes of ingots was not operated because ingots of the right sizes were not available. Hence, final modification to the exemption order was made on 21st April, 1980 for import to slabs and billets keeping in view all relevant facts, including the capability of getting such materials converted in the plants.

[Ministry of Steel and Mines (Deptt. of Steel) O.M. No. SC—D II—14 (5)/82 Dated 21.2.83].

Recommendation

The Committee are surprised at the casual manner in which the Ministry of Finance continued to amend the exemption order from time to time. The exemption from duty is granted for the import of a specific item required to meet a particular situation which in this case was to supplement the stock because of reduced indigenous availability. The Committee fail to understand how the shortage of a particular item exempted from duty could be met by its substitution by various other items and that also after a lapse of over 16 months when the conditions might have totally changed. If there was shortage of billets and slabs in the country and the Ministry of Steel wanted to import these items duty free, the right course for the Ministry of Finance could have been to consider the request for exemption independently and issue a fresh exemption order. That this was not done is regrettable. The Committee must point out that conversion of one item into another in such manner tantamounts to by-passing the intention behind the provisions of section 25 of the Customs Act and should not be resorted to.

[S. No. 35 Para 2.154 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

As explained in action taken notes for paras 2.93 and 2.151 due care is taken that sufficient economic justification exists and the conditions laid down under section 25 of the Customs Act are fully satisfied before granting customs duty exemptions. The same exercise is followed for amending exemption orders

also. It would therefore not be correct to say that the Customs duty exemptions are granted in a casual manner. In the case of steel items the decision to change the items in the exemption order were taken on the basis of the data furnished by the Administrative Ministry in the changed circumstances. It would, not be correct to say that by these amendments conditions laid down under section 25 of the Customs Act, 1962 were by passed.

The recommendation of the P.A.C. contained in this para for issue of fresh orders under section 25 (2) of the Customs Act, 1962 in each case of changed items/circumstances is noted for compliance.

[Ministry of Finance (Department of Revenue) O.M. No. 369/7/82—Cus.
I Dated 30.3.83]

Recommendation

The Committee are surprised at the casual manner in which the Ministry of Finance continued to amend the exemption order from time to time. The exemption from duty is granted for the import of a specific item required to meet a particular situation which in this case was to supplement the stock because of reduced indigenous availability. The Committee fail to understand how the shortage of a particular item exempted from duty could be met by its substitution by various other items and that also after a lapse of over 16 months when the conditions might have totally changed. If there was shortage of billets and slabs in the country and the Ministry of Steel wanted to import these items duty free, the right course for the Ministry of Finance would have been to consider the request for exemption independently and issue a fresh exemption order. That this was not done is regrettable. The Committee must point out that conversion of one item into another in such manner tantamounts to by-passing the intention behind the provisions of section 25 of the Customs act and should not be resorted to.

[S. No. 35—Para No. 2.154 of 105th Report of P.A.C. (7th L.S.)]

Action Taken

Ingots, billets and slabs fall within the broad category of semis. These do not find direct industrial use. These have to be further processed by the re-rolling into sheets, plates, rounds etc. Inter-changeability of the items within the same group is practicable depending upon scope for further processing. This situation may not be true for other processed items.

[Ministry of Steel and Mines (Department of Steel) O.M. No. Sc. D II—
14(5)/82 dated 21.2.83]

Recommendation

In this connection, the Committee find that the exemption orders in respect of steel products usually indicate the quantity allowed to be imported

duty free but the period upto which import is to be made is not indicated. No wonder, the Ministry of Steel and SAIL take their own time in placing orders and processing shipments, and the Ministry of Finance do not themselves bother to see whether duty free imports have actually taken place within a reasonable period. The Committee feel that the Government should prepare their import plan in the beginning of each financial year and work out a time-bound programme so that spilling over of imports from one year to another is obviated. The Committee also recommend that the exemption orders should invariably specify the period of validity so that the administrative Ministry and the Finance Ministry are in a position to scrutinise the implementation of an existing exemption order before its expiry and then consider whether further exemptions to similar products are at all necessary

[S. No. 37 Para, 2.156 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

The recommendation of the Committee for specifying the period of validity in the orders issued under section 25(2) of the Customs Act, 1962, has been noted for action.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-Cus. I, dated 30.3.83]

Recommendation

In this connection, the Committee find that the exemption orders in respect of steel products usually indicate the quantity allowed to be imported duty free but the period upto which import is to be made is not indicated. No wonder, the ministry of Steel and SAIL take their own time in placing orders and processing shipments and the Ministry of Finance do not themselves bother to see whether duty free imports have actually taken place within a reasonable period. The Committee feel that the Government should prepare their import plan in the beginning of each financial year and work out time-bound programme so that spilling over of imports from one year to another is obviated. The Committee also recommend that the exemption orders should invariably specify the period of validity so that the administrative Ministry and the Finance Ministry are in a position to scrutinise the implementation of an existing exemption order before its expiry and then consider whether further exemptions to similar products are at all necessary.

[S. No. 37, Para 2.156 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

A tentative import plan is prepared by this Department at the beginning of the financial year itself keeping in view the estimated gap between the projected demand and anticipated indigenous availability of iron and steel

items. But this plan is constantly kept under review by the Import Monitoring Committee keeping in view the fluctuations in demand and indigenous availability and actual import orderings are based on the result of such periodic reviews by the Import Monitoring Committee. Completing the formalities of import, placement of orders and actual shipment, make it impracticable to avoid spill over without making the pipeline dry for a part of the year, seriously affecting production activity of user industries.

The Exemption orders now issued, specify the period of validity.

[Ministry of Steel and Mines (Department of Steel) O.M. No. S.C.
D-II—14 (5)/82, Dated 21.2.83]

Recommendation

The Committee note that the Ministry of Finance issued an exemption order on 31st May, 1980 for various items of steel wherein an "additional" quantity of 1,00,000 tonnes was specified. It was mentioned in the order that the items would be intimated to the ports separately as and when the details of the same were furnished by the Ministry of Steel. The Committee consider it very strange that the Ministry of Finance issued such a vague exemption order for import of "additional" quantities of steel items as it is not in consonance with the provisions of Section 25 (2) of the Customs Act, 1962. They therefore, desire that each such order should, in future, be specific in respect of each item required to be imported.

[S. No. 38, Para 2.157 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

The recommendation contained in this para, is accepted.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82—
Cus. I, Dated 30.3.83]

Action Taken

The recommendation is noted. The proposals made by the Department are now specific in respect of each item of import.

[Ministry Steel and Mines (Department of Steel) O.M. No. SC—D II
14 (5)/82, Dated 21.2.83]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES FROM GOVERNMENT

Recommendation

The Appraising Manual of the Customs department specifically provides for an annual review of tariff values. During oral evidence on 22nd October, 1981 the Member (Cus) argued that these provisions of the Appraising Manual had, over the years, lost their relevance and, in his personal opinion, probably rightly so. He also stated before the Committee that there was "no recorded conscious decision that it (revision) should be done once in a year". From the written notes sent by the Ministry of Finance, however, the Committee find that the Minister for Revenue and Expenditure had given orders in June, 1979 that there should be a yearly or six monthly revision of tariff values. Further, in a inter-departmental meeting convened by the Finance Secretary on 10th October, 1980, which was attended among others by the Commerce Secretary, it was formally decided that the tariff values should be reviewed every year. The statement made during the oral evidence on 22.10.1981 that there was no recorded decision for annual reiew/revision of tariff values was, therefore, apparently incorrect. The conclusion is inescapable that during evidence before the Committee the representative of the Ministry of Finance was arguing only for the sake of argument in an attempt to cover up a rather serious lapse that had taken place.

[S. No.4, Para 1.47 of 105th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

It is submitted that the inference drawn by the Committee in this para does not follow from the written reports furnished and the Oral Evidence tendered. In his oral evidence on 22.10.1981 Member (Customs) was obviously referring to the period prior to 1979 which had formed the subject matter of the Audit para. It may be recalled that this Ministry had written to the Committee that in June 1979, the then Minister of State for Finance had ordered

that revision be made on yearly or six monthly basis. This is contained in para 1.29 of the 105th Report of the Committee. It was also brought out before the Committee, both in writing as well as in the oral evidence, that in the year 1979 and again in 1980, the Government had given clear instructions about the periodicity of the revision of tariff values. These instructions, however, were applicable to future revisions and could not have had any relevance to the period prior to 1979. These instructions were not kept back from the Committee and these have, in fact, been brought on the records of the Committee. There was also no attempt to give incorrect information to the Committee during the oral evidence. The Committee may kindly take the above submission into account and consider appropriate rectification of the records.

[M/o Finance (Deptt. of Revenue) OMF No.
369/3/82-Cus I Dated 25.3.83]

Recommendation

The Ministry of Finance have been fixing tariff values with reference to the prevailing market prices. When asked whether this was in accordance with the provisions of law which mentioned only the value in the course of international trade, the Ministry of Finance have stated that a reference has been made to the Law Ministry on this question. The Committee would recommend that the question should be sorted out quickly and the requirements of the law should be fully complied with in fixing tariff values in future.

[S. No. 6-Para 1.49 of 105th Report of P. A. C. (Seventh Lok Sabha)]

Action Taken

As stated in the written reply to the Committee, the question whether fixing values with reference to the prevailing market prices, was in accordance with the provisions of law had been referred to the Ministry of Law for their advice. A copy of the Law Ministry's opinion is enclosed for Committee's Perusal. The practice followed by the Ministry in fixing tariff values is in accordance with the Law Ministry's interpretation of the legal position.

[M/o Finance (Deptt. of Revenue) OM. F. No. 369/3/82-Cus. 1 Dt. 25.3.83]

EXTRACT FROM F.NO.369/15/81-Cus.I

NOTES IN THE MINISTRY OF LAW, DEPARTMENT OF LEGAL AFFAIRS

ADVICE (B) SECTION

The question for consideration is whether fixation of tariff values in respect of dry fruits, having regard to the average market prices instead of *c i. f.* prices is in accordance with law.

2. In Audit para No.1.23 included in the Audit Report for the year 1979-80, a point has been raised that the non-revision of tariff values in accordance with the invoice values resulted in a short realisation of duty to the extent of Rs. 22.40 crores.

3. Under Section 14 (1) of the Customs Act, the central Government is empowered to fix tariff values for any class of imported goods. Clause (a) of sub-section (1) provides that the value of such goods shall be the price at which such or like goods are ordinarily sold or offered for sale for delivery at the time and place of importation or exportation, as the case may be, in the course of international trade. Clause (b) provides that where such price is not ascertainable, the nearest ascertainable equivalent thereof may be determined in accordance with the rules made in this behalf.

4. According to the Department, the *c. i. f.* values are not used as the basis for fixing tariff values and instead the market values obtaining in India are taken for the purpose since there is no assurance of the correctness of the values indicated in the invoice.

5. Rule 2 of the Customs Valuation Rules, 1963 provides that the value of any imported goods shall, for the purposes of clause (b) of sub-section (1) of section 14 of the Customs Act, be determined by the proper Officer in accordance with the provisions contained in rules 3 to 8.

6. Rule 8 provides that if the value of the imported goods cannot be determined under the foregoing provisions, the proper Officer shall, after taking into account all the relevant material which he has gathered, determine the value to the best of his judgment. In arriving at his best judgement the Proper Officer can take into account the criteria mentioned in rules 3 to 7.

7. Rule 7 provides that where any goods are imported for being sold on behalf of the exporters, the value of such goods may be based on the market price of such goods at the time and place of importation, reasonable deduction being allowed by the proper Officer for the expenses ordinarily incurred by the importers in respect of such goods and the Commission ordinarily payable to the importers.

8. In view of the above, in cases where the *c.i.f.* prices cannot be relied upon for fixing tariff values, it will be open to the Proper Officer to arrive at his best judgment by adopting any one or more of the criteria laid down in the Customs Valuation Rules. This would also include the power to fix the tariff values on the basis of the local market prices.

Sd/-P.K.Kartha

JS & LA/6.7.1982

u. o. No.26548/81 (Advice B Section) dated 7.7.1982

Recommendation

The Committee find that the import of edible oils under OGL (Open General Licence) was terminated with effect from 2.12.1978 and from that date all such imports have been canalised through STC. According to the prescribed procedure as and when a ban or Canalisation order is issued in the middle of a licensing period, which is from 1st of April to 31st March every year, it is not incumbent upon the Government to honour the pre-ban or precanalisation commitments. In the instant case, however, the canalisation order issued on 2. 12.1978 in the middle of the licensing period, clearly provided that all firm commitments made prior to that date would be honoured by grant of import licences on receipt of applications within fifteen days. This resulted in receipt of 636 applications by the Chief Controller of Imports & Exports and grant of 476 licences to private parties who imported a total quantity of 3.57 lakh tonnes of edible oils during the year from 1978-79 to 1981-82. A number of applicants whose claims had been rejected have filed writ petitions in the High Court and the final outcome of these cases would depend on the decisions that may be taken by the Court. The Committee would like to point out that Government were well aware of the high margin prevailing in the market on the imported oils and of the fact that the private importers were under no obligation to make the oil available to the public at reasonable prices. During evidence, the Secretary, Ministry of Civil Supplies, conceded that the private traders took advantage of the then prevailing domestic prices and made a sizeable amount of profit. The Committee would, therefore, like to be apprised of the precise reasons which prompted the Government to undertake to honour the commitments made by private parties prior to 2.12.1978 for import of edible oils in the country.

[S. No. 25-Para 2.94 of 105th Report of P.A.C. (7th L.S.)]

Action Taken

The pre-conalisation firm commitments were honoured in this case keeping in view the general policy followed in such situations.

[M/o. Commerce (C.C. IE) U.O.No. 1PC/3/11/77/6385 D 9.3.83]

Recommendation

The ex-factory price of vanaspati under the voluntary price restrain by the industry was Rs.192/- per tin of 16.5 kg. Since April 1981 the Committee understand that this price has now been raised to Rs.217/-. To this price, the industry is permitted to add the incidence of transport and distribution charges and wholesalers and retailers Commission. The Committee have been informed that the prices at which imported edible oils are finally available to the consumers through the public distribution system have been ranging between Rs.3.50

and Rs. 9.50 per kg as against the market price of Rs.15 to Rs.16 per kg. for indigenous oils. From the large number of complaints being received from the public and voiced in the press, it is clear that the common man, even in the capital, is not getting vanaspati at the so called voluntary price. In fact loose vanaspati is almost never available in the open market; it is diverted to the black market and the distribution system is beset with a number of malpractices. There have also been complaints regarding profiteering in imported edible oils by the owners of fair price shops. If this is the condition in the capital the plight of the poor consumers in far-off and remote areas in the country can well be imagined. The Committee were dismayed to hear the representative of the Ministry of Civil Supplies during evidence who expressed ignorance about any such complaints. Clearly the administration has lost all touch with reality and the ministry of Civil Supplies has completely failed to monitor the actual distribution of the vanaspati in the country. The Committee would recommend that Government should take effective measures under the Essential Commodities Act in coordination with the state Government to plug all loopholes in the network of actual distribution of vanaspati and take stern measures against the offenders in order to ensure that the vanaspati is actually available to the consumers at the fixed price without any difficulty even in the remotest corner of the country.

[S.N. 27 para 2.96 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

In order to arrange improved distribution of vanaspati several attempts were made to bring vanaspati under Public Distribution System so as to provide this essential commodity to the consumers at a reasonable price. However, such attempts were not fruitful since the response from the State Governments was not encouraging particularly due to the reasons enumerated as under :—

- (a) Consumers preference for certain brands, packs, size, etc. of vanaspati ;
- (b) Limited coverage of Public Distribution system may result in some rural/remote areas not getting the benefit of required quantity at fair rates ;
- (c) Unlike the quantities of sugar/foodgrains which can be kept in reserve by the factories or with the Food Corporation of India, vanaspati, cannot be kept for long period. Moreover, the production cannot be maintained uniformly throughout the year, since the supplies are drawn from the current production of the factories which is susceptible to wide variation from month to month due to various unforeseen constraints such as short availability of raw oils, coal, tinplates, mechanical break-down, boiler shut down, sever power cut, etc. Thus, the position in case of vanaspati is quite different

from commodities like foodgrains and sugar where supplies are met not only from the current production but also from the reserve stock or carry-over stock.

The availability of vanaspati during the last few years has, by and large, been very satisfactory. However, there may be times when shortages of a particular brand in packed or loose form might occur. A number of steps are being taken to ensure availability of vanaspati. Monthly allotment of imported oils to the various vanaspati units is communicated to the STC of India well in advance to enable them to make deliveries to the concerned units in time. To keep a close watch on the production of this item, inter-Ministerial meetings of various agencies like STC, Ministries of Health and Railways, vanaspati manufacturers' Association of India and Indian Vanaspati Producers' Association of India are held periodically. The difficulties, if any, encountered by the vanaspati units with regard to the availability of imported oils and also various inputs like electricity, coal, tinplates and chemicals, are discussed and suitable ways and means evolved to ensure uninterrupted supply of these inputs.

All the above efforts have been fruitful in as much as the production has been steadily on the increase, resulting in the easy availability and reasonable price of the product.

The Government is also considering to limit the production of small packs, so that the availability of larger packs be increased and the products could be sold in loose form. The State Governments also being advised to take effective steps in this regard.

[M/o Food & Civil Supplies (Deptt. of Civil Supplies) O.M. No. G-25015/
3/81 B & F Dt. 4.7.83]

Recommendation

The indigenous production of steel in the year 1978-79 fell short of the estimated demand due to various reasons, the most important being the shortage of coal and power. It was then estimated that there would be substantial shortfall in the availability of steel items particularly to the users in the core sector, and in that context it was decided to import sufficient quantities of various categories of steel to meet the requirements of the consumers. The prevailing international price of steel at that time was substantially higher than the domestic prices and, according to the Ministry of Steel, if the imported material was supplied to the producers at the imported price plus duty it would have led to cost push effect on the entire economy. The Ministry of Steel, therefore, approached the Ministry of Finance for grant of exemption from

customs duty on the imported steel items to enable the steel Authority of India to pass on the Imported steel to the consumers at the price at which similar indigenous items were to be made available by the steel plants.

[S.No. 29 Para 2.148 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

This para contains narration of facts and no action is called for.

[M/o Finance (Department of Revenue) O.M. I-No.369/7/82-Cus. I.
Dt. 30.3.83]

Action Taken

The position stated by the Committee is factual. No action is required to be taken.

[M/o Steel & Mines) (Department of steel) O. M. No. Sc-D-II-I4(5)/82
Dated 21.2.83.]

Recommendation

The Committee find that the Ministry of Finance issued two exemption orders, one on 29 July, 1978 and the other on 29 November, 1978 for the import of total quantity of 469,000 tonnes of various items of steel against which a total quantity of 245,000 tonnes only was imported during 1978-79. Similarly, during 1979-80, against the exemption for import of 950,000 tonnes of Steel items 900,200 tonnes were imported including spillovers from previous year. In 1980-81, while the quantity exempted was 6,92,000 tonnes, the quantity imported was only 4,95,000 tonnes including spillovers from the previous year. During evidence the Special Secretary, Ministry of Steel admitted that "shortage continued and the import was not really quite commensurate with the requirement".

[S.No. 30 Para 2.149 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

The para relates to importation and accountal of steel items which is exclusively the concern of Ministry of Steel & Mines and Ministry of Finance has no comments to offer.

[M/o Finance (Department of Revenue O.M. No. 369/7/82-Cus. I Dated
30.3.83]

Action Taken

Buffer imports were intended to supplement the shortfall in indigenous production and as such were to be supplied at prices on par with domestic prices and subjected to the same distribution guidelines as applicable to indigenously produced steel. The import figures mentioned in the para are inclusive of spill over of the previous years. Import action is not an isolated spot purchase. Imports are made after consolidating specific demands and financial arrangements are concluded with the end users. The procedure of tender, placement of orders with foreign suppliers, manufacture of material as per order, securing of shipping space and appropriate type of vessel by the foreign supplier—all these factors invariably lead to a time lag of six to eight months between grant of exemption and actual import arrivals. This time lag cannot be avoided, and hence some spill over. Even in respect of indigenous materials, the quantity produced in the country in a particular year is not consumed during that year itself, a total view of the situation will have to be taken with both elements of supply, viz., domestic and import supply, going into the same mainstream of supply to the economy. The quantity exempted and imported for the three year period as a whole given below will show that every effort was made to arrange imports expeditiously :—

| (in tonnes) | | | |
|-------------|---------------|---------------|---|
| Year | Qty. Exempted | Qty. received | Remarks |
| 1978-79 | 469,000 | 245,200 | |
| 1979-80 | 950,000 | 900,200 | (including spill over of previous year) |
| 1980-81 | 692,000 | 495,800 | (including spill over) |
| Total | 2111,000 | 1641,200 | 77.7% |
| | | 336,000* | 15.9% |
| | | 1977,200 | 93.6% |

*Mainly spill over arrived during April-Sept., 1981.

[M/o Steel & Mines (Deptt. of Steel) O. M. No. SC-D II-14 (5)/82
Dt. 21.2.83]

Recommendation

The Committee find that the exemption under section 25 (2) of the Customs Act, 1962 was granted in this case for import of steel to make up gap between demand and supply which according to the Ministry of Finance was essential in the public interest. But since the quantity of steel imported du-

ring 1978-79 was only a little more than 50% of that exempted from duty, it failed to achieve the desired objective. The very fact that even the entire quantity for which exemption was granted on 29 July 1978 could not be received even till March 1979 i.e. after 8 months, clearly shows that the requisite sense of urgency was lacking and after obtaining the exemption orders, the Ministry of Steel proceed in the matter of obtaining these steel items in a leisurely manner. The result was that the shortage of steel in the country continued, black marketing in steel items flourished and the consumers continued to be fleeced defeating the very purpose for which the exemption were granted. In the meantime, the parties who were importing these steel items under back to back arrangements were able to import these items and these parties taking advantage of the scarcity conditions in indigenous market, earned huge profits. The Committee would like to express their serious concern at this lapse on the part of the Ministry of Steel to arrange within a reasonable time the import of such Steel items in respect of which exemptions had been granted.

[S.No.31 para 2.150 of 105th Report of P.A.C. (7th Lok Sabha).]

Action taken

This para exclusively relates to Ministry of Steel & Mines and Ministry of Finance has no comments to offer.

[M/o Finance, (Deptt. of Revenue) O.M.F. No. 369/7/82-Cus. I Dt. 30.3.83]

Action Taken

As stated under Sl.No. 30, some spill over in respect of imports cannot be avoided due to the minimum period of 6-8 months required for completion of the imports process between the receipt of exemption order and physical arrival of imports. 1978-79 being the first year of buffer import policy, there was certain time lag. It will not be correct to say that since the materials did not reach in the very year in which exemptions were granted, the desired objectives of giving exemption were not achieved. The import supply is very much an element of supply to the mainstream of consumption along with domestic production. If, a longer period from 1978-79 to September 1981 is considered it will be seen that shipments were actually made for 93.6% of the total quantity exempted during the period. This was possible only because of the close follow up action taken by SAIL, with utmost urgency. Because of the prompt action by SAIL, import of such large quantities could be arranged, in spite of the various constraints like the time between ordering and production by the foreign mills, shipping arrangements, congestion at Indian ports, and movement problems from the ports. With increased availability of steel due to imports, the premium on steel items was considerably reduced. One of the main objective of buffer imports, that is, to ensure the steady pace of industrial production was by and large achieved. Since a major share of the imported

steel as well as the indigenous production was being supplied to the priority sectors and keeping in view that imported steel was brought under the end use declaration, (Clause 7 of the Iron & Steel Control Order, 1956) by January 1979, there was very little scope for profiteering and blackmarketing by others. The Deptt. of Steel does not agree that due to the time lag between duty exemption and actual imports, blackmarketing and profiteering flourished.

[M/o. Steel & Mines (Deptt. of Steel) O.M. No. Sc. D II 14(5)/82 Dt.
21.2.83]

Recommendation

The Committee observe that the entire quantities of various items of steel exempted from payment of duty in a particular year were not imported in that year itself. For example, certain quantities of various items like plates and structurals exempted from duty in the year 1978-79 were actually imported in the year 1979-80. Likewise, part of the exemptions granted in the year 1979-80 was actually operated in the year 1981-82. It has also been noticed that in the case of various items the imported price of the same item was more in the subsequent year when these items were actually imported. For example, the structurals were imported @ Rs. 2820/-per tonnes in the year 1978-79 but the price paid in the year 1979-80 was Rs. 3,362 *i. e.* about Rs. 530/- per tonne more.

[S.No.36 para 2.155 of 105th Report of P.A.C. (7th Lok Sabha)]

Action Taken

Observations made by P.A.C. in this para, exclusively relates to Ministry of Steel & Mines and Ministry of Finance has no comments to offer.

[M/o Finance, (Department of Revenue) O.M. F. No. 369/7/82-Cus-I Dated
30.3.83]

Action taken

As mentioned under Recommendation No. 30, Some spill over of import orderings cannot be avoided. During 1978-79, one exemption order was received in July, 1978 and the other in November, 1978. Due to the various constraints, there is a time lag of 6-8 months for completion of import process. In respect of the exemption order received in July, orders were placed. Exemption order of November, 1978 could not be operated fully in that year due to the short time available. Processing of import orders were a continuous process and price fluctuations cannot be anticipated in advance.

[M/o Steel and Mines (Deptt of Steel) O.M. No. SC-D. II-14 (5)/82 Dt.
21.2.83]

Recommendation

Under the present arrangement regarding distribution of Steel, while a few customers like railway projects, defence units etc. get the supply directly from the steel plants, most of the requirements are met from the stockyards. After meeting the priority requirements, the available materials is distributed through the network of stockyards. The stockyards cater directly to the requirements of all DGTD units. The requirement of small scale units are met through State Small Industries Corporations. The Iron and Steel Controller monitors supplies to these Corporation.

[Sl. No. 39-para 2.158 of 105th Report of P.A.C (7th L.S.)]

Action Taken

The distribution procedure has undergone some changes. Even a small scale unit can get supplies from the stockyard on fulfilment of certain conditions.

[M/o Steel & Mines (Deptt of Steel) O. M. No. SC-DII. 14 (5)/82
Dt. 21.2.83]

Recommendation

The Committee were informed by the Voice Chairman SAIL during evidence that in the stockyards there are slow moving and fast-moving items and that in respect of supplies to trade there was a premium on steel items which were in short supply. The stockyards were expected to sell not only premium items but also others which had a discount. When the Committee wanted to know whether separate compensation accounts were maintained in respect of such sales, the Voice Chairman, SAIL stated "At the corporate level with which I am concerned, I can say if anyone has done it, we have not accepted the liability". The Committee however, find that the following decision was taken by the Board of Directors of SAIL, on 4 June, 1980:

"It was explained to the Board that package transactions of this nature are involved in the steel and other trades. But this was stopped in steel three years ago. The Board further feel that these transactions should be settled separately rather than account being maintained over a period of time."

[Sl. No. 40—Para 2. 159 of 105th Report of PAC (7th L. S.)]

Action Taken

As early as 1971 JPC had recognised package deals and allowed a certain percentage of each category of steel received in stockyard to be reserved by the Branch Manager for disposal with non-moving/slow moving items.

[Mo. Steel & Mines (Deptt. of Steel) O.M. No. SC—D II—14 (5)/82
Dt. 21.2.83]

Recommendation

When the Committee pointed out that it might not always be possible to square up the accounts of each person, the Vice-Chairman, SAIL stated before the Committee : "In each lot, he can take some premium item and some slow-moving item so that the amount of premium is to that extent squared up with the discount". He also stated that the Board had approved a proposal for settling commitments made to the trade on account of such deals concluded prior to November, 1978. Thus, package transactions prior to November 1978 were legalised by the Board, those between November 1978 and June 1980 were treated as illegal and for subsequent period it was decided that package deals would not be recognised.

[Sl. No. 41—Para 2.160 of 105th Report of PAC (7th L. S.)]

Action Taken

The subject matter of package deals and the compensation payable has been, as mentioned above, evaluated at the Company's Board level. The compensation claims are being liquidated in a progressive way, within the distribution guidelines prevailing from time to time. Package deals as were being done in the past with compensation liabilities being built up in a cumulative way is no longer resorted to.

[M/o Steel and Mines (Deptt. of Steel) O. M. No. SC—D II—14 (5)/82
Dt. 21.2.83]

Recommendation

The Committee would like to be informed whether the Ministry of Steel was aware of the prevalence of package deals in the sale of steel items to trade from SAIL's stockyards and if so, whether any action was taken in the matter. The Committee would also like to know whether any compensation claims from the trade are pending and what is being done for their disposal.

[Sl. No. 42—Para 2.161 of 105th Report of P. A. C. (7th L. S.)]

Action Taken

Government had knowledge of the package deals of SAIL for disposal of slow moving items with the fast moving items. Such transactions were practised with a view to discouraging the preference of trade only for fast moving items and to increase the offtake of all items of steel. The earlier practice of keeping accounts of slow moving items offered to trade and then squaring up the accounts over a period by offering corresponding fast moving items, has been given up with effect from November, 1978.

2. The compensation liability of such pending claims is being liquidated in a progressive way within the distribution guidelines prevailing from time to time. According to SAIL, the compensation liability which was Rs. 1.73 crores on 31.3.1982 has been reduced to Rs. 1.64 crores by 31.12.1982.

[M/o Steel & Mines (Deptt. of Steel) O. M. No. SC—D II—14 (5)/82
Dt. 25.6.82]

CHAPTER IV

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

Recommendation

The Committee have been informed that no guidelines have been laid down spelling out the circumstances under which exemption from duty granted. In the absence of any such guidelines the exercise of such power has, in the opinion of the Committee, become a matter of arbitrary exercise of discretion and Parliament and the people are not able to judge whether such powers have been properly exercised. The need for some guidelines is still more necessary in view of the fact that the revenue foregone as a result of these exemptions have increased from Rs. 9.44 crores in 1976-77 to as much as 245.18 crores in 1979-80. The Committee feel that the power to grant exemption is an unusual, extraordinary and exceptional power given to the executive and it is imperative that adequate safeguards should be there to ensure that these powers are used sparingly and there are no chances of their being misused. Further, the Committee expect that occasions on which powers under section 25(2) have to be exercised will be rare and the test of these being in the public interest and satisfy the circumstances of an exceptional nature as intended by Parliament.

[S. No. 14 para 2.36 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

As already explained in Action taken Note for para 2.35, each case of Customs duty exemption is examined on merit to satisfy that the conditions laid down under Section 25 of the Customs Act 62 are satisfied. For this purpose different factors such as, cost data, demand and supply position of the goods in question, extent of its shortfall necessitating its imports etc., supplied by the administrative ministry concerned, are analysed to arrive at the extent of Customs duty concession required. This applies to cases of exemption under Section 25(2) also. It would, therefore, appear that the powers to grant exemptions under Section 25 of the Customs Act 62 are exercised with due care and not arbitrarily.

The circumstances necessitating customs duty exemptions depend on the nature of the commodity and the situation existing from time to time. It would not be practicable to lay down specific guidelines in this regard, though guidelines such as removal of tariff anomalies and subserving of national interests are always kept in view.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-
Cus. I, dated 15.7.83]

Recommendation

The Committee observe that after the grant of exemption by the Ministry of Finance, on the recommendation of the Administrative Ministry, the Ministry of Finance have no feed-back from the latter to evaluate whether the exemption has served the purpose for which it was granted. It is left to the administrative Ministry to evaluate whether the conditions laid down in the exemption notification have actually been fulfilled. The Committee consider this arrangement to be totally unsatisfactory because expect for assessment of public interest at the time of grant of renewal of the exemption, the Ministry of Finance does not get any information from the administrative Ministry nor the Finance Ministry cares to find out from the administrative Ministry as to whether the purposes for which an exemption has been granted has actually been achieved. The Committee therefore, recommends that the Ministry of Finance should evolve some mechanism to establish a monitorin system to review periodically how far the objectives behind the grant of exemption have been achieved. On the basis of the requisite data obtained from the administrative Ministry in regard to each exemption granted under section 25(1) or 25(2) of Customs Act and after ensuring that the revenue forgone by grant of exemption has not been misused, the Ministry of Finance should decide whether the exemption should be allowed to continue.

[S. No. 15 para 2.37 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

The exemption notifications are generally issued without any validity period, when sufficient justification exists for their continuance on a long term basis. It is the responsibility of the Administrative Ministry to ensure that the purpose for which a customs duty exemption has been obtained is actually achieved. They are equipped to monitor the progress, being the Ministry responsible to administer the problems relating to the goods in question. Use/ Establishment of a separate mechanism by the Ministry of Finance will not only amount to duplication of work but also overlapping of the functions of the administrative Ministry, which is another wing of the Government.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-
Cus. I, dated 15.7.83]

Recommendation

The Committee feel that the plea of the Ministry of Civil Supplies that these prices were not reduced in order to maintain stability in the prices of edible oils and as a part of overall oil policy is totally unconvincing. They would like to point out that the basic objective of granting exemption in duty on the imported edible oils was to ensure the supply of these oils to the consumers at reasonable prices. With the fall in the STC's purchase prices of imported oils benefit should have been passed to the consumers so that the consumer could have got some relief atleast on one count ; in this era of spiralling price rise. Since imported oils made available through the public distribution system constituted about 20 percent of the total household consumption of edible oils in the country, any reduction in the prices of imported oils would have made an impact on the prices of indigenous edible oils leading to a fall in its prices. Further as about 50 to 60 percent of the imported edible oils was being supplied to vanaspati industry. Government by supplying these oils to the industry at reduced price could have prevailed upon the manufacturers to reduce the price of vanaspati thus resulting in some relief to the consumers in the availability of vanaspati. What is still more shocking is that the Government's continuance to charge the same prices for imported oils even after the fall in the State Trading Corporation's purchase prices enabled private parties to exploit the situation and make exorbitant profits by selling oil, imported at cheaper prices on the basis of contracts entered into before canalisation at the high prices prevailing in the open market.

All these facts clearly demonstrate the scant regard Government displayed towards the interest of vast multitudes of helpless consumers in the country. The Committee cannot but express their deep anguish at this lapse on the part of the Government.

[S. No. 23 Para 2.92 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

The import of edible oils is to bridge the gap between the domestic production and the demand and at the same time ensure availability of edible oils at reasonable prices to the consumers. It has also been the view of the Government that a wide gap between the prices of imported oils and that in the domestic market would put a severe pressure on the Public Distribution System requiring larger imports. This might also run the risk of malpractices in as much as the edible oils will leak into other directions. Another important consideration is that this might act as a disincentive to domestic production. It may also be mentioned that the operations are undertaken by the State Trading Corporation of India on behalf of the Government and any surplus on this account would accrue to the Government and not to the S.T.C.

In so far as its usage in vanaspati is concerned there is a voluntary price control of Rs. 217 per tin of 16.5 kg and this is based on present issue price of imported oils. If the prices of imported oils are reduced and the vanaspati prices are also reduced correspondingly it would lead to a wide disparity of prices between indigenous edible oils and the vanaspati prices resulting in the diversion of consumers from oils to vanaspati putting undue pressure not only on imported edible oils but also on vanaspati.

Taking these into account a reasonable price has to be fixed for the imported edible oils also and not merely based on the imported cost.

[Ministry of Food and Civil Supplies (Department of Civil Supplies)
O.M. No. G-250 15/3/81/B & F, dated 4.7.83]

Recommendation

The Committee are of the view that the Ministry of Finance (Department of Revenue) have also failed in their duty to ensure that the objectives behind the grant of exemption were actually being fulfilled. It was the Ministry of Finance which by granting exemption from customs duty was losing revenue and it was the duty of that Ministry, when requests for continuing the exemption were received from the administrative Ministry from time to time to have ensured that the purposes for which the exemption was given were actually being achieved. The very fact that while the Ministry of Finance lost revenue amounting to Rs. 40 crores in 1980-81 as a result of exemption from duty on imported edible oils, the State Trading Corporation earned a surplus of Rs. 80 crores and still the exemption continued to be granted as and when request was received, clearly shows that the Ministry of Finance continued to issue exemption orders as a matter of routine without examining afresh the propriety of continuing this exemption on the touchstone of conditions as laid down in section 25(2) of the Customs Act, 1962. This further fortifies the observation of the Committee expressed earlier that there was no monitoring or feed back system in the Ministry of Finance to ensure the desirability or otherwise of continuing grant of exemptions. The Committee are firmly of the view that whenever any exemption is granted or a decision is taken to extend it for a further period, the two conditions as laid down in Section 25(2) of the Customs Act, 1962 are fulfilled. The Ministry of Finance must ensure that the extraordinary power delegated by Parliament to the Executive is not exercised in a routine manner but is exercised with due care and caution.

[S. No. 24 para 2.93 of 105th Report of P.A.C. (7th Lok Sabha)]

Action taken

Each case of customs duty exemption is examined on merits on the basis of economic justification. The data regarding the indigenous production, local market price, demand and supply position, given by the Administrative

Ministry are relied upon to ascertain the economic justification in each case. The Ministry of Finance (Department of Revenue) has no machinery for cross checking the data supplied by the Administrative Ministries nor it is considered necessary since they are supplied by another wing of the Government.

In the case of edible oils also due care was taken that economic justification existed in each case on the basis of the data supplied by the Administrative Ministry.

It would therefore, appear that in each case of duty exemption the Ministry of Finance ensured that the conditions laid down under section 25 of the Customs Act, 1962 are satisfied and that the powers are not exercised in a routine manner.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/7/82-
Cus. I, dated 30.3.83]

CHAPTER V

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

Recommendation

According to the Public notice issued by the Ministry of Commerce in December, 1977 the value of the imported dry fruits for the purpose of debit to the CCP's (Customs Clearance Permits) and for remittances to the suppliers through the bank, as also for the purpose of determining counter-balancing exports in respect of such imports, would be the value as declared in the suppliers invoices. According to the information given by Audit the invoice values of imports during the year 1975-1979 amounted to Rs. 82.63 crores. In terms of the aforesaid public notice the counter-balancing exports would be of the same order. The Ministry of Finance also deposed during the evidence that so far as exports are concerned the Customs would not allow any exaggerated values or under-rated values and exports would go exactly in accordance with the values that should be values under the Customs Act. If, therefore, the invoice values of the imports were not truly representative of the actual values, as stated by the Ministry of Finance, but the counter balancing exports were correctly valued, it would only mean that a sizeable portion of the export earnings were illegally retained abroad. The Ministry of Finance have contended themselves with the statement that "this, however, should not create an impression that the manipulative remittances have gone unchecked. The Directorate of Enforcement which has the primary responsibility in this regard is reported to be having quite a number of cases under investigation". The Committee would like to have a detailed list of the importers in whose case the total of invoice values of imports, and hence of counter balancing exports, during the said years, exceeded Rs. fifty lakhs each, the details of cases booked against them by the Directorate of Enforcement, the amount involved and the result of inquiries so far completed.

[S. No. 7 Para 1.50 of 105th Report of P.A.C. (Seventh Lok Sabha)]

Action Taken

It has been reported by the Directorate of Enforcement who were consulted in the matter that they have not come across any case of over-valuation of imports of dry fruits. However they have registered 92 cases of non-realisa-

tion of export proceeds from Afghanistan during the last five years. The amount outstanding in these cases varies from Rs. 10,000 to Rs. 4,10,000. A detailed list of these cases showing the name and address of the party, the amount outstanding and the present position as furnished by the Directorate of Enforcement is enclosed for Committee's perusal.

The data in regard to the importers in whose case the totals of invoice values of imports and hence of counter-balancing of exports during the year 1975-1979, exceeded Rs. 50 lakhs each, is being collected and will be furnished to the Committee as soon as it is available.

[Ministry of Finance (Department of Revenue) O.M.F. No. 369/3/82—
Cus. I, dated 25.3.83]

**LIST OF CASES WHERE EXPORT PROCEEDS ARE OUTSTANDING
IN RESPECT OF EXPORT TO AFGHANISTAN**

| S. No. | Name & address of party | Amount outstanding | Present position |
|--------|---|-----------------------|---|
| 1 | 2 | 3 | 4 |
| | | Rs. | |
| 1. | M/s. G.K. Traders, Namak Mandi, Amritsar. | 27,000 | Investigation is in progress report of RBI awaited. |
| 2. | M/s. Balloja, Dbab Basti Ram Amritsar. | 26,990 | —do— |
| 3. | M/s. Ashwani Kumar, Ferozepur. | 27,000 | —do— |
| 4. | M/s. Govardhan Das Arora, Amritsar. | 27,000 | —do— |
| 5. | M/s. Sei Das Charan Das, Mewa Mandi, Amritsar. | 14,000 | —do— |
| 6. | M/s. Ashok Kumar, Mewa Mandi, Amritsar. | 27,000 | —do— |
| 7. | M/s. Basir & Co., Mewa Mandi, Amritsar. | 27,000 | —do— |
| 8. | M/s. Sham Das, Mewa Mandi, Amritsar. | 13,500 | —do— |
| 9. | M/s. Karam Chand, Kila Bhangian, Amritsar. | 27,000 | —do— |

| 1 | 2 | 3 | 4 |
|-----|---|----------|---|
| 10. | M/s. Panna Lal, Agarwal & Sons, Amritsar. | 13,000 | Investigation in progress, Reserve Bank of India reply awaited. |
| 11. | M/s. Rajan Sekh & Co. The Mall, Amritsar. | 1,18,082 | —do— |
| 12. | M/s. Atma Singh, Mewa Mandi Amritsar. | 30,000 | —do— |
| 13. | M/s. Harbans Singh, Mewa Mandi, Amritsar. | 14,000 | —do— |
| 14. | M/s. Narinder Singh, Sabharwal, Majith Mandi, Amritsar. | 15,000 | —do— |
| 15. | Shri. Swinder Singh, Chattiwind Gate, Amritsar. | 15,000 | —do— |
| 16. | M/s. Manohar Trading Co. Majith Mandi, Amritsar. | 15,000 | —do— |
| 17. | M/s. Sohan Singh Tarlochan Singh, Chawal Mandi, Amritsar. | 30,000 | —do— |
| 18. | M/s. G.R. Traders, Chawal Mandi, Amritsar. | 25,000 | —do— |
| 19. | M/s. Raghbir Singh, Kuldeep Singh, Misri Bazar, Amritsar. | 12,000 | —do— |
| 20. | M/s. Thapar Brothers, Mewa Mandi, Amritsar. | 35,000 | —do— |
| 21. | M/s. Modern Automobiles, Amritsar. | 29,004 | Investigations are in progress |
| 22. | M/s. Bharat Trading Co., Amritsar. | 40,000 | —do— |
| 23. | M/s. R.R. Arora, Tahli Sahib, Amritsar. | 15,000 | —do— |
| 24. | M/s. Raj Muhar Bajaj, Amritsar. | 30,000 | —do— |
| 25. | M/s. Ashok Traders, 157 Ajit Nagar, Amritsar. | 12,500 | —do— |

| 1 | 2 | 3 | 4 |
|-----|--|--------|------------------------------------|
| 26. | M/s. Kishan Chand & Sons, Amritsar. | 11,000 | Investigations are in progress. |
| 27. | M/s. Parma Nand Arora, Majith Mandi, Amritsar. | 55,000 | —do— |
| 28. | M/s. Hari Singh, Importers, Amritsar. | 13,000 | —do— |
| 29. | Ladha Singh, Hari Singh, Amritsar. | 15,000 | —do— |
| 30. | M/s. Harbans Singh Batra, Majith Mandi, Amritsar | 11,000 | —do— |
| 31. | M/s. Bhagat Jagan Nath, Amritsar. | 30,000 | —do— |
| 32. | Sabharwal & Sons, Amritsar. | 14,750 | —do— |
| 33. | M/s. M.B. Sharma, Amritsar. | 15,000 | —do— |
| 34. | M/s. Narang & Co., Amritsar. | 16,000 | —do— |
| 35. | M/s. Jagdish Fruit Co., 64 Mewa Mandi, Amritsar. | 14,750 | —do— |
| 36. | M/s. N.K. Traders, Amritsar. | 22,747 | —do— |
| 37. | M/s. H.S. Bagga & Brothers, Amritsar. | 15,000 | —do— |
| 38. | M/s. Amritsar Fruit Co. Mewa Mandi, Amritsar. | 13,500 | —do— |
| 39. | Sh. Ved Parkash, Mewa Mandi, Amritsar. | 60,000 | —do— |
| 40. | M/s. Kalsi Fruit Co., Amritsar C/o 59 Mewa Mandi, Amritsar. | 14,747 | —do— |
| 41. | M/s. Guru Nanak Fruit Co., 26 Mewa Mandi, Amritsar. | 24,000 | —do— |
| 42. | M/s. Jeewan Fruit Co., 59, Mewa Mandi, Amritsar. | 5,000 | —do— |
| 43. | M/s. Sareen Brothers, Majith Mandi, Amritsar. | 15,000 | —do— |

| 1 | 2 | 3 | 4 |
|-----|---|--------|--------------------------------|
| 44. | M/s. Varinder Saran S/o Ravi Datt, Ferozepur. | 13,500 | Investigation are in progress. |
| 45. | M/s. Balbir Shankar, Multani Gate, Ferozepur city. | 27,000 | —do— |
| 46. | Kharaiti Lal, Sabzi Mandi, Ferozepur City. | 15,000 | —do— |
| 47. | M/s. Benarsi Lal & Sons, Atta Mandi, Amritsar. | 13,000 | —do— |
| 48. | M/s. Sham Sunder Raj Kumar, Dhab Basti Ram, Amritsar. | 14,000 | —do— |
| 49. | M/s. N.R. Dhawan & Co., 44, Daya Nand Nagar, Amritsar. | 13,000 | —do— |
| 50. | M/s. Gandhi Sons, Amritsar. | 46,000 | —do— |
| 51. | M/s. Hargopal Babu Ram, Majith Mandi, Amritsar. | 13,000 | —do— |
| 52. | M/s. Sunder Singh Mohinder Singh, New Mishri Bazar, Amritsar. | 25,000 | —do— |
| 53. | M/s. Chokha Ram Khub Chand, Majith Mandi, Amritsar. | 18,000 | —do— |
| 54. | M/s. Dhawan & Co., Mewa Mandi, Amritsar. | 14,000 | —do— |
| 55. | M/s. Mohindra & Co., 84, Lawrance Road, Amritsar. | 30,000 | —do— |
| 56. | M/s. Jagan Nath Hira Lal Majith Mandi, Amritsar. | 25,000 | —do— |
| 57. | Gurcharan Dass, Guru Ram Das Motor Stores, Outside Hall Gate, Amritsar. | 24,960 | —do— |
| 58. | M/s. Ashwani Kumar Gupta, 457, East Mohan Nagar, Amritsar. | 25,000 | —do— |
| 59. | Gurditta Mall Bodhraj, Mishri Bazar, Amritsar. | £ 800 | —do— |

| 1 | 2 | 3 | 4 |
|-----|--|--------|---------------------------------|
| 60. | M/s. Vishnoo Trading Co., Hall Gali, Kalyan Singh, Road, Amritsar. | 13,500 | Investigations are in progress. |
| 61. | M/s. Ashok Kumar Manchanda, 70, Mewa Mandi, Amritsar. | 27,000 | —do— |
| 62. | M/s. Hardit Singh Kirpal Singh, Majith Mandi, Amritsar. | 14,750 | —do— |
| 63. | Dewa Singh Sunder Singh, Chawal Mandi, Amritsar. | 27,000 | —do— |
| 64. | M/s. Sachdeva Import, 72, Mewa Mandi, Amritsar. | 35,000 | —do— |
| 65. | M/s. Narain Singh Sada Singh, Pazar Chandhan Wala, Amritsar. | 57,000 | —do— |
| 66. | M/s. Vinod Kumar, 75 Mewa Mandi, Amritsar. | 27,000 | —do— |
| 67. | Harnam Singh Jagtar Singh, 24, Mewa Mandi, Amritsar. | 30,000 | Under Investigation. |
| 68. | Harbans Lal, Mewa Mandi, Amritsar. | 40,000 | —do— |
| 69. | M/s. Shiv Chand Brij Lal, Katra Ahluwalia, Amritsar. | 25,000 | —do— |
| 70. | M/s. B. Purmodh Hira Singh, Amritsar. | 10,000 | —do— |
| 71. | M/s. Maghraj Madan Lal Ahuja, Mewa Mandi, Amritsar. | 47,000 | —do— |
| 72. | M/s. Qudrat Singh, Manmohan Singh, Railway Road, Amritsar. | 40,000 | —do— |
| 73. | Manmohan Lal Sehtya, 64 Mewa Mandi, Amritsar. | 20,000 | —do— |
| 74. | Indo Arab Exporters Pawan Nagar, Amritsar. | 57,000 | —do— |
| 75. | Uttam Chand Sabharwal, Majith Mandi, Amritsar. | 24,000 | —do— |
| 76. | Mangal Dass, Majith Mandi, Amritsar. | 13,000 | —do— |

| 1 | 2 | 3 | 4 |
|-----|--|--------------|---|
| 77. | Arora Enterprises, Katra Karam Singh, Amritsar. | 30,000 | Under Investigation. |
| 78. | Wadhawa Mal Janak Raj, Katra Karam Singh, Amritsar. | 13,300 | —do— |
| 79. | M/s. Lakhmi Fruit Co., Katra Khazon, Amritsar. | 24,000 | —do— |
| 80. | M/s. Swami Radha Kishan & Co., Renika Bagh, Amritsar. | 30,000 | —do— |
| 81. | M/s. Janak Raj Kapoor, Opp. Railway Station, Amritsar. | 14,753.50 | —do— |
| 82. | Veerumal Om Parkash Bazar Lachmansar, Amritsar. | | —do— |
| 83. | Kadar Nath Tandon, Amritsar | 15,000 | —do— |
| 84. | M/s. Mahajan Fruit Co., Mewa Mandi, Amritsar. | 12,450 | Show cause Notice for Rs. 12,450 issued which is awaiting adjudication. |
| 85. | M/s. Nand Kishore Sabharwal Amritsar. | 4,10,000 | Under investigations. |
| 86. | M/s. Nirankari Trdg. Co., Amritsar. | 11,000 | —do— |
| 87. | M/s. Mehra Syndicate, Amritsar. | US \$ 11,250 | —do— |
| 88. | M/s. Sachdeva Traders, Amritsar. | 46,000 | —do— |
| 89. | M/s. Nand Kishore & Co., Amritsar. | 14,566 | —do— |
| 90. | M/s. Vijay Traders, Amritsar. | 14,750 | —do— |
| 91. | M/s. Indo Afghan Tdg. Co., Amritsar. | 6,000 | —do— |
| 92. | M/s. Dhawan & Co., Amritsar. | 26,100 | —do— |

NEW DELHI ;
March 26, 1984
Chaitra 6, 1906(S)

SUNIL MAITRA
Chairman,
Public Accounts Committee.

APPENDIX

Conclusions/Recommendations

| S.N. | Para No. | Ministry/ Deptt. concerned | Conclusions/Recommendation |
|------|----------|---------------------------------|---|
| 1 | 2 | 3 | 4 |
| 1 | 1.3 | M/O Finance (Deptt. of Revenue) | <p>1.3. In para 1.50 of their 105th Report, the Committee had desired to be furnished with a detailed list of the importers in whose case the total of invoice values of imports and, hence of counter-balancing exports during the years 1975-79, exceeded Rs. 50 lakhs each, the details of cases booked against them by the Directorate of Enforcement, the amount involved and the result of enquiries so far completed. In their reply, the Ministry have stated that the "data in regard to the importers in whose case the total of invoice values of imports and hence of counter-balancing of exports during the years 1975-79 exceeded Rs. 50 lakhs each, is being collected and will be furnished to the Committee as soon as it is available". The Committee are surprised at this reply of the Ministry. It is distressing that the Ministry should not have been able to collect the relevant information and supply the same to the Committee even after an elapse of about 21 months since the presentation of their Report, with the result that it has not been possible for the Committee to formulate their conclusions in the matter. The Committee would like to express their severe displeasure at this and desire that the Ministry should furnish the information to the Committee without any further delay.</p> |
| 2 | 1.6 | —do— | <p>The Committee had in their earlier Report observed that in the absence of any guidelines for</p> |

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grant of exemption from Customs duty, the exercise of such power under Section 25 (2) of the Customs Act 1962 by the Executive had become a matter of arbitrary discretion, and the Parliament and people were not able to judge whether such powers had been properly exercised. As the revenue foregone as a result of such exemptions had increased from Rs. 9.44 crores in 1976-77 to as much as Rs. 245.18 crores in 1979-80, it had become all the more necessary that there should be some guidelines so that the exemptions granted satisfied the intention of the Parliament in regard to the existence of public interest and circumstances of an exceptional nature. In their reply, the Ministry have stated that it would not be practicable to lay down specific guidelines in this regard. It has further been stated that Government examine each case of Customs duty exemption on merit to see that the conditions laid down under Section 25 of the Customs Act, 1962 are satisfied. The Committee are not satisfied with this reply of Government. It is hardly necessary for the Committee to re-stress that the power to grant exemption from duty is an unusual, extra-ordinary and exceptional power delegated by Parliament to the Executive and it is therefore imperative that adequate safeguards are provided to ensure that such powers are not abused. With this end in view, the Committee reiterate that guidelines clearly spelling out the circumstances in which the power to grant exemptions can be exercised by the Executive should be laid down without any further delay. The Committee further recommend that details of *ad hoc* exemptions under Section 25 (2) granted in any financial year together with the reasons for granting the same may be mentioned in the Annual Report of the Ministry of Finance. However, special imports made by Government for their use or imports of less than Rs. 10,000 need not be mentioned."

M/O
Finance
(Deptt. of
Revenue)

The Committee had in their earlier Report observed that the Ministry of Finance after the grant of an exemption from duty have no feed-back from the administrative Ministry to evaluate whether the exemption has served the purpose for which it was

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granted. It is left to the administrative Ministry to evaluate whether the conditions laid down in the exemption notification have actually been fulfilled. Finding this arrangement to be totally unsatisfactory, the Committee had recommended that the Ministry of Finance should evolve same mechanism to establish a monitoring system to review periodically how far the objectives behind the grant of an exemption have been achieved and if the exemption should be allowed to continue. The Ministry of Finance have not accepted the above recommendation of the Committee on the ground that this would not only amount to duplication of work but also overlapping of the functions of the administrative Ministry, which is another wing of Government. The Committee regret to observe that the Ministry of Finance have not properly appreciated their recommendation. It was not the intention of the Committee that the Ministry of Finance should establish an independent machinery of their own for watching the effect of exemptions granted by them and thereby duplicate the machinery already existing (where it exists) in any other Ministry. All that the Committee had intended was that the Ministry of Finance should make an independent appraisal as to how far the object underlying an exemption was being achieved. This the ministry of Finance could do by requiring the administrative Ministry to furnish periodical data for enabling them to make such an appraisal in case of requests for continuance of such exemptions and other requests for *ad hoc* exemptions. It has *inter alia* been argued that the administrative Ministry is as much a part of Government as the Ministry of Finance. While the Committee do not disagree with this view, they would like to point out that the Ministry of Finance being the nodal Ministry for managing the finances of the Central Government have an added responsibility to see that no revenue is lost purposelessly. The Committee, therefore, feel that the Ministry of Finance should not continue an exemption just as a matter of course, simply on the recommendation of the concerned Ministry, but should apply their mind independently on the basis of the relevant data to see how

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far the objectives underlying an exemption are being achieved and whether as a result of their appraisal, there is justification for the continuance of the exemption. For this purpose the Ministry of Finance must demand to see evaluations done, if any, in the Administrative Ministry and where the same has not been done to get it done without delay. In this connection, the Committee would like to mention the Committee would like to mention that the Public Accounts Committee (1982-83) had come across a case where since its issue, the exemption notification issued in regard to import of watch parts had never been reviewed and the data called for by the Committee showed that the objective underlying the exemption had not been achieved. The Committee were informed that 83 exemptions were in force where monitoring the achievement of purpose required verification of end use by the importers enjoying the exemption. The Committee understand that the Ministry of Finance have already started review of such general exemption notifications. A review in respect of *ad hoc* exemptions should, therefore, not only be feasible but even simpler and should be done in consultation with the administrative Ministry. The Committee, therefore, reiterate their earlier recommendation that without needless duplication of work a system be evolved whereby the Ministry of Finance may be in a position to review periodically and make an independent appraisal as to how far the objective underlying the grant of *ad hoc* exemptions have been achieved and whether, as a result of such appraisal, there is justification for the continuance of the exemption.

- 4 1.12 (i) M/o Food
& Civil
Supplies
(ii) M/o
Commence

In their earlier Report, the Committee had pointed out that the basic objective of granting exemption in duty on the imported edible oils was to ensure the supply of these oils to the consumers at reasonable prices. With fall in the prices of imported edible oils the benefit should have been passed on to the consumers so that the consumers could get some relief. However, Government continued to charge the same price for imported oils even after fall in the STC's purchase price which

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enabled private parties to exploit the situation and make exorbitant profits by selling oils, imported at cheaper prices on the basis of contracts entered into before canalisation, at high prices then prevailing in the open market. The Committee had observed that by not giving a relief to the consumers, Government had displayed scant regard towards the interest of vast multitudes of consumers in the country. In their reply, the Ministry of Civil Supplies have *inter alia* stated that a reduction in the prices of imported oils might have acted as a disincentive to the domestic production. The Committee are not convinced by this argument, for as they observe, imported edible oils mainly cater, through the Public Distribution System, to the needs of relatively poorer sections of society who do not have the means to purchase sufficient quantities of high-priced indigenous edible oils. Nor does a small decrease in the price of vanaspati oil, in which imported oils are used, tangibly affect the production of indigenous oils. The Committee, therefore reiterate their earlier view that by their failure to reduce prices of imported edible oils, Government had displayed scant regard towards the interest of vast multitudes of consumers in the country. The Committee trust that Government would take care to avoid such lapses in future and with fall in the prices of imported oils, pass on the benefits to consumers.

PART II
MINUTES OF THE SIXTY-SIXTH SITTING OF THE
PUBLIC ACCOUNTS COMMITTEE HELD ON
20 MARCH, 1984 (AN)

The Committee sat from 1500 hrs to 1720 hrs.

PRESENT

Lok Sabha

Shri Bhiku Ram Jain—In the Chair

2. Shri Chitta Basu
3. Smt. Vidyavati Chaturvedi
4. Shri G. L. Dogra
5. Shri Jamilur Rahman

Rajya Sabha

6. Shri Syed Rahmat Ali
7. Smt. Pratibha Singh

REPRESENTATIVES OF THE OFFICE OF THE C & AG

- | | |
|-------------------------------|--|
| 1. Shri R. K. Chandrasekharan | —Addl. Dy. C & AG of India (Reports) |
| 2. Shri S. R. Mukerjee | —Addl. Dy. C & AG of India (Railways) |
| 3. Shri K. N. Row | —Director of Audit, Defence Services |
| 4. Shri A. N. Biswas | —Director of Audit, P & T |
| 5. Shri V. Sundaresan | —Director of Receipt Audit-I |
| 6. Shri N. Sivasubramanian | —Director of Receipt Audit-II |
| 7. Shri A. N. Mukhopadhyay | —Jt. Director (Report-Central) |
| 8. Shri K. H. Chaya | —Jt. Director (Railways) |
| 9. Shri S. K. Gupta | —Jt. Director (Receipt Audit) |
| 10. Shri N. R. Rayalu | —Jt. Director (Defence) |
| 11. Shri T. G. Srinivasan | —Jt. Director of Audit, P & T |
| 12. Shri N. Balasubramaniam | —Jt. Director (Receipt Audit) |
| 13. Shri R. S. Gupta | —Jt. Director of Audit, Defence Services |

SECRETARIAT

1. Shri H. S. Kohli—*Chief Financial Committee Officer*
2. Shri K. K. Sharma—*Senior Financial Committee Officer*
3. Shri K. P. Singh—*Senior Financial Committee Officer*
4. Shri R. C. Anand—*Senior Financial Committee Officer*
5. Shri K. Sahai—*Senior Financial Committee Officer*

2. In the absence of the Chairman, PAC, Shri Bhiku Ram Jain, was chosen to act as Chairman for the sitting.

3. The Committee considered the following draft Reports and adopted the same with certain modifications/amendments as shown in Annexures indicated against the respective reports :

* * * * *

3. Action Taken on 105th Report of Annexure-III PAC (7th Lok Sabha) on Customs Receipts-Delay in revision of tariff values and exemption orders issued under the Customs Act, 1962.

* * * * *

The Committee also authorised the Chairman to finalise the Reports in the light of modifications/amendments suggested by Audit as a result of factual verification and present the same to the House.

The Committee then adjourned.

ANNEXURE III

Amendments/ Modifications made by the Public Accounts Committee at their sitting held on 20 March 1984 (A. N.) in the Draft Report on Action Taken on the 105th Report of PAC (7th Lok Sabha) relating to Customs Receipts-Delay in revision of tariff values and exemption orders issued under the Customs Act, 1962.

| <i>Page</i> | <i>Para</i> | <i>Line</i> | <i>Amendment/Modification</i> |
|-------------|-------------|-------------|--|
| 5 | 1.6 | 4 | <i>Substitute "25 (2)" for "25"</i> |
| 6 | 1.6 | 7 | <i>Add the following at the end—</i> <i>"The Committee further recommend that details of ad hoc exemptions under Section 25 (2) granted in any financial year together with the reasons for granting the same may be mentioned in the Annual Report of the Ministry of Finance. However, special imports made by Governments for their use or imports of less than Rs. 10,000 need not be mentioned."</i> |
| 9 | 1.9 | last line | <i>Substitute "granted" for "given"</i> |
| 9 | 1.9 | last line | <i>Add the following at the end—</i> <i>"and there by duplicate the machinery already existing (where it exists) in any other Ministry."</i> |
| 10 | 1.9 | 1 | <i>Add "that" after "All"</i> |
| 10 | 1.9 | 7 | <i>Add the following after "Appraisal"</i> <i>"in case of requests for continuance of such exemptions and other requests for ad hoc exemptions."</i> |

| <i>Page</i> | <i>Para</i> | <i>Line</i> | <i>Amendment/Modification</i> |
|-------------|-------------|-------------|---|
| 11 | 1.9 | 1 | <i>Add the following after "exemption."—</i> "For this purpose the Ministry of Finance must demand to see evaluations done if any in the Administrative Ministry and where the same has not been done to get the same done without delay." |
| 11 | 1.9 | 9 | <i>Add the following after "achieved".—</i> "The Committee were informed that 83 exemptions were in force where monitoring the achievement of purpose required verification of end use by the importers enjoying the exemption. The Committee understand that the Ministry of Finance have already started review of such general exemption notifications. A review in respect of <i>ad hoc</i> exemptions, should, therefore, not only be feasible but even simpler and should be done in consultation with the administrative Ministry". |
| 11 | 1.9 | 10 | <i>Add the following after "that"—</i> "without needless duplication of work" |
| 11 | 1.9 | 15 | (i) <i>Substitute "ad hoc" for "an"</i> (ii) <i>Substitute "have been" for "are being"</i> |

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P.A.C. No. 1006

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