

**PUBLIC ACCOUNTS COMMITTEE**  
**(1978-79)**

(SIXTH LOK SABHA)

**EIGHTY-THIRD REPORT**

**EXPORT OF ENGINEERING GOODS**

**MINISTRY OF COMMERCE**

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 10th Report (Sixth Lok Sabha) relating to Ministry of Commerce.]



Authenticated

11-11-18

Chairman,

Public Accounts Committee.

Presented in Lok Sabha on

29 AUG 1978

Laid in Rajya Sabha

29 AUG 1978

**LOK SABHA SECRETARIAT**

**NEW DELHI**

August, 1978/Bhadra, 1900 (Saka)

Price : Rs. 1.85

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABLE  
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
<b>ANDHRA PRADESH</b>					
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam)	8	12.	Charles Lambert & Company, 101, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.	30
2.	G.R. Lakshminpathy Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	94	13.	The Current Book, House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60
			14.	Deccan Book Stall, Ferguson College Road, Poona-4.	65
<b>ASSAM</b>					
3.	Western Book Depot, Pan Bazar, Gauhati.	7	15.	M/s. Usha Book Depot, 585/A, Chira Bazar, Khan House, Gurgaum Road, Bombay-2 B.R.	5
<b>BIHAR</b>					
4.	Smriti Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	37	<b>MYSORE</b>		
			16.	M/s. Peoples Book House, Opp Jagannathan Palace, Mysore-1	16
<b>GUJARAT</b>					
5.	Vijay Stores, Station Road Anand.	35	<b>RAJASTHAN</b>		
6.	The New Order Book Company Ellis Bridge, Ahmedabad-6.	63	17.	Information Centre, Government of Rajasthan Tripolia, Jaipur City	31
<b>HARYANA</b>					
7.	M/s. Prabhu Book Service, Nai Subzimandi, Gurgaon, (Haryana).	14	<b>UTTAR PRADESH</b>		
			18.	Swastik Industrial Works, 59, Holi Street, Meerut City.	
<b>MADHYA PRADESH</b>					
8.	Modern Book House, Shiv Vilas Palace, Indore City.	13	19.	Law Book Company, Sardar Patel Marg, Allahabad-1	48
<b>MAHARASHTRA</b>					
9.	M/s. Sunderdas Granchand 601, Gurgaum Road, Near Princess Street, Bombay-2.	6	<b>WEST BENGAL</b>		
10.	The International Book House (Private) Limited 9 Ash Lane, Mahatma Gandhi Road, Bombay-1	22	20.	Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24 Parganas.	10
11.	The International Book Service Deccan Gymkhana Poona-4	26	21.	W Newman & Company Ltd 3, Old Court House Street, Calcutta	44
			22.	Firma K.L. Mukhopadhyay, 6/1A, Banchharam Akur Lane, Calcutta 12.	82
			23.	M/s. Mukherji Book House, 8B, Duff Lane, Calcutta-6	4

**CONTENTS**

	<b>PAGE</b>
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1977-78) . . . . .	(iii)
INTRODUCTION . . . . .	(v)
CHAPTER I—Report . . . . .	1
CHAPTER II—Recommendations/observations which have been accepted by Government . . . . .	12
CHAPTER III—Recommendations/observations which the Committee do not desire to pursue in the light of the replies of Government . . . . .	18
CHAPTER IV—Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration . . . . .	24
CHAPTER V—Recommendations/observations in respect to which Government have furnished interim replies, . . . . .	31
APPENDIX Main Conclusions Recommendations . . . . .	33

336.39512  
47

**PARLIAMENT LIBRARY**  
Library & Reference Service  
Central Govt Publications.  
Acc. No. B. 50780(2)  
Date 7.9.78

**PUBLIC ACCOUNTS COMMITTEE**  
(1978-79)

**CHAIRMAN**

Shri P. V. Narasimha Rao

**MEMBERS**

*Lok Sabha*

2. Shri Halimuddin Ahmed
3. Shri Balak Ram
4. Shri Brij Raj Singh
5. Shri C. K. Chandrappan
6. Shri Asoke Krishna Dutt
7. Shri K. Gopal
8. Shri Kanwar Lal Gupta
9. Shri Vijay Kumar Malhotra
10. Shri B. P. Mandal
11. Shri R. K. Mhalgi
12. Dr. Laxminarayan Pandeya
13. Shri Gauri Shankar Rai
14. Shri M. Satyanarayan Rao
15. Shri Vasant Sathe

*Rajya Sabha*

16. Shri Devendra Nath Dwivedi
17. Shri M. Kadershah
18. Shri Sita Ram Kesri
19. Dr. Bhai Mahavir
20. Smt. Leela Damodara Menon
21. Shri B. Satyanarayan Reddy
22. Shri Gian Chand Totu

**SECRETARIAT**

1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri Bipin Behari—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Eighty-Third Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Tenth Report (6th Lok Sabha) on 'Export of Engineering Goods' commented upon in paragraph 28 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil) relating to the Ministry of Commerce.

2. On 31 May, 1978 an 'Action Taken Sub-Committee' consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri P. V. Narasimha Rao—*Chairman*
2. Shri Asoke Krishna Dutt—*Convener*

### *Members*

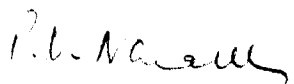
3. Shri Vasant Sathe
4. Shri M. Satyanarayan Rao
5. Shri Gauri Shankar Rai
6. Shri Kanwar Lal Gupta

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 18 August, 1978. The Report was finally adopted by the Public Accounts Committee (1978-79) on 24 August, 1978.

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

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

NEW DELHI;  
August 24, 1978.  
Bhadra 2, 1900 (S).

  
P. V. NARASIMHA RAO,  
*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/observations contained in their 10th Report (Sixth Lok Sabha) on 'Export of Engineering Goods', commented upon in Paragraph 28 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil), relating to the Ministry of Commerce.

1.2. The Committee's 10th Report was presented to the Lok Sabha on 15 November, 1977 and contained 19 recommendations/observations. According to the time schedule for furnishing Action Taken Notes on the Committee's recommendations/observations, the Notes indicating the action taken by Government in pursuance of the recommendations/observations contained in the 10th Report duly vetted by Audit were required to be furnished to the Committee latest by 14 May, 1978. The Ministry of Commerce did not submit even a single action taken note upto this date and were granted extension of one month's time for submission of their replies against their request for three months. Subsequently, the Ministry submitted advance copies of action taken notes on Committee's 16 recommendations/observations on 14 June, 1978 and requested for extension of time for another one month for submission of action taken notes on the remaining 3 recommendations/observations. However, extension of time upto 23 June, 1978 was granted and the Ministry made available to the Committee all the remaining action taken notes (unvetted) in accordance with this revised time schedule.

1.3. The Action Taken Notes received from Government have been broadly categorised as follows:—

- (i) Recommendations/observations that have been accepted by Government.

S. Nos. 1, 5, 9, 10, 11 and 14.

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

S. Nos. 2, 3, 4, 6, 7, 8 and 18.

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

S. Nos. 12, 13, 15, 16 and 17.

- (iv) Recommendations/observations in respect of which Government have furnished interim replies.

S. No. 19.

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

*Failure to take prompt corrective measures even when anomalous consequences of the export promotion policy highlighted (Paragraph 1.116 & 1.117—S. Nos. 12 & 13).*

1.5. According to Audit, Government had failed to take prompt corrective measures even when anomalous consequences of the export promotion policy were brought home to them. Recommending the fixation of responsibility for the failure in this regard by one of the Government's own agencies, the Committee, in paragraphs 1.116 and 1.117 of their 10th Report had observed:

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

That whatever reviews and exercises were carried out in this regard till 1973 were only superficial and inadequate and that the decisions taken from time to time were not based on any precisely thought out foundations are also evident from the illustrative instances of disproportionate grant of cash assistance cited in the Audit paragraph relating to exports of steel weld mesh and bright steel bars. For instance, in the case of steel weld mesh, for which cash assistance at 20 per cent of f.o.b. realisations was available till 31 March, 1974, the Central Board of Excise and Customs had noticed (early in 1972-73) that an exporter would get, according to the then existing rates of cash assistance, an assistance of Rs. 251 per tonne although if the principle that the assistance should not exceed 25 per cent of the added value was to be observed

the cash assistance should not have been more than Rs. 31 per tonne and that, in this case for earning a net foreign exchange of Rs. 125 per tonne, Government would be paying Rs. 251 per tonne as each assistance. The Board had also pointed out that if the increased assessable value of the imported mild steel rods used for the exported steel weld mesh (the imported value of mild steel rods had registered an increase to January, 1972) and the latest f.o.b. realisation from the export of weld mesh were taken into consideration, the net foreign exchange drain worked out to Rs. 129 and even then the exporter would get cash assistance of Rs. 251 per tonne. It is obvious that if the contract in question had not been re-negotiated subsequently by the exporter to derive an advantage from the rise in international prices, the cash assistance admissible at the then existing rate of 20 per cent would have proved, by any standard, to have been excessive and even abnormal. The Committee are, however, concerned to find that even when this specific instance of anomaly in the operation of the cash assistance scheme was brought to the Ministry's notice apart from informing the Directorate of Drawback that the decision to grant cash assistance for exports of steel weld mesh at 20 per cent of the f.o.b. realisation had been taken in August 1966 with the approval of the Cabinet, little else was done by the Ministry to remedy the situation and that it was only much later (in early 1974) that a study was conducted to find out the value addition from the export of this item, after taking into account all imports going into the product, when it was found that the net value addition was only 11 per cent and a decision taken to abolish the cash assistance for this product with effect from 1 April, 1974. The Committee cannot countenance the Ministry's casual approach to the question and the failure to take prompt corrective action even when anomalous consequences of the export promotion policy had been highlighted by one of Government's own agencies, and desire fixation of responsibility for this failure which must have cost the exchequer dearly."

1.6. In their Action Taken Note\* dated 23 June, 1978 furnished in response to these observations, the Ministry of Commerce have stated:

---

\*Not vetted in Audit.



"A copy of the letter of the Directorate of Drawback, dated 10th May, 1972 and the reply given thereto dated 12th June, 1972 are enclosed. It will be seen from these communications that the Directorate of Drawback only sought certain factual information regarding grant of the Cash Assistance on steel weld mesh and the required information was furnished by this Ministry. From the correspondence enclosed, it will also be seen that no specific instances of anomaly were brought to the notice of this Ministry by the Drawback Directorate and therefore the question of fixing responsibility does not arise."

1.7. The Committee are surprised to note the reply of the Ministry of Commerce that no specific instance of anomaly were brought to the notice of the Ministry by the Drawback Directorate. In this connection the Committee find that the Central Board of Excise and Customs had brought\* this particular instance of anomaly in the operation of the cash assistance scheme to the notice of the Ministry of Commerce apart from informing the Directorate of Drawbacks. As mentioned in paragraph 1.50 of 10th Report (6th Lok Sabha), the Additional Secretary of the Ministry of Commerce had also admitted during evidence that "there were two spells of increase in steel price. The first one was a smaller one in the earlier part of 1972. The second one commenced towards the end of 1972 and continued thereafter. As soon as this was brought to our notice, we took certain corrective action". The Committee, therefore, are of the view that the position in this regard needs to be reconciled and explained to the Committee. The Committee also reiterate their earlier recommendation that the responsibility for the failure to take prompt corrective action even when anomalous consequences of the export promotion policy had been highlighted by the Central Board of Excise and Customs, may be fixed under intimation to them.

**Restriction of subsidies and incentives to needy exporters  
(Paragraphs 1.119 to 1.121—S. Nos. 15, 16 and 17)**

1.8. Stressing the need for a more discriminating administration of various export promotion schemes, the Committee had in paragraphs 1.119 to 1.121 of the 10th Report recommended:

"The final picture that emerges from the foregoing paragraphs is, thus, far from satisfactory. Viewed in retrospect, the

---

\*Paragraph 1.117 of the 10th Report (Sixth Lok Sabha).

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

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

the various concessions given in the past to exporters and make an assessment of the actual impact of these concessions with a view to determining how far these export promotion measures have actually succeeded in achieving the objectives envisaged.

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

1.9. The Action Taken Notes\* furnished in pursuance of these recommendations by the Ministry of Commerce on 16 June, 1978 are reproduced below:

"The Government agree with the view of the Committee that an integrated and coordinated approach to the entire question of export promotion and not isolated and temporary palliatives should be adopted.

The Government, however, would like to state in this connection that in the context of acute foreign exchange shortage, the export promotion schemes were thought out

\*Not vetted in Audit.

and implemented. Whenever defects in the implementation were noticed, necessary amendments were made or the scheme themselves were revised. Thus, before devaluation the export promotion schemes for engineering goods provided only an import licence at twice the import content, subject to the maximum of 75 per cent of the f.o.b. value. During those days, there was a scarcity of imported raw material and the extra import allowed served as an incentive because the imported raw material commanded handsome premium. After devaluation in 1966, this premium vanished. It was thought that with the extra 57½ per cent in terms of Rupees, no further assistance would be needed. This, however, did not come true. The exporters faced cost disadvantage particularly in the case of non-traditional items. The matter was examined by the Secretaries Committee and it was decided to introduce cash assistance at varying rates on different export products.

These rates continued till 1971-72, when an extraordinary situation arose. There was an acute shortage of steel which had to be imported in order to meet domestic as well as export requirements. Normally, the rates of Cash Assistance would have been scaled down as imported steel would have increased the import content. But a special dispensation was sought and was granted at the highest level, whereby the imported steel going into production of export goods was precluded from being computed as import content for the purposes of cash assistance.

The system of periodical reviews of cash assistance was introduced in the year 1972-73. The cash assistance rates on 12 engineering items were reviewed and decisions to increase/reduce/continue the existing scales were taken. In 1973-74, 23 items were subjected to cash reviews. As a result of this review, cash assistance on 7 items was withdrawn and in the case of 7 items, it was reduced. In respect of 8 items the cash assistance was continued at the existing rates and only in one case, it was considered necessary to increase it.

In 1974-75, a Standing Committee under the Chairmanship of the Additional Secretary, Ministry of Commerce was constituted and thereafter the system of reviewing cash assistance periodically became a regular feature. During

this period, a system of cost study in respect of various items was adopted, as a result of which cash assistance on a number of items were either reduced or abolished. In October, 1975, a situation of imbalance in foreign trade became more pronounced. The matter came up for examination at the level of Cabinet Committee on exports. In view of the prevailing circumstances, the Cabinet Committee decided that cash assistance should be introduced or increased, where called for, as a promotional measure, taking into account the various factors such as export prospects, production capability in the country, the competitive strength of our products *vis-a-vis* international prices etc. Accordingly cash assistance on a number of items had to be re-introduced and on certain other items it had to be increased in order to give a further boost to export of engineering goods. The rates of cash assistance thus sanctioned were time bound and subject to review periodically.

It was also decided at the highest level that the cash assistance rate should be determined in accordance with the following criteria instead of the criterion of marginal costing alone:—

- (a) Export potential and domestic availability as well as supply elasticity of the product;
- (b) Import content and domestic value development;
- (c) Approximate implicit subsidy, if available, under the Import Replenishment Scheme;
- (d) Compensation of irrecoverable taxes and levies;
- (e) Difference between the domestic cost and international price of indigenous inputs and raw-materials; and
- (f) Cost of entry into new market.

In the meantime there has been constant complaints by the exporting community that their export plans were upset by frequent changes made in the rates of cash compensatory support. It was, therefore, decided that a measure of stability in the rates should be brought about. As a result of this policy decision, the rates prevailing in October, 1976 were extended upto 31 March, 1979.

In November, 1977, a Committee of Senior Officials under the Chairmanship of Dr. P. C. Alexander was appointed to re-

view the existing Import-Export Policy and Procedures and propose suitable changes in them. One of the terms of reference related to grant of cash assistance on exports. The Alexander Committee has submitted its report to the Government. With regard to the cash assistance, the following three basic principles have been identified and recommended for determining the level and structure of such assistance:

- (a) The level of cash assistance should *fully* compensate for the various types of indirect taxes, sales taxes etc. which the exporter has to pay on his inputs imported or domestically purchased and which are not refunded. This will enable him to be on par with foreign competitors;
- (b) Cash assistance should be such as to encourage him in adopting adequate marketing strategies and to neutralise the disadvantages of freight etc. so as to be competitive in the export market; and
- (c) In the case of new products in new markets the magnitude of cash assistance should be adequate to take care of the initial promotional costs.

It has also been suggested in the report of Dr. Alexander Committee that the existing framework of export promotion, which consists of multiplicity of incentives and policies should be rationalised and simplified. It is further recommended that a detailed review of the existing cash assistance scheme be undertaken and completed within the next 12 months so that the new system of cash assistance is introduced w.e.f. 1st April, 1979.

The recommendations of Dr. Alexander Committee are under examination."

1.10. The Committee note that as pointed out by them in their 174th Report (Fifth Lok Sabha) and reiterated in their 10th Report (Sixth Lok Sabha), the Government have realised, though belatedly, the need for an integrated and coordinated approach to the entire question of export promotion and not isolated and temporary palliatives. The Committee would like to know the concrete measures taken in this direction.

1.11. From the reply furnished to the Committee, it is observed that the Cabinet Committee had in 1975 decided that "cash assistance

should be introduced or increased, where called for, as a promotional measure, taking into account the various factors such as export prospects, production capability in the country, the competitive strength of our products vis-a-vis international prices etc." and that "the rates of cash assistance thus sanctioned were time bound and subject to review periodically". But in fact the rates prevailing in October, 1976 were extended upto 31 March, 1979 i.e. for a period of 2 years and 6 months on an ad hoc basis without any scrutiny of the need for continuance of the cash assistance at the prevailing scale. The Committee are not satisfied with the reasons advanced by Government in this respect namely, to bring about stability in the rates, and are of the view that instead of extending the then prevailing rates of cash assistance upto March, 1979, the position should have been reviewed in respect of each commodity on the basis of the criteria laid down earlier by the Cabinet Committee on Exports. The Committee therefore desire to know the level at which the decision was taken to extend upto 31 March, 1979 the rates of cash assistance prevailing in October 1976.

1.12. The Committee also note that it was decided in October 1975 at the highest level that the cash assistance rate should be determined in accordance with the six criteria laid down in this respect instead of the criterion of marginal costing alone being applied earlier. The Committee would like to know as to whether the revised criteria for determining the cash assistance rates were actually followed in all cases of cash assistance sanctioned thereafter and how these were quantified and evaluated for coming to a decision.

1.13. From the Action Taken Notes dated 16 June, 1978 furnished by the Ministry of Commerce, it is not clear to the Committee whether their recommendations contained in paragraph 1.121 of their Report were ever considered either by the Government or by the Alexander Committee. The Committee therefore feel that whatever steps might be taken by the Government on the recommendations of the Alexander Committee, the principles enunciated in their earlier recommendations would also find a suitable place in the new system of cash assistance which is likely to be introduced w.e.f. 1 April, 1979, namely:

- (i) avoiding non-discriminatory payment of cash assistance to the industry as a whole irrespective of the fact whether the export transactions actually result in loss or not and restricting such subsidies and incentives only to the actually needy exporters;

- (ii) imposing suitable obligations for export on those who do not require such incentives to sustain themselves;
- (iii) limiting such subsidies only to those exporters with a large enough ratio of exports to domestic sales with a view to discouraging those speculative exporters who enter the field temporarily only to take advantage of the various benefits offered and have no involvement and interest in building up long term export from the country.

1.14. The Committee would also like to be informed about the decision taken by the Government on the various recommendations of the Alexander Committee for streamlining the cash assistance scheme.



## CHAPTER II

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

#### Recommendation

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

[Para No. 1.105 S. No. 1 Appendix VIII to Tenth Report of PAC  
(6th Lok Sabha)].

#### Action Taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(65)/77-EP (Engg.) dated  
16-6-1978].

### Recommendation

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

[Para No. 1.109, S. No. 5 Appendix VIII to Tenth Report of PAC  
(6th Lok Sabha)].

### Action Taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(65)/77-EP (Engg.) dated  
16-6-1978]

### Recommendations

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

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

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

[Paras No. 1.113 and 1.114, S. No. 9 & 10 Appendix VIII to Tenth Report of PAC (6th Lok Sabha)].

#### **Action Taken**

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(65)/77 EP (Engg.) dated 16-6-1978].

### Recommendations

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

[ Para No. 1.115 S. No. 11 Appendix VIII to Tenth Report of PAC (6th Lok Sabha) ]

### Action Taken

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(65)/77-EP(Engg.) dated 16-6-1978].

### Recommendation

Again, in respect of bright steel bars and shaftings the justification for the grant of cash assistance at 10 per cent of *f.o.b.* realisation, even when mild steel bars and rods were imported in considerable quantities, often during periods when world steel prices ruled high, and the value added indigenously was also not very significant, is open to question. Admittedly, the process involved in the production of bright steel bars from mild steel bars is not sophisticated and requires only machining. The Committee find from their examination of an illustrative instance of export of this commodity cited in the Audit paragraph, that while the percentage of cash assistance admissible to the net foreign exchange to be earned had been assessed by Audit, on the basis of the expected *f.o.b.* realisation and estimated *c.i.f.* value of import content, at as large a figure as 287½ per cent, according to the Ministry's own computation furnished to the Committee subsequently, the foreign exchange to be earned

from this export was negative. Apart from informing the Committee that Cash assistance for bright bars and shaftings was introduced in 1966-67 immediately after devaluation with the approval of the Committee of Secretaries the Ministry have not been able to vouch whether the manufacturing processes involved in the production of bright bars and had been taken into consideration and whether any detailed examination of the cost structure, processing etc. had been undertaken before a decision to grant cash assistance for this commodity was taken. While the Committee have, therefore, not been in a position to adequately satisfy themselves that the cash assistance granted for this commodity was, in fact, justified and all the relevant factors were taken into account in determining the need for the assistance, they cannot help concluding, on the basis of the facts made available to them, that cash assistance in this case was extended injudiciously. This conclusion is also strengthened by the fact that a study undertaken much later (in early 1974, leading to the abolition of cash assistance for this item with effect from 1 April, 1974) had disclosed that a comparison of the f.o.b. cost & f.o.b. realisations did not justify continuance of the assistance and that the net value addition was only 11 per cent. At this distance of time, the Committee have to merely rest content with expressing their displeasure over the manner in which this question appears to have been handled.

[Para No. 1.118 S. No. 14 Appendix VIII to Tenth Report of PAC (6th Lok Sabha).]

#### **Action taken**

The observations of the Committee have been noted.

[Ministry of Commerce O.M. No. 5(65)/77-EP (Engg. dated 16-6-1978)]

## CHAPTER III

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

#### Recommendations

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

It has, no doubt, been contended by the Ministry that a study of typical export products had been undertaken by the Committee of Secretaries before the decision to introduce cash assistance immediately after devaluation was taken. The Committee, however, find that though cash assistance is normally intended to bridge the gap between the cost of production of an export product and the *f.o.b.* realisations according to its export and a detailed examination of the cost structures and *f.o.b.* realisations is, therefore of funda-

mental and vital importance, "the cost structure and date about f.o.b. realisation had not been gone into" by the Committee of Secretaries, while deciding "as a matter of policy" in August 1966 to extend cash compensatory support to selected non-traditional export products. It is, therefore, not clear to the Committee how the need and justification for cash assistance were determined by the Committee of Secretaries in the absence of any precise cost-benefit analysis.

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

[Para Nos. 1.106, 1.107 & 1.108 S. No. 2, 3 & 4 Appendix No. VIII to Tenth Report of PAC (6th Lok Sabha)]

#### Action taken

In the note submitted to the Committee, rationale for introduction of Cash Assistance after devaluation had been explained fully. It may be reiterated that the Secretaries' Committee after considering the entire question came to the conclusion that introduction of Cash Assistance on certain non-traditional items facing stiff competition abroad, was necessary on following considerations:—

1. The expectation that 57½ per cent more realisation would off-set the disability of Indian exporter did not come true,
2. Process of diversification and modernisation of export trade had just begun; and
3. A number of items needed assistance on infant industry argument.

As regards the manner in which the need justification for Cash Assistance were determined by the Committee, the Government had expressed its inability to supply further information as it was considered to be prejudicial to the interest of State and withheld the same under Proviso to Rule 270 of the Rules of Procedure and Conduct of Business in the Lok Sabha.

The Committee's observations have, however been noted.

[Ministry of Commerce O.M. No. 5(65)/77-EP (Engg.)  
dt. 16-6-1978]



### Recommendations

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

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

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

[Para No. 1.110 to 1.112 S. No. 6, 7 & 8 Appendix VIII of Tenth Report of PAC (6th Lok Sabha)]

#### **Action Taken**

In the evidence given before the Committee and in subsequent notes, already reproduced in the PAC Report at pages 26 to 30, the circumstances under which steel had to be imported and made available to the exporters for export production at international prices

have already been explained in detail. It has also been explained therein that the importer of steel were in the nature of distress imports and not of exporters' volition. The decision to keep the imported steel content out of the purview of computation for fixation of cash assistance was taken at the highest level after detailed examination of all the implications and pros and cons. The Government would therefore resubmitted to the Committee that the matter was considered after all the wider ramifications of the whole question were examined thoroughly at the highest level and had decided upon in the interest of export promotion which was a dire need at that time to the country's economy.

[Ministry of Commerce O.M. No. 5 (65) | 77-EP (Engg.)  
dt. 16-6-1978]

### **Recommendation**

The facts disclosed by the Audit paragraph also underscore the need for an urgent review of the need and justification for continuance of liberal scales of cash assistance for sustaining exports of certain commodities. The Committee have been informed in this context that a Standing Committee has been constituted in the Commerce Ministry with effect from June 1974 to review cash compensatory allowances and that this Committee has examined 13 export commodities till April 1975 and recommended withdrawal or reduction or increase in the rates of cash assistance for various items. However, that committee was yet to take up examination of major export items involving heavy out-flow of cash assistance and for this purpose relevant data was to have been collected by the Chief Controller of Imports and Exports in respect of major items where the cash assistance outflow was the heaviest. Considerable time having elapsed since then, the Committee would like to be apprised whether this task has since been completed and if so, of the action taken by Government on the findings of the Standing Committee.

[Para No. 1.22, S. No. 18 Appendix VIII to Tenth Report of  
PAC (6th Lok Sabha)]

### **Action Taken**

The Inter-Ministerial standing Committee on Cash Assistance has met from time to time to review the rates of cash compensatory support on various export products including engineering goods. After April, 1975, till todate (June '78) the above Committee has met

33 times and taken decisions on a large number of cases involving reduction/abolition/enhancement of the rates of cash compensatory support. In reviewing each case, the committee was guided by the criteria in force at the time of review.

2. Since the review of the cash assistance rates is a continuous process, the question of completion of this task does not arise. Moreover, the criteria at present adopted for the grant of cash compensatory support are under review by a high level committee considering the recommendations contained in the report of Dr. Alexander Committee on Import and Export Policies.

3. The rates of Cash Compensatory Support currently in force are valid only upto 31-3-79. Based on the revised criteria which may be adopted as a result of the review referred to in para 2 above, the rates of Cash Compensatory Support on the entire range of export products will be reviewed and necessary adjustments made before announcing the rates valid from 1-4-79 onwards.

[Ministry of Commerce O.M. No. 5(65)'77-EP (Engg.)  
dt. 23-6-1978]

## CHAPTER IV

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

#### Recommendations

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

That whatever reviews and exercises were carried out in this regard till 1973 were only superficial and inadequate and that the decisions taken from time to time were not based on any precisely thought out foundations are also evident from the illustrative instances of disproportionate grant of cash assistance cited in the Audit paragraph relating to exports of steel weld mesh and bright steel bars. For instance, in the case of steel weld mesh; for which cash assistance at 20 per cent of f.o.b. realisations was available till 31 March, 1974, the Central Board of Excise and Customs had noticed (early in 1972-73) that an exporter would get, according to the then existing rates of cash assistance, an assistance of Rs. 251 per tonne although if the principle that the assistance should not exceed 25 per cent of the added value was to be observed the cash assistance should not have been more than Rs. 31 per tonne and that, in this case for earning a net foreign exchange of Rs. 125 per tonne, Government would be paying Rs. 251 per tonne as cash assistance. The Board had also pointed out that if the increased assessable value of the imported mild steel rods used for the exported steel weld mesh (the imported value of mild steel rods had registered an increase in January, 1972) and the latest f.o.b. realisation from the export of weld mesh were taken into consideration, the net foreign exchange drain worked out to Rs. 129 and even then the exporter would get cash assistance of Rs. 251 per tonne. It is obvious that if the contract in question had not been re-negotiated subsequently by the exporter to derive an advantage from the rise in international prices, the cash assistance admissible at the then existing rate of 20 per cent

would have proved, by any standard, to have been excessive and even abnormal. The Committee are, however, concerned to find that even when this specific instance of anomaly in the operation of the cash assistance scheme was brought to the Ministry's notice apart from informing the Directorate of Drawback that the decision to grant cash assistance for exports of steel weld mesh at 20 per cent of the f.o.b. realisation had been taken in August 1966 with the approval of the Cabinet, little else was done by the Ministry to remedy the situation and that it was only much later (in early 1974) that a study was conducted to find out the value addition from the export of this item, after taking into account all imports going into the product, when it was found that the net value addition was only 11 per cent and a decision taken to abolish the cash assistance for this product with effect from 1 April 1974. The Committee cannot countenance the Ministry's casual approach to this question and the failure to take prompt corrective action even when anomalous consequences of the export promotion policy had been highlighted by one of Government's own agencies, and desire fixation of responsibility for this failure which must have cost the exchequer dearly.

[Para No. 1.116 & 1.117 S. No. 12 & 13 Appendix VIII to Tenth Report of PAC (6th Lok Sabha)]

#### **Action Taken**

A copy of the letter of the Directorate of Drawback, dated 10th May, 1972 and the reply given thereto dated 12th June, 1972 are enclosed. It will be seen from these communications that the Directorate of Drawback only sought certain factual information regarding grant of the Cash Assistance on steel weld mesh and the required information was furnished by this Ministry. From the correspondence enclosed, it will also be seen that no specific instances of anomaly were brought to the notice of this Ministry by the Drawback Directorate and therefore the question of fixing responsibility does not arise.

[Ministry of Commerce O.M. No. 5(65)/77-EP (Engg)  
dt. 23-6-1978]

#### **ANNEXURE**

*Copy of d.o. letter No. 601|128|71-DBK dated 10th May, 1972 from Shri M. Panchappa, Director (Drawback), Min. of Finance Deptt. of Revenue & Insurance to Shri M. H. Zinjani, Dy. Secretary, Min. of Foreign Trade, New Delhi.*

We have an application for determination of special drawback rate for steel weld mesh manufactured out of wire rods by M/s. Multiweld Wire Co. Pvt. Ltd. In dealing with this case, we wish to know whether any cash assistance is admissible for this product and if so, the rate of such cash assistance. I should also be grateful if your papers dealing with the determination of this rate are shown to us for reference. Alternatively, could you tell us the basis adopted, i.e. whether the wire rods are taken as imported or indigenous, the average cost of the wire rod and the average f.o.b. value of the export product. As the matter has been pending with us for sometime, may I request a very early reply?

With regards,

*Copy of d.o. letter No. 12(4)72-EAC dated June 12, 1972 from Shri M. H. Zinjani, Deputy Secretary, Ministry of Foreign Trade to Shri M. Panchappa, Director (Drawback) Deptt. of Revenue & Insurance, New Delhi.*

Please refer to your d.o. letter No. 601|128|1|71-DBK dated the 10th May, 1972, enquiring about the rate of cash assistance admissible on exports of steel weld mesh.

Cash assistance at 20 per cent of the f.o.b. value is allowed against exports of steel weld mesh. This rate of cash assistance, announced in August, 1966 immediately after the devaluation of Indian rupee in June 1966, is admissible since 6th June, 1966. This rate of cash assistance along with cash assistance on a number of other products, was decided by a Working Group consisting of the representatives of the concerned Ministries and had the approval of the Cabinet. No details of the basis on which the rates of cash assistance on steel weld mesh and other products were fixed, are on record.

With kind regards,

### **Recommendations**

The final picture that emerges from the foregoing paragraphs is, thus, far from satisfactory. Viewed in retrospect, the Committee cannot help feeling that greater vigilance and care could have been exercised by Government in allowing large payments out of the exchequer and the cash assistance scheme administered in a more prudent and discriminating manner. The Committee find that during the three year period from 1971-72 to 1973-74, a total sum of Rs. 64.90 crores had been paid as cash assistance for exports of

engineering goods and a further sum of Rs. 49.86 crores also sanctioned as drawback of customs and excise duties, as against which the total f.o.b. value of exports of engineering goods during the period amounted to Rs. 447.24 crores. While the votaries of the cash assistance scheme may argue that this is not too high a price for maintaining a steady growth in exports, which is vital for the economy, if the value of the other concessions and facilities, like Import Replenishment concessional railway freight, concessional bank finance, supply of raw materials at subsidised prices, Grants-in-aid etc., extended to exporters is also quantified and taken into account, the total cost of the export promotion effort may well turn out to be not quite proportionate to the net gain actually accruing to the country as foreign exchange.

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

The present system of payment of cash assistance is also non-discriminatory and is granted to the industry as a whole irrespective of the fact whether the export transactions by individual exporters actually result in a loss or not. In view of the fact that some of the larger business and export houses are well capable of sustaining the country's export effort and still making substantial profits, as could be seen from their balance sheets, the Committee are of the opinion



that it would be worthwhile to examine the feasibility of restricting such subsidies and incentives only to the actually needy exporters while, at the same time, imposing suitable obligations for export on those who do not really require such incentives to sustain themselves. The representative of the Finance Ministry also conceded during evidence that this question should be considered and the Committee would, therefore, urge Government to act upon this suggestion with the utmost expedition. Similarly, there also appears to be a case for examining the question of limiting such subsidies only to those exporters with a large enough ratio of exports to domestic sales in the interest of discouraging those speculative exporters who enter the field temporarily only to take advantage of the various benefits offered and have no involvement and interest in building up the long term exports from the country.

[Paras Nos. 1.119, 1.120 and 1.121 (S. Nos. 15, 16 and 17, Appendix VIII to Tenth Report of PAC (6th Lok Sabha)).

#### **Action Taken**

The Government agree with the view of the Committee that an integrated and coordinated approach to the entire question of export promotion and not isolated and temporary palliatives should be adopted.

The Government, however, would like to state in this connection that in the context of acute foreign exchange shortage, the export promotion schemes were thought out and implemented. Whenever defects in the implementation were noticed, necessary amendments were made or the scheme themselves were revised. Thus, before devaluation the export promotion schemes for engineering goods provided only an import licence at twice the import content, subject to the maximum of 75 per cent of the f.o.b. value. During those days, there was a scarcity of imported raw material and the extra import allowed served as an incentive because the imported raw material commanded handsome premium. After devaluation in 1966, this premium vanished. It was thought that with the extra 57 1/2 per cent in terms of Rupees, no further assistance would be needed. This, however, did not come true. The exporters faced cost disadvantage particularly in the case of non-traditional items. The matter was examined by the Secretaries Committee and it was decided to introduce cash assistance at varying rates on different export products.

These rates continued till 1971-72, when an extraordinary situation arose. There was an acute shortage of steel which had to be imported in order to meet domestic as well as export requirements.

Normally, the rates of Cash Assistance would have been sealed down as imported steel would have increased the import content. But a special dispensation was sought and was granted at the highest level whereby the imported steel going into production of export goods was precluded from being computed as import content for the purposes of cash assistance.

The system of periodical reviews of cash assistance was introduced in the year 1972-73. The cash assistance rates on 12 engineering items were reviewed and decisions to increase|reduce|continue the existing scales were taken. In 1973-74, 23 items were subjected to such reviews. As a result of this review, cash assistance on 7 items was withdrawn and in the case of 7 items, it was reduced. In respect of 8 items the cash assistance was continued at the existing rates and only in one case, it was considered necessary to increase it.

In 1974-75, a Standing Committee under the Chairmanship of the Additional Secretary, Ministry of Commerce was constituted and thereafter the system of reviewing cash assistance periodically became a regular feature. During this period, a system of cost study in respect of various items was adopted, as a result of which cash assistance on a number of items were either reduced or abolished. In October, 1975, a situation of imbalance in foreign trade became more pronounced. The matter came up for examination at the level of Cabinet Committee on exports. In view of the prevailing circumstances, the Cabinet Committee decided that cash assistance should be introduced or increased, where called for as a promotional measure, taking into account the various factors such as export prospects, production capability in the country, the competitive strength of our products viz-a-viz international prices etc. Accordingly cash assistance on a number of items had to be re-introduced and on certain other items it had to be increased in order to give a further boost to export of engineering goods. The rates of cash assistance thus sanctioned were time bound and subject to review periodically.

It was also decided at the highest level that the cash assistance rate should be determined in accordance with the following criteria instead of the criterion of marginal costing alone:—

- (a) Export potential and domestic availability as well as supply elasticity of the product;
- (b) Import content and domestic value development;
- (c) Approximate implicit subsidy, if available, under the Import Replenishment Scheme;

- (d) Compensation of irrecoverable taxes and levies;
- (e) Difference between the domestic cost and international price of indigenous inputs and raw-materials; and
- (f) Cost of entry into new market.

In the meantime there has been constant complaints by the exporting community that their export plans were upset by frequent changes made in the rates of cash compensatory support. It was, therefore, decided that a measure of stability in the rates should be brought about as a result of this policy decision, the rates prevailing in October, 1976 were extended upto 31st March, 1979.

In November, 1977, a Committee of Senior Officials under the Chairmanship of Dr. P. C. Alexander was appointed to review the existing Import-Export Policy and Procedures and propose suitable changes in them. One of the terms of reference related to grant of cash assistance on exports. The Alexander Committee has submitted its report to the Government. With regard to the cash assistance, the following three basic principles have been identified and recommended for determining the level and structure of such assistance:—

- (a) The level of cash assistance should *fully* compensate for the various types of indirect taxes, sales taxes etc. which the exporter has to pay on his inputs imported or domestically purchased and which are not refunded. This will enable him to be on par with foreign competitors;
- (b) Cash assistance should be such as to encourage him in adopting adequate marketing strategies and to neutralise the disadvantages of freight etc. so as to be competitive in the export market; and
- (c) In the case of new products in new markets the magnitude of cash assistance should be adequate to take care of the initial promotional costs.

It has also been suggested in the report of Dr. Alexander Committee that the existing framework of export promotion, which consists of multiplicity of incentives and policies should be rationalised and simplified. It is further recommended that a detailed review of the existing cash assistance scheme be undertaken and completed within the next 12 months so that the new system of cash assistance is introduced w.e.f. 1st April, 1979.

The recommendations of Dr. Alexander Committee are under examination.

[Ministry of Commerce O.M. No. 5(65) |77-EP (Engg.) dated 16-6-1978].

## CHAPTER V

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

#### Recommendation

An analysis of the evidence tendered before the Committee also bring into sharp focus the absence of any institutional mechanism, prior to June 1974, when the Standing Committee was constituted, to review the need and justification for cash assistance and to monitor and evaluate the behaviour of international prices and f.o.b. realisations. Apart from *ad hoc* reviews undertaken whenever something was brought to notice and which, in any case, proved to be wholly inadequate in the ultimate analysis, the Committee find that there was no permanent agency within Government to aid decision-making in this regard. Consequently, an almost exclusive reliance had to be placed on the data furnished by the Export Promotion Council, which is comprised of the interested exporters and industrialists themselves and it was admitted by the Chairman of the Engineering Export Promotion Council himself that there was also no machinery at the disposal of the Council to check the veracity of the data relating to cost of production furnished by the exporters for this purpose. Besides, the representative of Finance Ministry also admitted that the data furnished in this regard by the Council was examined only "wherever possible" and that the weakest link in the scheme was the determination of f.o.b. realisation. In a number of cases scrutinised subsequently, the data furnished by the Council was also admittedly found to be at variance with the actual position obtaining. Stressing once again, as they have often done in the past the vital importance of a concurrent monitoring and evaluation of the market trends, f.o.b. realisations, import content of products etc., the Committee would invite attention to their recommendations contained in paragraph 1.49 of their 174th Report (Fifth Lok Sabha) and paragraph 1.11 of their 236th Report (Fifth Lok Sabha) and strongly reiterate the need for devising a more satisfactory monitoring machinery for this purpose so as to ensure that Government are able to intervene effectively and in time to safeguard public interest.

[Para No. 1.123, S. No. 19 Appendix VIII to Tenth Report of PAC (6th Lok Sabha)].

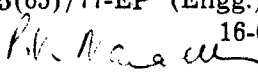
### Action Taken

As already stated, a Committee of Senior Officials under the Chairmanship of Dr. P. C. Alexander was appointed to review the existing Import-Export Policy and Procedures in November, 1977. The Committee in its report have gone into the question of evolving an integrated and coordinated approach to the entire question of export promotion. It has recognised the need for providing a forum to identify the export incentive measures on the basis of critical analysis and the demands for changes in cash compensatory support rates, duty drawback rates or tariff rates could be reviewed carefully by an expert group. It has been suggested in the report that a suitably oriented section of the staff of the Director General of Foreign Trade (re-organised set up of Chief Controller of Imports and Exports) could be entrusted with this task who would also monitor and evaluate the behaviour of International prices and f.o.b. realisations. This Wing could undertake a review of export incentive scheme with the expert assistance of competent bodies like IIFT, TDA and other research centres.

The Dr. Alexander Committee has also emphasised the importance of information system for import and export activities and has recommended that a computerised National Trade Information Centre should be established at an early date. The recommendations of Dr. Alexander Committee are being examined by the Government.

[Ministry of Commerce O.M. No. 5(65)/77-EP (Engg.) dated 16-6-1978].

NEW DELHI;  
August 24, 1978.  
Bhadra 2, 1900 (S)

  
P. V. NARASIMHA RAO,  
Chairman,  
Public Accounts Committee.

*Statement of Conclusions/Recommendations*

S. No.	Para No. of the Report	Ministry concerned	Recommendations/Conclusions
1	2	3	4
1	1.7	Ministry of Commerce	The Committee are surprised to note the reply of the Ministry of Commerce that no specific instances of anomaly were brought to the notice of the Ministry by the Drawback Directorate. In this connection the Committee find that the Central Board of Excise and Customs had brought* this particular instance of anomaly in the operation of the cash assistance scheme to the notice of the Ministry of Commerce apart from informing the Directorate of Drawbacks. As mentioned in paragraph 1.50 of 10th Report (6th Lok Sabha), the Additional Secretary of the Ministry of Commerce had also admitted during evidence that "there were two spells of increase in steel price. The first one was a smaller one in the earlier part of 1972. The second one commenced towards the end of 1972 and continued thereafter. As soon as this was brought to our notice, we took certain corrective action". The Committee, therefore, are of the view that the position in this regard needs to be reconciled and explained to

\*Paragraph 1.117 of the 10th Report (Sixth Lok Sabha)

---

1

2

3

4

---

the Committee. The Committee also reiterate their earlier recommendation that the responsibility for the failure to take prompt corrective action even when anomalous consequences of the export promotion policy had been highlighted by the Central Board of Excise and Customs, may be fixed under intimation to them.

2

I. 10

Ministry of Commerce

The Committee note that as pointed out by them in their 174h Report (Fifth Lok Sabha) and reiterated in their 10th Report (Sixth Lok Sabha), the Government have realised, though belatedly, the need for an integrated and coordinated approach to the entire question of export promotion and not isolated and temporary palliatives. The Committee would like to know the concrete measures taken in this direction.

3

I. 11

do.

From the reply furnished to the Committee, it is observed that the Cabinet Committee had in 1975 decided that "cash assistance should be introduced or increased, where called for, as a promotional measure, taking into account the various factors such as export prospects, production capability in the country the competitive strength of our products *vis-a-vis* international prices etc." and that "the rates of cash assistance thus sanctioned were time bound and subject to review periodically". But in fact the rates prevailing in October, 1976 were extended upto 31 March, 1979 i.e. for a period of 2 years and 6 months on an *ad hoc* basis without any scrutiny of the need for continuance of the cash assistance at the prevailing scale.

The Committee are not satisfied with the reasons advanced by Government in this respect namely, to bring about stability in the rates, and are of the view that instead of extending the then prevailing rates of cash assistance upto March, 1979, the position should have been reviewed in respect of each commodity on the basis of the criteria laid down earlier by the Cabinet Committee on Exports. The Committee therefore desire to know the level at which the decision was taken to extend upto 31 March, 1979 the rates of cash assistance prevailing in October, 1976.

4            I.12            do.

The Committee also note that it was decided in October, 1975 at the highest level that the cash assistance rate should be determined in accordance with the six criteria laid down in this respect instead of the criterion of marginal costing alone being applied earlier. The Committee would like to know as to whether the revised criteria for determining the cash assistance rates were actually followed in all cases of cash assistance sanctioned thereafter and how there were quantified and evaluated for coming to a decision.

5            I.13            do.

From the Action Taken Notes dated 16 June, 1978 furnished by the Ministry of Commerce, it is not clear to the Committee whether their recommendations contained in paragraph 1.121 of their Report were ever considered either by the Government or by the Alexander Committee. The Committee therefore feel that whatever steps might be taken by the Government on the recommendations of the Alexander Committee, the principles enunciated in their earlier re-



commendations would also find a suitable place in the new system of cash assistance which is likely to be introduced w.e.f. 1 April, 1979, namely:

- (i) avoiding non-discriminatory payment of cash assistance to the industry as a whole irrespective of the fact whether the export transactions actually result in loss or not and restricting such subsidies and incentives only to the actually needy exporters;
- (ii) imposing suitable obligations for export on those who do not require such incentives to sustain themselves;
- (iii) limiting such subsidies only to those exporters with a large enough ratio of exports to domestic sales with a view to discouraging those speculative exporters who enter the field temporarily only to take advantage of the various benefits offered and have no involvement and interest in building up long term export from the country.

36

The Committee would also like to be informed about the decision taken by the Government on the various recommendations of the Alexander Committee for streamlining the cash assistance scheme.

