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**CASH ASSISTANCE FOR
EXPORT OF IRON
CASTINGS**

MINISTRY OF COMMERCE

**HUNDRED AND FIFTY-FOURTH
REPORT**

1954-55
1955-56

HUNDRED AND FIFTY-FOURTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1988-89)

(EIGHTH LOK SABHA)

CASH ASSISTANCE FOR EXPORT OF IRON CASTINGS

MINISTRY OF COMMERCE

[Action Taken on 75th Report (8th Lok Sabha)]



Presented in Lok Sabha on 24th April, 1989

Laid in Rajya Sabha on 24th April, 1989

**LOK SABHA SECRETARIAT
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(1988-89)

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@Appointed w.e.f. 7-12-1988 vice Shri Kalpnath Rai ceased to be member of the Committee on his appointment as a Minister of State.

INTRODUCTION

I, the Chairman of Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Fifty-fourth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 75th Report (8th Lok Sabha) on "cash assistance for export of iron castings".

2. The Committee have pointed out in this Report that it is necessary for Government to develop some suitable monitoring mechanism to get the required cost data so that the money placed at the disposal of the Government for payment of cash assistance is channelised to the category of products which deserve the assistance and give a boost to the exports of the country or earn foreign exchange.

3. The Committee considered and adopted this Report at their sitting held on 20 April, 1989. Minutes of the sitting form part II of the Report.

4. For facility of reference and convenience, the recommendations/observations have been reproduced in the Appendix to the Report.

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

NEW DELHI;

20 April, 1989

30 Vaisakha, 1911 (S)

AMAL DATTA
Chairman,
Public Accounts Committee

CHAPTER I

REPORT

This Report of the Committee deals with action taken by Government on the recommendations/observations contained in their earlier Report* on "cash assistance for export of iron casting".

2. The Committee's Report contained thirteen recommendations. Action Taken Notes have been received from Government in respect of all the recommendations/observations.

3. These Action Taken Notes have been analysed and the position emerges as follows. The Government have accepted four recommendations of the Committee. The Committee do not desire to pursue eight of the recommendations in the light of the replies received from the Government. One of the recommendations needs to be reiterated. The Action Taken Notes have been classified as in Appendix I. The notes furnished by the Ministry of Commerce are reproduced in the subsequent chapters.

4. In the following paragraphs, the Committee deal with the action taken by Government on one of their recommendations/observations.

Need for suitable monitoring mechanism to get cost data to assess C.C.S.

(Sl. No. 6)

5. In their earlier Report, the Committee had observed that in April 1975, on the advice of the D.G.T.D., the Cash Assistance Review Committee felt that as the f.o.b. realisation on iron castings had gone up continuance of cash assistance was not justified. The Commodity Officer had also recommended in February 1975 that cash assistance be reduced to 10 per cent. However, pending examination of cost data by the Cost Accounts Branch, the Committee extended the existing rates of cash assistance up to June 1975. Unfortunately the cast iron manufacturers did not cooperate to furnish the relevant data. This resulted in unjustified payment of cash assistance amounting to Rs. 25.21 lakhs. The Committee had, therefore, expressed regret that cash assistance was given to units even though they failed to give the cost data. The Committee had suggested that the scheme should be amended making it obligatory for manufacturers to give the relevant data which the Government might require.

6. In their action taken note, the Ministry of Commerce have stated *inter alia* that the Scheme of Cash Compensatory allowance has since been reviewed and improved upon. It is now provided that to the extent possible the determination of CCS rates should be made based on representative data collected from units dispersed in different locations. There are, however, difficulties in getting cost data from units in the decentralised sector where cost data is not available.

*75th Report (8th LS) on Paragraph 29 of the Report of C&AG, 1981-82. Union Government (Civil), relating to cash assistance for export of iron castings.

In the case of agricultural products there are difficulties also in estimating the incidence of indirect taxes on inputs because agricultural practices vary from area to area and systematic records are not maintained as in the manufacturing sector. The handicrafts industry in India is basically of the cottage industry type and is widely dispersed throughout the country. In view of this, according to the Ministry, there are limitations on collection of authentic and representative data in the case of products which are not in the organised sector, and, therefore, precise calculations are sometimes not possible. The Ministry has stated that in such cases the rates of CCS are determined on the basis of broad judgement by the Cash Assistance Review Committee.

7. The Committee appreciate that the scheme of CCS has been reviewed and improved upon by providing that CCS rates are based on representative data of costs collected from units. While the Committee agree that there would be difficulties in getting cost data from the decentralised sector where systematic records are not maintained and the industry is widely dispersed throughout the country, it is necessary to identify the export products for which cost data is not ascertainable and to limit the application of the ad hoc CCS system to those products only. Even in such cases, the Committee consider it necessary for suitable monitoring mechanism to be developed to get the required cost data so that the money placed at the disposal of the Government is channelised to the category of products which deserve the assistance and give a boost to the exports of the country/earn foreign exchange.

8. Such a monitoring mechanism would, in the opinion of the Committee, also provide a basis for the "broad judgement of the Cash Assistance Review Committee", as sought to be made out by the Ministry, and ensure that the limited resources are allocated only to the deserving industries. The Committee may be informed of the action taken in this behalf in due course.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

29. The Committee find that a Working Group consisting of representatives of the concerned Ministries fixed cash assistance at the rate of 25% on export of iron castings from August, 1966. This was continued to be paid for nine years from 1966-67 without any proper cost analysis. Only in January, 1975 the Commodity Officer in the Ministry of Commerce was asked to review the existing level of cash assistance of certain steel intensive export products, including the assistance on export of iron castings. During the period June, 1966 to March, 1975, cash assistance to the tune of Rs. 683.55 lakhs was paid on ungalvanised iron castings. The Ministry of Commerce have stated in a note furnished to the Committee that 'while approving the cash compensatory support rates, no time limit was fixed and no provision was made for review by the Ministry of Commerce'.

30. The Committee consider that the rate of cash assistance should have been reviewed, say, after 3 or 5 years by the Ministry on its own initiative. That might have resulted in considerable saving. The Committee would, therefore, strongly recommend that in future, while formulating such schemes, a mechanism should be provided for their mandatory review at regular intervals. The Ministry would then have a reliable indication of how far the scheme of assistance had produced the desired results and what modifications were called for therein.

[S. No. 1, 2, Appendix II, Para 29 and 30 of 75th Report of PAC (VIII Lok Sabha)]

Action Taken

The Cash Compensatory Support rates are since being reviewed in detail periodically. Such detailed reviews on the basis of cost data collected from the representative manufacturers/exporters have been conducted in 1979, 1982 and 1986.

[Ministry of Commerce O.M. No. 5(77)/82-EP(Engg.II]

Recommendation

33. The Committee have been informed that the rates of cash compensatory support were determined keeping various factors one of which has been stated as competitive strength of the products vis-a-vis international prices. The Committee have also been informed that the main criteria adopted included compensation on account of cost of development of new markets and new products. The Committee regret to observe that in the clarifications given by the Ministry to the Committee, no basic data on the above factors which contributed to the need for cash compensatory support had been given. It would, thus appear that the basic objectives and criteria were not given due weightage in determining the need for continuance of

the cash compensatory support for iron castings. Further, no information on development of any new market during the period that had been identified had been intimated to the Committee. The Committee regret to observe that ad hoc decisions seem to have been taken from time to time to give support to the industry which did not qualify with reference to the prescribed factors and criteria for grant of support.

[S. No. 5, Appendix II, Para 33 of 75th Report of PAC (VIII Lok Sabha)]

Action Taken

The criteria followed for deciding the cash compensatory support rates in 1966 has been stated in answer to Recommendation No. 31 and 32 of the Committee.

However, the criteria for determination of CCS rates have been reviewed and improved upon thereafter. At present CCS rates are determined on the basis of cost data obtained from representative manufacturers/exporters indicating f.o.b. realisation, f.o.b. cost, shortfall and incidence of other disadvantages. The main element of compensation is the incidence of indirect taxes on inputs which are not otherwise refunded. The incidence of unrefunded indirect tax and other disadvantages are computed on the basis of data furnished by the exporters.

[Ministry of Commerce O.M. No. 5(77)/82-EP(Engg.1)]

Recommendation

The Committee are glad to note that in pursuance of their earlier recommendations, a Cash Compensatory Cell headed by a Director, has been set up to undertake special studies for evolving norms for submission of data, their interpretation, analytical study etc., so as (a) to determine how far the CCS has actually contributed to increase in the export of the concerned items and in the inflow of foreign exchange and (b) to review and evaluate market trends, f.o.b. realisation and impact of various kinds of assistance.

[S. No. 13, Appendix-II, Para 87 of 75th Report of PAC (VIII Lok Sabha)]

Action Taken

No comments.

[Ministry of Commerce O.M. No. 5(77)/82-EP (Engg.1)]
Dated 5th February, 1988

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

31. The Committee also find that in 1966 the Cabinet Committee on Exports had recommended a 'cut off point' of 25% f.o.b. value after deducting the import content. Accordingly, cash assistance was not to exceed 25% of the value addition which has to be arrived at by deducting the import content from the f.o.b. value of the product. Since no review of cash assistance was conducted for almost a decade, till March, 1975, the cash assistance was continued to be paid beyond the 'cut off point' during the period 1966 to 1975. An April, 1975 the rates of cash assistance on ironcastings was reduced to 24% by applying the cut off point formula. During this period cash assistance amounting to Rs. 27.34 lakhs (at the rate of 1%) was paid in excess of the 'cut off point'.

32. In this connection, the justification given by the Ministry of Commerce that 'the grant of CCS at the rate of 25% from 1966 to 1975 without adhering to the cut off point was a conscious decision does not seem convincing. The justification fails to explain the factors that led to the so called 'conscious decision'. A huge sum of money was allowed to be paid contrary to the intentions of the Cabinet Sub-Committee, that is, the Government. The Committee expects the Ministry of Commerce to exercise greater vigilance and greater care in handling funds placed at their disposal.

[S. No. 3. 4. Appendix II, Para 31 and 32 of 75th Report of PAC (VIII Lok Sabha)].

Action Taken

In 1966 while approving the general principle of 25% cut off point, a conscious decision was taken by the Government to announce specific rates of cash assistance on individual products. This was done to overcome the problem of too many rates which would vary from 2.5% to 24% because of the import content varied between 90% and 5%. It would have resulted in about 19 rates from 2.5% to 24%. For administrative convenience and simplicity of operation, it was decided by the Government that the effective rates of cash assistance be averaged and grouped into 4 categories of 10%, 15%, 20% and 25%.

The Government considered that such a system was more likely to promote the expansion of exports than the system under which a meticulous calculation was made of the exact cost disadvantages of specific products. It was also felt that a scheme of general support for a broad group of products served these objectives better than the grant of support on the basis detailed calculations for individual items.

By this process of rationalisation, this item was covered under the category of cash assistance rate of 25%.

At present, the rate of Cash Compensatory Support on any item is generally not allowed to exceed 25% of the value added, i.e., f.o.b. realisation less REP (entitlement to import under the policy for Registered Exporters). However, there may be flexibility in operation of the cut off point and in specific cases, especially for products which carry high burden of taxes and duties or when extra cash assistance for a limited period is necessary for market for product development, the out off point may be relaxed by the MDA Main Committee.

[Ministry of Commerce O.M. No. 5(77)/82-EP(Engg.I) Dated 9th October, 1987.]

Recommendation 61

In October, 1978, the Engineering Export Promotion Council (EEPC) furnished certain data to Government relating to the incidence of disadvantage to the iron casting manufacturers. The Ministry of Commerce analysed the data and adopted an *ad-hoc* average percentage of different incidences at 7.51 per cent on the f.o.b realisation. In December, 1978, the Cash Assistance Review Committee decided to grant Cash Assistance at 7.5% for 1979-80 and 5 per cent for 1980-82. Sanction for cash assistance was issued accordingly.

Recommendation 62

Immediately, thereafter, the Government received certain representations from the iron castings exporters requesting for a separate higher rate of cash assistance for the industrial castings, on the plea that, as against sanitary and public works castings which did not call for rigid specifications, industrial castings were manufactured to the desired specifications of the buyer involving intricate castings.

Recommendation 63

After some consideration, the Ministry of Commerce recommended cash assistance at 12.50 per cent for export of iron castings of all types for the American continent and 10 per cent to other destinations. The cash assistance Review Committee accepted the recommendation of the Ministry of Commerce and a fresh revised sanction for these rates was issued in March, 1979.

Recommendation 64

As against the request of the exporters and in the face of the recommendation of the Engineering Export Promotion Council for enhancement only for the export of industrial castings, which constituted only about 10 per cent of the total castings, the Ministry of Commerce thus sanctioned a higher rate not only for industrial castings but for all types including sanitary castings. The Ministry of Commerce justified their action on the ground that it was not practicable to distinguish industrial castings from sanitary and other types of castings. This is not a tenable explanation, as in fact, later Government itself classified iron castings into industrial and sanitary castings and reduced the cash assistance to sanitary castings to 5 per cent only.

[S. No. 7, 8, 9, 10, Appendix-II, Para 61, 62, 63, 64 of 75th Report of PAC (VIII Lok Sabha)]

Action Taken

Industrial castings and sanitary castings came under the same classification for the purpose of duty drawback. There would always be certain items of castings like pipe fittings meant for industrial application but the same could not be distinguished physically from sanitary castings. As these suffered the same amount of disadvantages, it was not proper to adopt separate classification for industrial castings and sanitary castings for CCS. However, when the US Department of Commerce intimated in February, 1980 the countervailing duty investigation on import of castings from India under the provisions of the US Trade Agreement Act, 1979, the Government decided to reduce CCS on sanitary castings to 5% as a remedial measure to counter the countervailing duty investigation.

[Ministry of Commerce O.M. No. 5(77)/82-EP (Engg.II)]
Dated 5th Feb. 1988

Recommendation 82

The Audit Paragraph rightly draws attention to the fact that Government were aware as early as October, 1978 of the under selling by the Indian exporters of iron castings in USA and also of the move by US Government for imposition of countervailing duty. Subsequently, countervailing duties were, in fact, imposed by the US Government as result of which Government took steps to reduce the support given to the industry. The fact that the prices quoted by the Indian exporters in the US market were far below the international market price, should have been known to the Government right from the beginning and not only in 1978. As a result of continued grant of cash support, not only did Government of India wastefully use its resources for promotion of the export products, which did not call for any support, but tacitly acquiesced in the loss of foreign exchange because these products could have been able to obtain higher prices in the foreign market and thus earned larger amount of foreign exchange.

Recommendation 83

It is clear that there was no case for cash assistance for sanitary castings in March, 1979 and as the Government did not conduct the review suggested by the Finance Division of the Ministry of Commerce in January, 1981, cash assistance at the rate of 5 per cent on the export of sanitary castings was continued from 1979-80 to 1980-81, resulting in payment of cash assistance of Rs. 568.67 lakhs which was totally unjustifiable. It is also a matter of regret that the Government of India should have allowed to be put in the wrong, vis-a-vis the Government of United States who were compelled to levy a countervailing duty.

[S. No. 11, 12, Appendix II, Para 82, 83 of 75th Report of PAC (VIII Lok Sabha)]

Action Taken

Ministry of Commerce did not agree with the suggestion for complete withdrawal of cash assistance on iron castings for all destinations because if it had been done, it would have tantamount to admitting subsidizing

the exports in the US markets. By implication, countervailing duty investigations would have started on other products as CCS was also being granted on other commodities. Therefore, CCS was not withdrawn. Refund of duties and taxes levied on export products will not attract imposition of countervailing duty according to GATT provisions. As CCS is basically intended to refund the incidence of indirect taxes borne by the export product it was decided to reduce the CCS rate from 12.5% to 5% so that it could be proved to the US Government during consultations that the CCS is basically intended to reimburse the incidence of indirect taxes. The US Government agreed to this contention and reduced the countervailing duty accordingly. It would not, therefore, be correct to say that Government of India were put in the wrong vis-a-vis the Government of United States.

[Ministry of Commerce O.M. No. 5(77)/82-EP(Engg. I)]
Dt. 5th Feb. 1988

CHAPTER IV

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

Recommendation

47. In April, 1975, on the advice of the DGTD, the Cash Assistance Review Committee (CARC) felt that the f.o.b. realisation on the iron castings had gone up and, therefore, it was difficult to continue to pay cash assistance without further justification. The Commodity Officer had also recommended in February, 1975 that cash assistance be reduced to 10%. However, pending examination of cost data by the cost Accounts Branch, the Committee extended the existing rates of cash assistance upto June, 1975. Unfortunately, the cost iron manufacturers did not furnish the relevant data. No action was taken on this recommendation, but it was decided to ask the manufacturers to furnish the date. This they failed to do. This has resulted in unjustified payment of cash assistance amounting to Rs. 25.21 lakhs. The Committee regret that cash assistance was given to units even though they failed to give the cost data. The Committee suggest that the scheme should be amended making it obligatory for the manufacturers to give the relevant data which the Government may require.

[S. No. 6 Appendix II, Para 47 of 75th Report of PAC (VIII)
Lok Sabha]

Action Taken

The Scheme of CCS has since been reviewed and improved upon. It is now provided that to the extent possible, the determination of CCS rates should be made based on representative data collected from units dispersed in different locations. The data should be properly collated, analysed and interpreted by the Export Promotion Councils, Commodity Boards, etc. The Cost data obtained from the manufacturers/exporters are further subjected to detailed scrutiny in the Cost Cell of the Ministry and proposals for CCS are submitted to the Cash Assistance Review Committee.

There are, however, difficulties in getting cost data from units in the decentralised sector where cost data is not available. In the case of agricultural products, there are difficulties also in estimating the incidence of indirect taxes on inputs because agricultural practices vary from area to area and systematic records are not maintained as in the manufacturing sector. The handicrafts industry in India is basically of the cottage industry type and is widely dispersed throughout the country. In view of this, there are limitations on collection of authentic and representative data in the case of products which are not in the organised sector and, therefore, precise calculations are sometimes not possible. In such cases the rates of CCS are determined on the basis of broad judgement by the Cash Assistance Review Committee.

[Ministry of Commerce O.M. No. 5(77)/82-EP(Engg. I)]
Dated : 9th October, 1987

APPENDIX I

(See Para 3 of the Report)

Statement showing classification of the action taken notes furnished by the Government

(i) Recommendations and observations which have been accepted by the Government :

Sl. Nos. 1, 2, 5 and 13.

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

Sl. Nos. 3, 4, 7 to 10, 11 and 12.

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

Sl. No. 6.

APPENDIX II

Statement of Conclusions/Recommendations

Sl. No.	Para No.(s)	Ministry/Dept. Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	7-8	Commerce	

The Committee appreciate that the scheme of CCS has been reviewed and improved upon by providing that CCS rates are based on representative data of costs collected from units. While the Committee agree that there would be difficulties in getting cost data from the decentralised sector where systematic records are not maintained and the industry is widely dispersed through out the country, it is necessary to identify the export products for which cost data is not ascertainable and to limit the application of the *ad-hoc* CCS system to those products only. Even in such cases, the Committee consider it necessary for suitable monitoring mechanism to be developed to get the required cost data so that the money placed at the disposal of the Government is channelised to the category of products which deserve the assistance and give a boost to the exports of the country/earn foreign exchange.

Such a monitoring mechanism would, in the opinion of the Committee, also provide a basis for the "broad judgement of the Cash Assistance Review Committee", as sought to be made out by the Ministry, and ensure that the limited resources are allocated only to the deserving industries. The Committee may be informed of the action taken in this behalf in due course.

