

HUNDRED AND FORTY-NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1982-83)

(SEVENTH LOK SABHA)

**CUSTOMS RECEIPTS—DUTY EXEMPTION
ALLOWED OVERLOOKING CONDITION OF
END-USE**

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

*Presented in Lok Sabha on 29th April, 1983
Laid in Rajya Sabha on 29th April, 1983*

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NEW DELHI**

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32	1.89	2	Add "the word "be" between "to" and "satisfied"	
32	1.89	5	imported	importer
33	1.90	6	differnt	different
33	1.90	9	ensurig	ensuring
33	1.90	10	Add the word "use" after "end"	
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Part II*

Minutes of sittings of the Public Accounts Committee held on

13 December, 1982 .

14 December, 1982 .

12 April, 1983

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

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(1982-83)**

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee do present on their behalf this Hundred and Forty-ninth Report on Paragraph 1.17 of the Report of the Comptroller and Auditor General of India for the year 1980-81—Union Government (Civil) Revenue Receipts, Vol. I—Indirect Taxes relating to duty exemption allowed overlooking condition of end-use.

2. The Report of the Comptroller and Auditor General of India for the year 1980-81, Union Government (Civil) Revenue Receipts, Vol. I—Indirect Taxes was laid on the Table of the House on 31 March, 1982.

3. In order to achieve the twin objective of meeting the gap between the demand and supply of wrist watches and to contain their smuggling in the country, a notification was issued in December 1978 exempting watch components imported for the manufacture of wrist watches from customs duty in excess of 50 per cent *ad valorem*. However, there was no appreciable fall in the number of watches confiscated during the years from 1977 to 1981 and the production of watches also remained stagnant since 1978 allowing wide gap between the demand and supply. The Committee have, therefore, concluded that the statutory exemption has failed to fulfil either of the two purposes for which it was given.

4. The Committee have found that the exemption notification was not reviewed at any level with a view to assess periodically as to how far the exemption had achieved the underlying objectives. The Committee have, therefore, recommended that such exemptions should not be granted for indefinite periods but restricted to a couple of years subject to review and extension.

5. The Committee have pointed out that Government have not made any study to ascertain whether the concessional customs duty on import of watch parts has been passed on to the consumer. The Committee has drawn attention to the fact that HMT has earned huge profits (Rs. 18 crores approximately every year) on its watch Division. Unless there is significant price advantage in regard to indigenously assembled watches, smuggling is bound to thrive. The Committee have desired that Government should ensure that the

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benefits of the duty concession are passed on to the consumer by suitable reduction in the prices of watches. The Committee have felt that HMT should be a pace setter in this regard.

6. The Committee (1982-83) examined the above paragraphs at their sittings held on 13 and 14 December, 1982. The Committee considered and finalised this Report at their sitting held on 21 April, 1983. Minutes of the sitting form *Part II of the Report.

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

8. The Committee would like to express their thanks to the Ministry of Finance (Department of Revenue), Ministry of Industry (Department of Industrial Development), Ministry of Commerce (Office of the Chief Controller of Imports and Exports) and Development Commissioner, Small Scale Industries for the cooperation extended by them in giving information to the Committee.

9. The Committee also place on record their appreciation of the assistance rendered by the Office of the C&AG of India in the examination of this paragraph.

NEW DELHI;
April 26, 1983

Vaisakha 6, 1905 (S)

SATISH AGARWAL
Chairman,
Public Accounts Committee.

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

REPORT

DUTY EXEMPTION ALLOWED OVERLOOKING CONDITION OF END-USE

Audit Para

1.1. Watch parts are assessable at 100 per cent *ad valorem* under heading 91.01/11(2) of the Customs Tariff Act, 1975. By the issue of a notification in December 1978, as amended, exemption was granted to watch parts imported for the manufacture of wrist watches, from customs duty in excess of 50 per cent *ad valorem* subject to the condition that the import of wrist watch parts was in accordance with the production programme approved by the Ministry of Industry and that the watch parts imported are actually utilised for such manufacture.

1.2. During the audit of records pertaining to import of watch parts it was enquired (March 1981) as to how the customs department had satisfied itself about the fulfilment of the conditions mentioned in the notification of December, 1978 in regard to production programme being approved in respect of each watch manufacturing unit. The Department replied (August 1981) that the first condition prescribed in the notification implied that the importer should be an actual user having a production programme approved by the Ministry of Industry and the second condition implied the production of end use certificate for which necessary bonds were undertaken. The department further added that they granted the benefit of notification only to watch components imported by persons having the production programme duly approved by the Ministry of Industry and the end use of the watch components was watched through the production of consumption certificates given by a chartered accountant duly supported by an affidavit sworn by the importer.

1.3. Audit, however, noticed that in reality no effective customs control existed regarding the end-use and production programme approved for each manufacturing unit. For example, a trading company was allowed to set up a unit for the manufacture/assembly of 17 jewels hand wound, non-automatic wrist watches in a Union Territory. As against the production programme of 20,000

watches approved for the first year with an annual increase of 10,000 watches the company imported and assembled wrist watches out of imported materials as follows:—

	Number of watches	Quantity of watch parts imported			
		CKD	Cases	Dials	Hands
1978-79	3,018	5,000	10,000	10,000	10,000
1979-80	13,284	16,100	21,400	21,400	21,400
1980-81	15,492	13,500	18,500	19,450	15,000

1.4. Even though the company is the actual user of the watch parts it cannot be said that the company had fulfilled its obligation to reach the target approved by the Ministry of Industry. Since there has been a shortfall in the production for one year it is not clear whether the same is to be carried forward and complied with in succeeding years. Further, it is not known whether there was diversion of watch parts for repairs, maintenance etc.

1.5. The department had closed 36 bonds without verifying the conditions in regard to production programme. The C.I.F. values of the wrist watch parts involved in the bonds pertaining to the year 1978 work out to Rs. 28.79 lakhs. As the conditions prescribed in the notification have not been complied with in this case, the duty has to be charged at the standard rate of 100 per cent *ad valorem* and on this basis the under-assessment would work out to Rs. 14.39 lakhs.

1.6. There were 64 bonds pending closure for the years 1978 and 1979.

1.7. The Ministry of Finance have stated (January 1982) that the point will be examined in detail in the tariff conference.

[Para 1.17 of the Report of the Comptroller and Auditor General of India for the year 1980-81—Union Government (Civil) Revenue Receipts, Volume—I, Indirect Taxes].

1.8. The Committee enquired as to when the exemption order regarding import watch parts was issued for the first time. The Chairman, Central Board of Excise and Customs replied that it was issued in June, 1977.

1.9 The Committee desired to know the considerations which weighed with the Government for the issue of exemption notification for the first time in June, 1977. The Chairman, CBE&C replied in evidence:

"The main consideration that prevailed with the Government at that time was that attempts should be made to increase the availability of watches within the country because between the demand and supply, there was a very wide gap and the Ministry of Industry had been carrying on some exercises in this direction. So, they were worried about the supply position.

So far as the Finance was concerned, we had serious concern with regard to the possibility of the gap being filled up at least partially by smuggling.

These two considerations prevailed at that time and it was at that time about 120 per cent, was brought down by half, to about 50 per cent plus the auxiliary, the dual purpose of increasing the production of the watches and also monitoring the production and also of containing the extent of smuggling would be served."

1.10 Subsequently, the Ministry of Finance (Dept. of Revenue) furnished the following information in this connection:

"The basic idea in extending the exemption is to make it available only for those watch movements which are meant for actual production of wrist watches and that this concession should not be available to parts meant for repairs. The exemption notification as worded does not appear to relate the exemption to the programme of manufacture, but relates it to the fact that the unit enjoying the exemption should have a phased programme as ex-approved by a specified authority so that the usage of the goods for the purpose for which it is intended could be ensured."

1.11 Enquired in regard to the demand of watches projected by the Ministry of Industry at the time of seeking concession in duty, the Chairman, CBE&C replied:

"The demand that was projected was 1977—60 lakhs number; 1978—65 lakhs; 1979—70 lakhs; 1980—73 lakhs and 1981—80 lakhs. This was the demand projected by the Ministry."

1.12 As regards the actual production of watches, the Department of Industrial Development have furnished the following figures of production of watches Calendar year-wise since 1977:

(Figures in lakhs)

Year	Organised Sector	Small scale Sector	Total
1977	28.08	1.80	29.88
1978	45.06	2.50	47.56
1979	48.44	6.35	54.79
1980	46.43	6.62	52.95
1981	48.03	8.29	56.82
1982	54.00 (Estimate)	Not yet available	

1.13 The Dy. DGTD, Ministry of Industry stated before the Committee:

"Production of watches in the organised sector has increased from 4.77 lakhs numbers in the year 1971 to 12.59 lakhs in 1976 and to 48.03 lakh numbers in 1981. Our estimate for 1982 based on the data for ten months is 54 lakhs numbers in the organised sector."

1.14. The Committee desired to know the extent to which smuggling was contained consequent on grant of the aforesaid exemption. In reply, the Member (Customs) stated before the Committee:

"I have figures here from 1974. In 1974 the number of pieces seized was 2,58,000; value Rs. 295 lakhs; 1975 number of pieces 3,88,000 and value Rs. 391 lakhs; 1976 number of pieces 2,35,838 and value Rs. 300 lakhs; 1977 the number of pieces 47,901 and value Rs. 168 lakhs; 1978 number of pieces 1,12,318 and value Rs. 337 lakhs; 1980 number of pieces 1,04,116 and value Rs. 315 lakhs; 1981 number of pieces 1,04,127 and value Rs. 357 lakhs."

1.15. Supplementing the information, the Chairman, CBE&C stated in evidence:

"The value of the watches seized over the last 8 years remains almost constant and if we take the various factors

into account and particularly if we take into account the fact that the number of watches which have been seized for the same value, it has almost come down to 1/3. That means the cheaper watches which used to be the normal favourite of the smugglers ceased to be their items of smuggling and what is coming now are all sophisticated kind of watches. As we are progressing in cheaper kind of watches, the smuggling of these has come down. The sophisticated watches have still to be stopped from smuggling so far as the local manufacturing programme is concerned. If this trend continues as in the case of cheaper watches, I agree entirely that the policy that has been followed so far has definitely had an effect on the smuggling pattern and it has certainly changed the quantum of smuggling. But complete containing of the smuggling has not been achieved and I am sure that has to be achieved now."

1.16. Enquired whether the watches confiscated were high value watches or low value watches, the witness replied that these were high value watches.

1.17. The Committee desired to know the extent to which the exemption helped in the growth of watch industry or in increased production. In reply the Dy. DGTD stated in evidence:

"The exemption has helped in narrowing the gap between a watch which would have been smuggled either legally or illegally and sold in the Indian market as against a watch assembled in India. What I am trying to say is that if a set of components for watches costs, that is to say, Rs. 80 for a pack, then after importing, paying the duty and assembling, it will probably be on the Indian market for Rs. 140. The same watch, if you have to pay for the components a higher rate of duty, would have gone upto Rs. 200 in the retail and if it is smuggled probably it would have been sold at a much lesser price. To that extent, it has narrowed the gap between the price of the smuggled watches and the locally assembled watches."

1.18. The Committee pointed out since the demand projected was 80 lakhs in 1981 and the production was only 48 lakhs, how

could it be said that the exemption had helped in the growth of watch industry. The witness replied:

"This has encouraged new units coming up with the proposals and we have sanctioned in the past few years a substantial additional capacity which is in various stages of implementation. For example, the total capacity we have today approved for manufacture in the public sector is 54 lakhs numbers per year. To this we must add the capacity sanctioned in the private sector which is 49 lakhs per year, giving us a total of 103 lakhs per year. Many of the new schemes have really come forward on account of the incentives available to watch manufactures."

1.19 The representative of the Ministry of Industry stated in evidence:

"If one has to look at the watch industry, one has to look at the picture that was obtaining before the duty concessions were granted in the year 1977. The demand was indicated at 60 lakhs—the total production but in the organised and the small scale sector together. The figure of 30 lakhs, Mr. *has just now given—was related only to the units in the organised sector whereas if one takes a look at the picture of the whole industry as such, taking into account both the production figures in the organised and small scale sector, one finds that over a period the production and demand have gone up. During the year 1977 it was at the level of 30 lakhs. In 1982 we are expecting a figure of 62-63 lakhs. If you take into account the demand and supply gap, you will find that it was something around 30 lakhs in the year 1977 but it has been narrowed down to the extent of about 5 lakhs now.

Apart from taking into account that the demand has increased over this period, we will also have to take into account from the point of view of industrial development as such as to how much of additional capacity or how

much of entrepreneurial interest has been shown in this particular industry, the total capacity that has been approved for the watch industry as such. We will find that the figure to-day has gone upto 21 millions. All these factors will have to take into account both the demand and supply gap the actual production as such and the kind of entrepreneurial interest that a particular notification has generated. If you see the total capacities approved, we shall have a capacity of about 10 lakhs numbers this year. In addition, there is a five million numbers in the small scale sector.'

1.20 The Committee desired to know the manufacturing units in the public, private and small scale sectors which were allowed to import watch kits at reduced duty. In a written note the Ministry of Finance (Department of Revenue) stated as under:

"As reported by the Custom Houses the number of manufacturing units which have been allowed to import watch kits at a reduced duty are as under with sector-wise break up:

	Public sector	Private sector	Small scale sector
Bombay	2	2	25
Delhi	2	4	56
Bangalore	2	1	5
Madras	nil	nil	2
Jaipur	nil	nil	4
Calcutta	nil	nil	4"

1.21 The Committee desired to know the quantum of watch components imported during last 5 years for manufacture of watches. In a written note, the Ministry of Finance (Dept. of Revenue) furnished the following information:

"The Department of Industrial Development has stated that the DGTD do not have figures of actual import of components effected by the units in the organised sector nor they have any figures of actual utilisation of watch components imported by the concerned units. However, a statement showing import of watch cases and parts during the years 1977-78 to 1981-82 (Upto July, 81) has been received from the office of the C.C.I.&E. Firm-wise

figures are also not compiled. The statement is as follows:

"Import of watch cases and parts during the year 1977 onwards."

Year	Quantity in tons	Value in Rs. lakhs
1977-78	76	128
1978-79	36	228
1979-80	124	618
1980-81	167	932
1981-82 (Upto July '81)	38	95

1.22 The Committee enquired if the firms had fully utilised the components imported by them. In reply the representative of the Department of Industrial Development stated in evidence:

"About 74 units are in production in the total watch industries as such. It would not be possible for me to indicate whether 100 per cent has been utilised. For example, let us take the case of HMT which has, in fact, imported largest number of components. We are now talking about the production from the years 1976-77 to 1980-81. H.M.T. has imported about 76 lakhs sets of components and production has been of the order of 67 lakhs and odd. These are the number of sets of components which the HMT has imported and about 9 lakh number of sets are in the pipe line to be converted into watches over a period. This much quantity will always remain in the pipe line, whether it is HMT or any other organised sector."

1.23 The Committee wanted to know the mechanism available with the sponsoring authorities for checking the proper utilisation of imported watch components. The C.C.I.&E. stated in evidence:

"There are two sponsoring authorities that is, D.G.T.D. and Director of Industries. The DGTD is for the organised units, the Director of Industries is for small scale industries. They will exercise the check and they have got the field organisation. They may inspect the place. They may act on the basis of information received, if necessary. Sometimes people do complain to us directly or in the course of our tours and when it comes to light

we in turn refer it to the sponsoring authority. We also send out a team of officers from the Chief Controller's Office. So, we do have the mechanism for checking up these things."

1.24 Enquired in regard to the programme of production of these units from 1978-79 onwards and percentage achieved in each year, the Ministry of Finance (Department of Revenue) stated in a written note:

"It has been reported by the Ministry of Industry (Department of Industrial Development) that no specific annual programmes of production for the units in three sectors from 1978-79 onwards were laid down by the Government. However, while approving the schemes the production programme of individual units was subject to a phased production programme under which manufacture of watch components is progressively indigenised along with phasewise increase in production to achieve the targeted capacity. Therefore, the schemes are approved for implementation in phases that is first phase, second phase, third phase etc. and not calendar yearwise."

1.25 The Committee wanted to know the sanctioned capacity, capacity added every year, additional capacity sanctioned in each year and actual production in respect of organised and small scale sectors separately for the last 5 years. In a written note the Department of Industrial Development furnished the following information in a written note:

Year	Total registered capacity at the beginning of the year	Additional registered capacity during the year	Installed capacity during the year	Actual production during the year
1977	29.3	31.8	17	28.08
1978	61.1	20.0	25	45.06
1979	81.1	4.0	34	48.44
1980	85.1	25.9	50	46.33
1981	111.0	..	52	48.03
1982	111.0	10.0	61	54.0

The figures are in lakh nos. (Estimated)

Note: Installed capacity indicated at column 4 is for the manufacture of wrist watches out of indigenous components as per the phased manufacturing programme. Production indicated in column 5 is higher than the installed capacity as it included production of watches assembled from CKD/SKD imports.

2. There was a fall in production in 1980 as consumers demand was met from the increased production in the previous year.

SMALL SCALE SECTORS

Year	Total app. ca. at the beginning of the year	Additional sanctioned during the year	Total installed/functioning cap. during the year	Total production of watches during the year.
(In lakhs)				
1977	11.70	10.80	3.20	1.80
1978	22.50	9.50	4.30	2.50
1979	32.00	11.0	8.30	6.35
1980	43.00	3.00	10.30	6.62
1981	46.00	4.58	14.40	8.29."
1982	not yet available)			

1.26. Enquired about the actual number of watches produced and the percentage of capacity utilisation of the various units of H.M.T. in the organised sector in each year since 1977 with reference to the installed capacity, the Department of Industrial Development have furnished the following details:

Year	Installed capacity during the year	Production of watches during the year	Percentage capacity utilisation
(Figures are in lakh nos.)			
1977	12	18.68	165.17
1978	12	29.64	180.24
1979	19	32.60	142.47
1980	34	35.82	..
1981	34 (HMT) 1 (ALLWYN)	37.08 (HMT) 0.35 (ALLWYN)	92.36
1982	34 (HMT) 5 (ALLWYN)	40.4 (HMT) 1.4 (ALLWYN)	88.52

NOTE : Production indicated is higher than the installed capacity as it included production of watches assembled from CKD/SKD imports."

1.27. The Committee wanted to know the reasons for non-utilisation of the sanctioned capacity in full, the Department of Industrial Development in a written note stated as under:

"In respect of units in the organised sector, it has been stated by the DGTD that manufacturing programme was approved in respect of the units in the organised sector to be implemented in phases i.e. first phase, second phase, third phase, etc. and not yearwise. It has been stated that some of the units in the private sector could not achieve the production as approved due to various constraints like demand fluctuation, competition from smuggled watches, etc.

In regard to the small scale units, it has been stated by DC(SSI) that the gap that exists between the approved functional capacity granted to the units and their total production is attributed mainly to the following reasons:

- (i) Location of these units in remote area where building up of an industry takes a little longer time;
- (ii) Delays at various levels in the grant of E.Cs and import licences, etc.
- (iii) Delays in the arrival of imported components and their release from Customs etc.; and
- (iv) Non-availability of trained hands."

1.28. Elucidating further in this connection, the Dy. D.G.T.D. replied in evidence:—

"The apparent gap that one may see between the sanctioned capacity and the utilisation does not necessarily mean that there has been much under-utilisation. It does take between one-half to three years to instal, commission and to bring them to rated production in a typical watch unit. So, there is a lag between the sanctioning of capacity and its actual fructifying in terms of actual utilisation."

1.29. The Committee wanted to know the quantum of foreign exchange involved on the import of components for the watches
792 LS—2.

during the last 5 years. In reply the Chairman, Central Board of Excise and Customs stated during evidence:—

“The total is Rs. 115 crores. Over all these five years the total imports come to Rs. 115 crores.”

1.30. Enquired about the normal rate of duty without concession and after concession on the import of watch components, the witness replied:—

“The basic duty is 100 per cent. We reduced it to 50 per cent.”

1.31. Asked in regard to the revenue foregone as a result of this concession, the witness stated:—

“The revenue which we would have got on this value of importation at the old rate as against the duty at the present rate would be of the order of Rs. 65 crores.”

1.32. The Committee desired to know the Post-wise break-up of the differential duty enjoyed by the watch manufacturers. In a written note, the Ministry of Finance (Dept. of Revenue) stated as under:—

“The Port-wise break-up of differential duty enjoyed by watch manufacturers is as follows:—

Bombay (By air)	Rs. 8,19,56,420
Bombay (By post)	Rs. 76,26,234
Delhi	Rs. 23,83,88,654
Bangalore	Rs. 51,02,56,519
Calcutta	Rs. 5,08,239
(Period 1979, 1980, 1981)	

Separate figures for Organised and Small Sectors are not available.”

1.33. Asked whether the H.M.T. had made a profit of about Rs. 18 crores during the year 1981-82 the representative of the Department of Industrial Development replied in the affirmative.

1.34. Enquired if the H.M.T. made these profits by availing of the concessional rate of duty on import of watch components, the Finance Secretary replied during evidence:—

“If there is a concessional duty scheme for the import of watch components in accordance with their schedule of production, it applies not only to the public sector or the private sector, but it applies to any body who has an approved production programme. If under that programme, the bulk of the exports is being done by the HMT, I do not know whether one should quarrel with that very much.”

1.35. The Committee wanted to know whether HMT should not be restrained from making huge profits if the same were the consequence of concession in duty on import of watch components. The Chairman, Central Board of Excise & Customs stated in evidence:—

“A concession is given as a long kind of planning. It was done by the Ministry of Industry, in consultation with us, after a lot of consideration, and the projection was that by the end of the Sixth Plan we will be able to produce one crore watches. We cannot tinker with it. But we will definitely take the very relevant point raised by the Committee that the profits are very high. We have to consider why it is so, whether it is due to indigenisation, productivity or economies of scale. In any case, we have to think of some other method of mopping up this kind of profits rather than apply the stick, which will apply to everybody, including H.M.T.”

1.36. The Committee wanted to know whether because of the duty exemption the H.M.T. had increasingly resorted to assembly of watches instead of concentrating indigenisation of components of watches. In reply the representative of the Ministry of Industry stated in evidence:—

“In the year 1976-77, the total production of watches by H.M.T. was 11.7 lakhs out of which about 1.93 lakhs were from out of the components manufactured indigenously and 3.77 lakhs from out of components imported from outside. In the year 1977-78, out of a total of 19.27 lakhs, 8.09 lakhs were out of the components manufactured indigenously and 11.18 lakhs from out of the components imported. In the next year, that is, in 1978-79, out of a total of 26.61 lakhs, 10 lakhs by way of components indigenously manufactured and 16.6 lakhs by way of im-

ported components. In the year 1979-80 out of 37.11 lakhs, 20 lakhs by way of components imported were manufactured and 10.97 lakhs by way of components, indigenously manufactured were produced. In the next year, there is a big leap. In so far as the indigenously managed components are concerned the number has gone up to 19.68 lakhs out of a total of 35.13 lakhs and the share of the watches from out of imported components has come down to 15.44 lakhs."

1.37. Elaborating the position, the witness further stated:—

"HMT has four projects; the first project is called Bangalore-I, the second project is known as Bangalore-II, the third project is in Srinagar and the fourth project is at Tumkur.

So far as the first project is concerned, the HMT has reached a degree of indigenisation so far as manufacture of components is concerned even in the year 1964-65 of the order of 84 per cent. That was the degree of indigenisation in the first HMT project which was started in the year 1960. They reached 100 per cent indigenisation in the year 1976-77 only because certain parts are very very sophisticated. So, these parts continued to be imported. It would not be correct to say that HMT has shifted from its production to indigenisation of components. The second HMT project, Bangalore-II watch factory, started in 1972-73. The degree of indigenisation reached by 1976-77, that is, before the policy came into being, was 84 per cent and subsequently the indigenisation went up to 100 per cent. HMT used to import only three components which are sophisticated in nature and they are also indigenised from 1976 onwards. The third factory of HMT is located at Srinagar with a capacity of three lakhs. The project started in 1972. At that point of time the number of watches produced from out of indigenous components was nil, whereas in 1978-79 the full production of three lakhs watches is out of indigenous components."

1.38. The Committee desired to know about the current price list of H.M.T. The Dy. Director General Technical Development replied in evidence:—

"Out of the total watches produced by HMT, roughly 70 per cent to 80 per cent would be accounted for by 5 or 6

models e.g. Janata which has a retail selling price of Rs. 212, Chinar Rs. 211, Ajay/Jawahar Rs. 230, Aditya Rs. 256 and Bahadur/Kohinoor Rs. 288. Recently, they have also put on the market a watch named Appu, priced at Rs. 160."

1.39 Asked if the concession in Customs duty on import of watch parts/components had been passed on to the consumers, the Department of Industrial Development in a written note stated as under:—

"No specific study in this regard has been made by this Ministry. It has, however, been reported both by DGTD and the DC (SSI) that the benefit of concessions in customs duty seems to have been passed on to the consumers."

1.40. The Committee wanted to know the position in regard to production of watches in the small scale sector. The D.C. (SSI) stated in evidence:—

"The Small Sector entered this area recently. The figure is 1.8 lakhs in 1977-78. The Small Scale units had their own problems in the production of components, and they look to the production of components by other manufacturers and for this reason when other manufacturers were not coming forth they have come forward to establish their cooperative ventures in which with some foreign collaboration they propose to manufacture the components to the extent of 5 millions to become self-reliant. The small scale units produce mechanical watches costing between Rs. 125 and Rs. 150 depending upon the dial case, design and so on."

1.41. Enquired about the steps taken to ensure that the small sector becomes self-reliant in the matter of indigenous production without dependence on imported components, the representative of the Ministry stated in evidence:—

"A phased manufacturing programme has been approved for these 96 units in the small scale industry. Before one moves from one phase to another, the small scale units are supposed to have installed certain capacities for the manufacture of certain components."

1.42. Enquired about the progress made by these units so far, the witness replied:—

"In a watch there are two types of components-inner components and outer components consisting of dial, hand, case, strap and so on. The indigenisation programme for the small scale sector is primarily with reference to outer components, because the precision which is required for the manufacture of watch components and the capital goods investment that would be called for would be outside the limits of small scale sector investment. While approving this manufacturing programme the idea is to indigenise in the small scale sector itself the production of outer components. Before a unit is allowed to move over from the first phase to the second, it is essential that it must install capital goods, plant and machinery for the manufacture of certain outer components that have been indicated in this phased manufacturing programme. Over a period it is certainly not the intention that the industry particularly the small scale industry should continuously depend on the imported components. For that purpose equal to the total approved capacity in the small scale sector a proposal has been approved for the manufacture of the entire range and in the first year of production the order of indigenisation is 75 per cent."

1.43. Asked in regard to the achievements of these units since the time of grant of concession in duty in 1978, the D.C. S.S.I. state in evidence:—

"Since, as on 1981, Sixty Small units had commenced production. Of these, 32 were in the first phase, 12 were in the second phase, 4 were in the third phase and 2 were in the fourth phase."

1.44. Clarifying about the term "phase" the witness statedff—

"The third and fourth phase is the stage where they are engaged in certain capacity of production. The inner parts, cannot be produced in the small scale sector and for the manufacture of the inner parts they have set up a large unit with foreign collaboration."

1.45. The Committee enquired if the grant of concession on duty was justified in view of the state of manufacture of watches so far. The Ministry of Finance (Dept. of Revenue) have stated in a note as under:—

“It is not possible to answer this question in precise terms. The production of watches, particularly in small sector, has been going up. To the extent that production levels has been maintained and even gone up, the duty concession would appear to stand justified.”

1.46. The Committee desired to know whether the exemption notification was reviewed at any point of time with a view to ascertain the continuance of the exemption granted in 1978. The Finance Secretary replied in evidence:—

“I am told that the review of the operation has not been done so far.”

1.47. Clarifying the position in this connection, the Chairman, Central Board of Excise & Customs stated during evidence:—

“It is year-wise phasing that has been licensed or approved and it must be produced within that year. The programme that was imposed on them or that was approved by them has by and large, been achieved. People go and start the watch industry and plan on a certain basis. If we go on with drawing or giving duty concession depending on demand and profit every year and tinkering with this duty concession, I am not sure whether it would not have created some kind of a problem for the industry.”

1.48. The Committee desired to know if it was not desirable or even necessary for the Ministry of Finance to review the exemption notification after every 2 to 3 years, the Finance Secretary replied during evidence:—

“Even to come up to the first phase and think of a component manufacture for the small-scale sector as a whole, it takes time.

I do grant that this review has to be done not only in terms of the achievement of production and manufacture targets but also from the point of view of technology. As regards technology, would not swear today that the imports have helped to introduce the right technology

for our conditions in the last two or three years. The policy question; for consideration is whether at all duty concession/exemption should be given for the purpose of making watches *vis-a-vis* importing watches. That is entirely different.

Imports of the industry of this kind, specially if you introduce modern technology, it will help you produce more durable watches. We go into it."

1.49. The Ministry of Finance (Dept. of Revenue) have further stated in a note submitted after evidence:—

"It is desirable that the exemption Notifications issued once are periodically reviewed with a view to ensure that the objectives behind the grant of these exemptions are being achieved. In actual practices as far as possible, periodical review is undertaken on the advice of the concerned administrative Ministries."

1.50. The Committee desired to know the staff available with the adjudicating Custom officer to satisfy himself that the imported kits are in fact manufactured into watches. In a note, the Ministry of Finance (Department of Revenue) have stated:—

"There is no staff specially deputed in the Custom Houses to examine and satisfy that the imported watch components/parts are in fact manufactured into watches."

1.51. Asked as to how in the absence of such staff, the condition of end-use was satisfied by the Customs authorities, the Ministry of Finance (Department of Revenue) have stated in a note as follows:

"In terms of the Board's instructions for cancellation of end use bonds, the Customs' authorities have been authorised to accept consumption certificates issued by Chartered Accountants together with affidavits sworn by the importers."

1.52. The Committee desired to know the monitoring system available to ensure that the imported components were used only for the purpose of manufacturing watches only. The representative of the Department of Industrial Development stated in evidence:

"Regarding 'Certificate of Essentiality' in regard to various components by various units whether in organised or

small-scale sector, I would submit, watch industry is not a scheduled industry in terms of the IDR Act. It does not appear in the schedule in the IDR Act. The question of their having any licensed capacity would not arise. To the extent necessary Government gives approval in terms of which components will be allowed or foreign collaboration taken. It is from these figures that we arrive at the figure of approved capacity rather than licensed capacity, as we have in many other industries. In small-scale sector 96 units are approved by D.C., SSI. In the organised sector there are 18. DGTD is sponsoring authority for import of parts and components. For small scale industries Director of Industry of respective States act as sponsoring authorities. The parties can also apply for supplementary licences if needed. They can authorise supplementary licences or make recommendation to CCIE as the case may be. So far as checking of these components and parts in 'end use' is concerned, there are 2 ways of looking at it. One is under Import Trade Control Order. Second is under Customs Act. Government revenue is involved. So far as revenue part is concerned, the 1978 notification says that the proper authority of Customs Department has to satisfy himself that the parts and components have in fact been used for the purpose for which they were imported. There are in-built checks. The sponsoring authority makes a second check whether the imports made in the past have been properly utilised or not. In respect of the imports that have been made at least roughly 75 per cent of the components should in fact have been used in terms of the end product. One has to allow some lead time and some parts and components will of course, remain unutilised because it takes about 4 to 5 months for the imports."

1.53. Enquired in regard to the machinery available with the Government to ensure utilisation of the components, the Dy. D.G.T.D. replied during evidence:

"The only independent machinery is when the unit comes up for supplementary licence, at that time we insist on their producing a certificate from the Chartered Accountant."

1.54. Asked in regard to the direction under which the Customs authorities were absolved of the responsibility cast upon them for exercising the required check, the witness replied in evidence:

"This is the Order, dated 5 March, 1980 issued by the Department of Revenue to Customs authorities. It said, the difficulties faced by the importers of watch components in complying with the Notification had been examined by the Government and it had been decided that for the cancellation of end-use bonds, the customs authorities should accept, in modification of the normal practice, the consumption certificate issued by the chartered accountants together with the legal affidavits sworn by the importers."

1.55. The Committee wanted to know the checks exercised by the Customs authorities for the satisfaction of the prescribed conditions for the period from December, 1978 up to March 1980. In reply the Chairman, C.B.E&C. stated in evidence:

"So far as the exemption notification is concerned, it is entirely the responsibility of the Customs Department to satisfy themselves that exempted imports have been utilised for the purpose for which the exemption has been granted.... Before March, 1980, it was a chaos. There were bonds which were pending and which were not being cancelled. There were all kinds of different procedures being adopted. In a situation like this, where imported things are to be used for some end product, we have got a number of options available to us..... In the particular case, we go by the certificates of Chartered Accountants." •

1.56. Enquired if a fresh license was issued by the Ministry of Commerce or the Chief Controller of Imports and Exports only after ascertaining the end-use from the Customs authorities, the witness replied:

"There is a different mechanism for their satisfaction."

1.57. Clarifying the position in this connection, the C.C.I.&E. stated during evidence:—

"In so far as the issue of automatic licence by the CCIE is concerned, we get a certificate attested by the Chartered Accountant to the effect that this much quantity of com-

ponents has been utilised. This is called actual consumption certificate. Fresh licence will be issued for the next year covering the value of the previous automatic licence."

1.58. The Committee pointed out that since the notification does not provide for such a certificate how was it considered sufficient for the satisfaction of the prescribed conditions. In reply the witness stated in evidence:

"The policy remained the same."

1.59. Asked about the policy, the witness explained during evidence:

"Year to year this import policy has been laid down. As the Committee is aware, the import policy is covering all items of production and it is not linked only to specific items of manufacture. In the instant case, it is wrist watch. But it covers all other items also. Any producer or any manufacturer has got an entitlement what we call the automatic licence for certain items which are listed in the import policy for this purpose. But what he imports, is subject to actual use of those raw materials and the certificate of consumption at the end of the year. So long as these two tests are satisfied and when he comes back to the Regional Licensing Authority who is entrusted with this function, the manufacturer will indicate the consumption of those items last year, value of consumption and a certificate to that effect by the chartered accountant. Based on such certificate, licence will be issued for the subsequent year to that value covering those items."

1.60. Enquired if under import-export policy, licence was issued to manufacturers on the basis of certificate from the Chartered Accountant without observing the conditions as laid down in the exemption notification, the witness stated:

"There is a duty cast upon the user in the import policy. There is a recognition like that. There is a responsibility on the actual user. I am reading out a relevant portion:—

However, actual user (industrial) in whose case the phased manufacturing programme has been approved by the

DGTD or other concerned authority should abide by the terms and conditions of the phased manufacturing programme and furnish to that authority half-yearly return of the items imported in quantity and in value item-wise and the report mentioning about indigenous achievement. This would apply to all the units. Defaulters will be penalised under the Import Control Order, 1955. This procedure has been embodied in the import policies. This has been there in 1978-79 and every year. There are two things. We are giving licences based on past consumption where his past consumption or his manufacturing activity is itself subject to some phased manufacturing programme which is laid down. Then, his obligations under that phased manufacturing programme have to be discharged by him."

1.61. The Committee desired to know the provisions in the policy in regard to checks exercised by the Import Export Control authorities to verify certain Customs benefits, if any, availed of by the manufacturers. In reply, the witness stated during evidence:

"We would not be administering any check on that. There is a limit as to what all we could do from our side. Our problem is we give a certain imported material. We have to satisfy that all things have been used and they have not been diverted and sold away in the market."

1.62. The Committee wanted to know whether the Government had appointed any special set of Staff under the Import Trade Control Act and Industrial Development and Regulation Act besides the Customs Officers. The Ministry of Finance (Department of Revenue) furnished the following information in a written note:

"It has been reported by the office of CCI&E that the Chief Controller of Imports & Exports has enforcement machinery to go into the cases involving contravention of import licence conditions in the matter of utilisation of imported goods. However, such an agency is not a substitute for not taking bank guarantees from those who are granted import facilities subject to certain performances having been undertaken. However, provisions had been made in the import Policy under which bank guarantee can be waived in order that these do not add to the cost

of manufacture. In such cases in lieu of bank guarantees, legal agreements are executed by the importers with the Import Control Authorities undertaking to utilise the imported materials in accordance with the purpose for which import is permitted. The scheme of taking bank guarantees or legal agreements in lieu thereof, operated by the CCI&E also covers cases in which industrial licences under the Industries (Development and Regulation) Act, are granted."

1.63. Asked in regard to the details of the form of the certificate of Chartered Accountant, the CCI&E replied in evidence:

"There is no separate Certificate prescribed under this programme for watches as such."

1.64. Enquired if the certificate contained details to the effect that against a specific number of imported components the required number of watches had been manufactured, the witness explained during evidence:

'In these matters we have to rely on certain procedures established by the Department concerned. In this case, duty exemption or concession is extended to them by the Customs Department. If there is a breach of the Customs enactment and if the Customs were to bring it to our notice, then, certain penalties do follow and we can take action against him under Clause 7 of Import Export Control Order."

1.65. Asked if in view of the position explained the responsibility for check of end-use lay only with the Customs authorities, the CCI&E stated in evidence:

"The end-use violation will be looked into if *prima facie*, there has been an end-use violation which has come to our notice or some inspection has revealed it. So far as I have been able to understand the Customs, the very action of their cancelling the bond implies the assumption that so far as the import control is concerned, the duty exemption conditions under which the material has been imported have been satisfied. If in any one of those cases any reference is made to us that some condition has not been satisfied, then we take action."

1.66. Enquired if it was not possible to introduce some other method to ensure fool-proof check, the witness stated in evidence:

"Now coming to individual cases, it is our responsibility, we have adopted this procedure. Now we will see whether by and large this has served the purpose or not. The Ministry of Industry and the DGTD are by and large satisfied with the procedure on the basis of a sample survey carried in about 43 units. The Directors of Industries of various States have said that by and large the utilisation has been all right.

Now it might be said why we did not do it earlier. We have done only when we were confronted with this very unfortunate situation. We have conducted a survey and from that survey we have selected at random 2 units in Delhi—2 units of watch manufacturers who are excise licences and who pay duty under the Central Excise Act—a duty of 10 per cent and also 2 units which are exempt because they are in the small scale sector. In both the cases, the Collector's report is—they sent a team of officers—after going through the entire imports, the parts imported and utilised and watches produced, the duty paid on the parts, etc., that he is totally satisfied as far as these four units are concerned and he has found nothing.

My submission is that by and large things have been all right Individual cases—Yes, do agree that we have got to take care of. There are some infractions of the law. This is my humble submission."

167 Enquired whether in view of the position explained the particular provision in the notification was technically redundant, the witness stated:—

"There, the utilisation is there to the satisfaction of the officer. If I were the officer, I have to be sitting there and I know that an automatic licence has been given. I know that the Director of Industry's certificate is to be there and on the basis of it the licence is given. Then there is the affidavit. He brings in a Chartered Accountant's certificate. If I were the officer at lower level, I would be satisfied."

1.68 The Committee desired to know the number of current notifications where exemptions/concessions in duty subject to and

use was to be verified. In a written note, the Ministry of Finance (Department of Revenue) have furnished a list of 83 notifications which is at appendix I.

1.69 The Committee then wanted to know the position of checks with regard to the other 83 items also where the end use satisfaction has to be there. In reply, the Member Customs stated in evidence:

“The position in respect of those notifications remains the same. Here as you will see watch parts will only go into watches and nothing else can be done. If somebody is bringing in watch parts, he has to produce the watches whereas in any other goods some alternative use may be possible. This is not permitted for the purpose of exemption. It will depend on each case to examine to what extent there is a risk of misuse.”

1.70 The Committee wanted to know if it was not necessary to make a mention in the certificate of Chartered Accountant etc. In regard to the number of components which were used by the manufacturer. The Chairman, CBE&C stated in evidence:

“In the Bill of Entry document, there is a mention about the imports made and used by the manufacturers. That will also mention the batch number; it shows the description and the movement of watches and the quantity imported. In one case which is here before me, the customs officer has gone by the chartered accountant's certificate which says:

‘I hereby certify that the following imported components as detailed in the table below have been utilised in the manufacture of watches in the factory of Messrs. So and So.’”

The certificate is given by the Chartered Accountant.”

1.71 Enquired if the Excise Officer could check up from that specific mention about the number of watches manufactured or not, the witness replied in the affirmative.

1.72 The Committee then wanted to know whether it would not be expedient to amend the notification by making suitable provi-

sion so that the officers are made responsible to satisfy themselves personally before allowing the exemption, the witness replied in evidence:

"It is a very useful suggestion we make note of it."

1.73 Enquired if similar provision could also be made in respect of other notifications where similar exemptions from duty were allowed, the witness stated:—

"I do remember at least one case where a higher duty was leviable on imported stainless steel sheets for the manufacture of utensils and a lower one when it goes into certain industrial applications in such as manufacture of dairy machinery or chemical industry and so on and so forth. We do allow the exemption from the payment of duty in excess of 40 per cent provided that is utilised for this particular application. The officers in the field have to satisfy themselves that the components are made and are sold to the dairy industry. The dairy industry makes the payment by way of cheques. But, after some time, we discovered that it was not enough. Now, we are insisting that all imported sheets for the preferred purpose should be converted into components under Custom Bond. This kind of review we have been having. So, it is not that we have not done that."

1.74 The Committee wanted to know whether in view of the interpretation of the officers being questioned later in certain cases which was likely to create complications, was it not feasible to prescribe a uniform rate of duty. In reply the Finance Secretary stated in evidence:—

"The point is well taken regarding the administrative feasibility of prescribing a uniform duty. This question had come up every now and then. The ministries concerned with particular industries apply the concession either in terms of excise duty or in terms of import duty on imported materials. Our notification is precise and our officers follow it up. Excise and Customs officers will be in difficulty if we have to go against this course. We can only try to see whether our objective could be met in some other way. Certain things may look good on paper. But in practice, they may not work."

1.75 The Committee desired to know the details of the cases, if any, where the manufacturers of watches availing of the concession

in import duty had not adhered to the approved programme. In a written note the Department of Industrial Development furnished the following information:

"The progress towards indigenisation of the individual firms is monitored by the Government from time to time. As a result of this it was found that M/s. Sandoz (I) Ltd. was not adhering to the approved indigenisation programme and the DGTD reported the progress of this Party to the Department of Industrial Development in June, 1979. The Department of Industrial Development then informed the CCI&E New Delhi in April, 1980, to black list the firm so that the firm is not in a position to avail of import licence facility.

A show cause notice was issued to the firm by the office of CCI&E, SLA, New Delhi on 15-1-1981 under clause 10 for action under Clause 8 of the Import (Control) Order, 1955, as amended. Firm was debarred from getting any import assistance. In view of this no import assistance of raw material/components is being allowed to the firm. It has been further ascertained that the total amounts of bond executed by this firm during 1977—79 covering their import of watch parts was Rs. 2.27 crores approximately. Thereafter, it is reported that there have not been any imports of this firm through Customs at Palam Airport."

1.76 The Committee enquired if instead of importing more components for watches, would it not be desirable to give priority to manufacture of watches indigenously. In reply, representative of the Ministry of Industrial Development stated:

"The duty on selling the raw material should be reduced in order to act as an incentive to manufacture."

1.77 The Committee desired to know whether the officer administering the Customs Act at ports also attended to violation of Import Control Act. In a written note, the Ministry of Finance (Department of Revenue) furnished the following information:—

"It is a fact that the Customs Department is required to perform agency functions for various other Ministries and Departments which *inter alia* include Import Trade Control Department. However, Customs Authorities are concerned with the ITC licence conditions which are operative prior to the release of the goods from Customs

control. Any licence conditions which are applicable after clearance of the goods through Customs, will have to be verified or enforced by the Import Trade Control Authorities."

1.78 The Committee wanted to know the reasons for the Closure of 36 Bonds referred to in the Audit Paragraph without verification of the end use. In reply the Ministry of Finance Department of Revenue furnished the following information in a written note:—

"It has been reported by the Bombay Customs House that the 36 bonds referred to above have been closed after verification of the end use on the basis of the documents filed including Affidavits sworn by the importers. The Chartered Accountant's Certificates regarding consumption had been produced. A Chartered Accountant is an independent authority. It is, therefore, not correct to say that bonds have been closed without verifying end use with reference to conditions attaching to production programme. The notification requires that the watch parts should be imported for the manufacture of wrist watches in accordance with the production programme duly approved by the Ministry of Industry/DGTD and are in fact, so used for such manufacture. The production programme is verified from the Industrial Licence/Registration Certificate produced and the fact of use in the manufacture is verified by the Chartered Accountant's certificate and the affidavits filed."

1.79 The Committee wanted to know the number of bonds and the revenue involved in the bonds accepted by the various Customs Houses during the last 5 years. The Ministry of Finance (Department of Revenue) furnished the following information in a note:—

BANGALORE

Year	No. of Bonds accepted	Differential Duty (Rs)
1977-78	2	4,34,13,574
1978-79	7	15,87,68,382
1979-80	6	18,63,10,385
1980-81	10	18,53,07,905
1981-82	9	9,55,56,272

Delhi

Year	No. of end used hands	Differential Duty Rs.
1977-78	122	5,76,82,265
1978-79	208	4,27,04,227
1979-80	284	4,72,51,014
1980-81	484	5,28,55,455
1981-82	906	14,19,29,139

Bombay

	No. of non-ware— Housing bonds, in- cluding end use Bonds	Differential Duty
1978	1892	Value particulars could not be com- piled."
1979	2106	
1980	4106	
1981	5113	
1982	3777	

N.B. Import of watch parts at Madras & Calcutta port has been of Negligible orders".

1.80 The Audit has informed that to date the following 454 bonds for an amount of Rs. 17,78,60,463 are pending cancellation after verification:—

Year	No. of Bonds	Amount
<i>(A) Srinagar Unit:</i>		
1977	11	37,83,951
1978	19	35,57,870
1979	16	17,65,394
1980	13	35,34,408
1981	21	8,61,855
<i>(B) Hyderabad Allwyn Unit</i>		
1981	2	8,87,54,400
<i>Others</i>		
1977	10	5,61,879
1978	71	8,13,84,308
1979	95	8,09,04,983
1980	68	1,86,00,979
1981	130	1,41,91,036
	456	17,78,60,463

1.81 Under the Customs Tariff Act, 1975 imported watch components are assessable to customs duty at 100 per cent ad valorem. The Ministry of Finance, Department of Revenue, issued a notification in December, 1978 exempting watch components imported for the manufacture of watches from customs duty in excess of 50 per cent ad valorem subject to the condition that the import of these components is in accordance with the production programme approved by the Ministry of Industry and that the watch components imported are actually utilised for such manufacture. The twin objective of the notification was to increase production and contain smuggling as there was a wide gap between the demand and supply of indigenously manufactured watches. The exemption was not available if the imported watch components are diverted for other purposes like repairs etc.

1.82 The Ministry of Industry projected the demand of watches in the country as 60 lakh numbers in 1977, 65 lakhs in 1978, 70 lakhs in 1979, 73 lakhs in 1980 and 80 lakhs in 1981 to the Ministry of Finance when they approached the latter for the grant of exemption from duty. However, the actual production in the organised and small sectors taken together respectively in the years 1977, 1978, 1979, 1980 and 1981 was 29.88, 47.56, 54.79, 52.95 and 56.82 lakh numbers leaving a gap of about 30, 17, 15, 20 and 23 lakh numbers respectively in these years.

1.83 In regard to the smuggling of watches, the Committee note from the figures of seizures furnished by the Ministry of Finance (Department of Revenue) that there has been no appreciable fall in the number of watches confiscated. While in 1977, the number of watches seized was 47,901 (value Rs. 168 lakhs) the same was 1,12,318 (value Rs. 337 lakhs) in 1978 and 1,04,127 (value Rs 357 lakhs) in 1981. It was admitted by the Chairman, Central Board of Excise & Customs before the Committee that complete containing of the smuggling has not been achieved. He, however, stated that the cheaper watches which used to be the normal favourite of the smugglers has ceased to be their items of smuggling and what is coming now are all sophisticated kind of watches.

1.8. In view of the fact that smuggling in watch continues unabated and the production of watches in the country has remained more or less stagnant since 1978 allowing a wide gap between the

demand and supply in spite of large capacity licensed, the Committee cannot but conclude that statutory exemption has failed to fulfil either of the two objectives for which it was given.

1.85 The Committee are dismayed to note that since its issue, the exemption notification has not been reviewed at any level. The Committee wish to stress that as recommended in their 105th Report (1981-82) the Ministry of Finance should evolve a monitoring system to review periodically how far the objectives underlying each exemption notification have been achieved and to decide whether the exemptions, should be allowed to continue. The Committee further suggest that such exemptions should not be granted for indefinite period but restricted to a couple of years subject to review and extension.

1.86 The Committee note that Small Scale Units in watch industry are by and large engaged in the assembly of watch parts imported in C.K.d condition and except for a few outer components like dial, hand case etc. are wholly dependent on imported watch components. Even large scale units like HMT is manufacturing about 42 per cent of watches out of the imported components (in 1980-81 for which latest figures are available out of total production of 25.13 lakh watches by HMT, as many as 15.44 lakhs were manufactured out of imported watch parts). The Committee cannot but conclude that due to the duty concession available on imported watch parts, the watch manufacturing units including the public feel that this is a matter of serious concern and the administrative sector have not paid adequate attention to the development of industry and especially of watch components indigenously and have remained dependent on imported watch parts. The Committee Ministry should take note of it. The Committee are of the view that Government should chalk out a time-bound programme for the manufacture of watch components in the country and should give duty concession on the import of raw material used in the manufacture of watch parts as well as concession in the excise duty so as to encourage the manufacture of watch parts/components in the country and keep the prices of these components competitive as compared to imported watch parts. This will not only lead to considerable saving in foreign exchange but would also provide employment to a large number of people in the country.

1.87 The duty concession applied to all units both in the public and private sectors which had approved production programmes. The Committee have been informed that the Government have not

made any specific study to ascertain whether the benefit of the concessional customs duty on import of watch components has been passed on to the consumer. In this connection the Committee wish to draw attention to the fact that HMT has earned huge profits (Rs. 18 crores every year) on its watch division. Unless there is significant price advantage in regard to indigenously assembled watches, smuggling is bound to thrive. The Committee has reason to believe that benefit of the duty concession is mopped up by the manufacturers with the result that the exchequer suffers loss of revenue, consumer does not benefit and smuggling goes on unabated. The Committee therefore desire that Government should ensure that the benefits of the duty concession are passed on to the consumer by suitable reduction in the prices of watches. The Committee further feel that HMT should be a pace setter in this regard.

1.88 The Committee find that there was a big gap in the approved capacity and actual production of watches in the Small Scale Sector. Against the total approved capacity of 3.20, 4.30, 8.30, 10.30 and 14.40 lakhs respectively in the years 1977, 1978, 1979, 1980 and 1981, the small scale sector units manufactured 1.80, 2.50, 6.35, 6.22 and 8.29 lakh watches in these years respectively. The shortfalls in production with reference to approved capacity is stated to have been due to location of the units in remote areas where building up of an industry takes a little longer time, delays at various levels in the grant of Essentiality Certificates and import licences, delays in the arrival of imported components and their release from Customs and non-availability of trained hands. The Committee feel that delays in the grant of Essentiality Certificates, import licences and the release of imported materials from Customs could be easily avoided. The Committee desire that suitable improvements may be made in the prescribed procedures whereby such delays are effectively eliminated.

1.89 In terms of notification of December, 1978 the proper authority of Customs Department was satisfied that the parts and components imported were in fact used for the manufacture of watches in accordance with the production programme duly approved by the Ministry of Industry. The importer executes a bond for payment of differential duty in case the parts are not used in the manufacture of watches according to the approved production programme. The bond undertaken is different depending upon whether the importer is a public sector undertaking or private manufacturers. If the importer is a public sector undertaking, a

bond is taken for each consignment and in the case of others, one running bond for an amount equal to the differential duty based on licence value is taken for each import licence. The bond was to be cancelled on receipt of end-use certificate from the Ministry of Industrial Development which monitors the production programme of the units. In actual practice there was no detailed monitoring. This procedure was modified by Government in their letter dated 5-3-1980 which enjoined that the end-use bonds can be cancelled by the Customs authorities on the basis of utilisation certificates issued by the Chartered Accountants and legal affidavits sworn by the importers. This change has been brought about by executive instructions without amending the notification.

1.90 It is clear to the Committee that prior to March 1980 the consumption of imported components has not been properly verified. It has been admitted by the Chairman of Central Board of Excise and Customs before the Committee that "Before March, 1980, it was a chaos. There were bonds which were pending and which were not being cancelled. There were all kinds of different procedures being adopted." The Committee cannot but express their unhappiness at the manner in which the notification which specifically linked the grant of duty concession to ensuring fulfilment of conditions of end was allowed to operate without laying down any fool-proof procedure to ensure that the imported components were actually utilised for the purpose which these were imported.

1.91 The change in procedure for verifying end-use of imported components was made by issue of mere executive instructions on 5 March, 1980. The executive instructions which seek to modify a legal notification, do not have the force of law. The Committee therefore, desire that suitable change may now be made in the notification itself. The Committee further desire that revenue effect of exemptions should be given in the Annual Reports of the Ministry and exemption notification should be for two years at a time.

1.92 The Committee find that a total number of 454 bonds involving a total amount of Rs. 17.78 crores pertaining to the years 1977 to 1981 were pending cancellation after verification in the various Customs Houses. The Committee would like to be apprised of the precise reasons for the pendency of such a large number of bond and the action taken or proposed to be taken by Government to eliminate such delays in future.

1.93 The Committee note that there are 83 exemption notifications which contain end-use conditions in respect of goods imported. There is, however, no special staff in the Customs Houses to examine and ascertain that the conditions of import are satisfied with the result that the end-use conditions are not enforced effectively. The Committee, therefore, desire the Government to review all such exemptions and the conditions to be fulfilled with a view to simplifying the process of verification by the Customs Houses as was done in the case of concessional duty on import of watch components.

1.94 The Public Accounts Committee was set up in 1921. The Committee's work has widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Since sixties the Committee have also been systematically examining revenue receipts which have also increased vastly to match the expenditure. Further there has been qualitative change in the work of the Committee. The Committee undertake comprehensive reviews of schemes and projects as well as systems and procedures, which demand more time and effort. It is thus becoming increasingly difficult for one Public Accounts Committee to do justice to the work in the changed context. In the considered opinion of the Committee it is time that some restructuring of the Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, they would suggest setting up of the independent Public Accounts Committees for examination of 'Expenditure' and 'Revenue Receipts' separately. The Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of the delegated powers of the Executive in the matter of grant of exemptions under the Customs and Central Excise Laws, besides examining the Reports of the Comptroller and Auditor General of India on Revenue Receipts.

NEW DELHI;
26 April, 1983
6 Vaisakha, 1905 (S).

SATISH AGARWAL,
Chairman,
Public Accounts Committee.

APPENDIX—I

(*Vide* Para 1.68)

Statement showing the number of current Notifications where exemption/concession in duty, subject to end use, is to be verified.

<i>Sl. No.</i>	<i>Notification No.</i>	<i>Date</i>
1	2	3
1	237-Cus	18-12-78
2	85	15-3-82
3	158	2-8-76
4	160	2-8-76
5	22	7-2-77
6	165	2-8-76
7	253	13-12-77
8	117	19-6-80
9	169	2-7-76
10	24	27-1-79
11	45	1-3-79
12	64	6-3-79
13	80	31-3-79
14	217	13-11-79
15	28	28-2-82
16	144	19-7-80
17	146	19-7-80
18	164	19-8-80
19	116	19-6-80
20	94	1-3-79
21	135	15-7-78
22	217	2-8-76
23	220	2-8-76
24	30	1-3-81

1	2	3
25	229	2-8-76
26	226	2-8-76
27	230	2-8-76
28	36	1-3-78
29	120	2-6-79
30	29	1-3-81
31	176	11-9-78
32	199	24-9-77
33	157	9-8-78
34	233	2-8-76
35	234	5-12-79
36	389	2-8-76
37	254	13-12-77
38	39	1-3-78
39	157	26-5-81
40	199	8-10-80
41	179	4-9-80
42	231	27-11-80
43	47	1-3-78
44	48	1-3-78
45	103	1-4-81
46	150	25-5-81
47	98	2-5-79
48	260	2-8-76
49	116	19-6-80
50	122	21-6-78
51	95	9-5-80
52	219	10-11-78
53	165	2-8-76
54	240	30-12-78
55	124	1-7-77
56	200	28-9-79

1	2	3
57	215	25-9-81
58	133	12-5-81
59	89	30-3-81
60	13	9-2-81
61	155	28-5-81
62	219	28-9-81
63	235	2-11-81
64	265	3-12-81
65	44	28-2-82
66	45	28-2-82
67	153	18-5-82
68	157	26-5-82
69	197	23-8-82
70	138	27-6-79
71	39	15-2-79
72	324	2-8-76
73	78	1-3-82
74	166	2-8-76
75	245	19-11-77
76	201	14-10-80
77	151	15-7-77
78	208	11-11-78
79	114	1-7-77
80	827	13-11-79
81	77	17-4-80
82	117	9-6-78
83	211	15-10-77

APPENDIX II

P.L. Narula 14-6-1983 792LS 10-12-28

Sl. No.	Para No.	Ministry/ Department	Conclusions/Recommendations
1	2	3 •	4
1	1.81	Ministry of Finance (Dept. of Revenue)	<p>1.81 Under the Customs Tariff Act, 1975, imported watch components are assessable to customs duty at 100 per cent <i>ad valorem</i>. The Ministry of Finance, Department of Revenue, issued a notification in December, 1978 exempting watch components imported for the manufacture of watches from customs duty in excess of 50 per cent <i>ad valorem</i> subject to the condition that the import of these components is in accordance with the production programme approved by the Ministry of Industry and that the watch components imported are actually utilised for such manufacture. The twin objective of the notification was to increase production and contain smuggling as there was a wide gap between the demand and supply of indigenously manufactured watches. The exemption was not available if the imported watch components were diverted for other purposes like repairs etc.</p>
2	1.82	do.	<p>The Ministry of Industry projected the demand of watches in the country as 60 lakh numbers in 1977, 65 lakhs in 1978, 70 lakhs in</p>

1979, 73 lakhs in 1980 and 80 lakhs in 1981 to the Ministry of Finance when they approached the latter for grant of exemption from duty. However, the actual production in the organised and small sectors taken together respectively in the years 1977, 1978, 1979, 1980 and 1981 was 29.88, 47.56, 54.79, 52.05 and 56.82 lakh numbers leaving a gap of about 30, 17, 15, 20 and 23 lakh numbers respectively in these years

3 1.83

M/o Finance (Deptto
of Revenue)

In regard to the smuggling of watches, the Committee note from the figures of seizures furnished by the Ministry of Finance (Department of Revenue) that there has been no appreciable fall in the number of watches confiscated. While in 1977, the number of watches seized was 47,901 (value Rs. 168 lakhs) the same was 1,12,318 (value Rs. 337 lakhs) in 1978 and 1,04,127 (value Rs. 357 lakhs) in 1981. It was admitted by the Chairman, Central Board of Excise & Customs before the Committee that complete containing of the smuggling has not been achieved. He, however, stated that the cheaper watches which used to be the normal favourite of the smugglers has ceased to be their items of smuggling and what is coming now are all sophisticated kind of watches.

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4 1.84

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In view of the fact that smuggling in watch continues unabated and the production of watches in the country has remained more or less stagnant since 1978 allowing a wide gap between the demand and supply in spite of large capacity licensed, the Committee cannot but conclude that statutory exemption has failed to fulfil either of the two objectives for which it was given

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5 1.85

M/o Finance (Dept.
of Revenue)

The Committee are dismayed to note that since its issue, the exemption notification has not been reviewed at any level. The Committee wish to stress that as recommended in their 105th Report (1981-82) the Ministry of Finance should evolve a monitoring system to review periodically how far the objectives underlying each exemption notification have been achieved and to decide whether the exemptions should be allowed to continue. The Committee further suggest that such exemptions should not be granted for indefinite period but restricted to a couple of years subject to review and extension.

6 1.86

(i) M/o Finance (Dept.
of Revenue)
(ii) M/o Industry (Dept.
of Industrial Deve-
lopment)

The Committee note that Small Scale Units in watch industry are by and large engaged in the assembly of watch parts imported in C.Kd. condition and except for a few outer components like dial, hand case etc. are wholly dependent on imported watch components. Even large scale units like HMT is manufacturing about 42 per cent of watches out of the imported components (In 1980-81 for which latest figures are available out of total production of 35.13 lakh watches by HMT, as many as 15.44 lakhs were manufactured out of imported watch parts). The Committee cannot but conclude that due to the duty concession available on imported watch parts, the watch manufacturing units including the public sector have not paid adequate attention to the development of industry and especially of watch components indigenously and have remained depen-

- (i) M/o Finance (Dept. of Revenue)
- (ii) M/o Industry (Dept. of Industrial Development)

dent on imported watch parts. The Committee feel that this is a matter of serious concern and the Administrative Ministry should take note of it. The Committee are of the view that Government should chalk out a time-bound programme for the manufacture of watch components in the country and should give duty concession on the import of raw material used in the manufacture of watch parts as well as concession in the excise duty so as to encourage the manufacture of watch parts/components in the country and keep the prices of these components competitive as compared to imported watch parts. This will not only lead to considerable saving in foreign exchange but would also provide employment to a large number of people in the country.

The duty concession applied to all units both in the public and private sectors which had approved production programmes. The Committee have been informed that the Government have not made any specific study to ascertain whether the benefit of the concessional customs duty on import of watch components has been passed on to the consumer. In this connection the Committee wish to draw attention to the fact that HMT has earned huge profits (Rs. 18 crores every year) on its watch division. Unless there is significant price advantage in regard to indigenously assembled watches, smuggling is bound to thrive. The Committee has reason to believe that benefit of the duty concession is mopped up by the manufacturers with the result that the exchequer suffers loss of revenue, consumer does not benefit and smuggling goes on unabated. The Committee therefore desire that Government should ensure that the benefits

8 1.88 (i) M/o Finance (Dept.
of Revenue)

(ii) M/o Commerce

of the duty concession are passed on to the consumer by suitable reduction in the prices of watches. The Committee further feel that HMT should be a pace setter in this regard.

The Committee find that there was a big gap in the approved capacity and actual production of watches in the Small Scale Sector. Against the total approved capacity of 3.20, 4.30, 8.30, 10.30 and 14.40 lakhs respectively in the years 1977, 1978, 1979, 1980 and 1981, the small scale sector units manufactured 1.80, 2.50, 6.35, 6.62 and 8.29 lakh of watches in these years respectively. The shortfalls in production with reference to approved capacity is stated to have been due to location of the units in remote areas where building up of an industry takes a little longer time, delays at various levels in the grant of Essentiality Certificates and import licenses, delays in the arrival of imported components and their release from Customs and non-availability of trained hands. The Committee feel that delays in the grant of Essentiality Certificates, import licenses and the release of imported materials from Customs could be easily avoided. The Committee desire that suitable improvements may be made in the prescribed procedures whereby such delays are effectively eliminated.

9 1.89 M/o Finance (Dept.
of Revenue)

In terms of notification of December, 1978 the proper authority of Customs Department was to be satisfied that the parts and components imported were in fact used for the manufacture of watches

in accordance with the production programme duly approved by the Ministry of Industry. The importer executes a bond for payment of differential duty in case the parts are not used in the manufacture of watches according to the approved production programme. The bond undertaken is different depending upon whether the importer is a public sector undertaking or private manufacturer. If the importer is a public sector undertaking, a bond is taken for each consignment and in the case of others, one running bond for an amount equal to the differential duty based on licence value is taken for each import license. The bond was to be cancelled on receipt of end-use certificate from the Ministry of Industrial Development which monitors the production programme of the units. In actual practice there was no detailed monitoring. This procedure was modified by Government in their letter dated 5-3-1980 which enjoined that the end use bonds can be cancelled by the Customs authorities on the basis of utilisation certificates issued by the Chartered Accountants and legal affidavits sworn by the importers. This change has been brought about by executive instructions without amending the notification. 55

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It is clear to the Committee that prior to March 1980 the consumption of imported components has not been properly verified. It has been admitted by the Chairman of Central Board of Excise and Customs before the Committee that "Before March, 1980, it was a chaos. There were bonds which were pending and which were not being cancelled. There were all kinds of different procedures

being adopted." The Committee cannot but express their unhappiness at the manner in which the notification which specifically linked the grant of duty concession to ensuring fulfilment of conditions of end use was allowed to operate without laying down, any foolproof procedure to ensure that the imported components were actually utilised for the purpose for which these were imported.

11 1.91 M/o Finance (Dept.
of Revenue.)

The change in procedure for verifying end-use of imported components was made by issue of mere executive instructions on 5 March, 1980. The executive instructions which seek to modify a legal notification, do not have the force of law. The Committee therefore, desire that suitable change may now be made in the notification itself. The Committee further desire that revenue effect of exemptions should be given in the Annual Reports of the Ministry and exemption notification should be for two years at a time.

12 1.92 -do-

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The Committee note that there are 83 exemption notifications which contain end-use conditions in respect of goods imported. There is, however, no special staff in the Customs Houses to examine and ascertain that the conditions of import are satisfied with the result that the end-use conditions are not enforced effectively. The Committee, therefore, desire the Government to review all such exemptions and the conditions to be fulfilled with a view to simplifying the process of verification by the Customs Houses as was done in the case of concessional duty on import of watch components.

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1.94

Dept. of Parliamentary Affairs.

The Public Accounts Committee was set up in 1921. The Committee's work has widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Since sixties the Committee have also been systematically examining revenue receipts which have also increased vastly to match the expenditure. Further there has been qualitative change in the work of the Committee. The Committee undertake comprehensive reviews of schemes and projects as well as systems and procedures, which demand more time and effort. It is thus becoming increasingly difficult for one Public Accounts Committee to do justice to the work in the changed context. In the considered opinion of the Committee it is time that some restructuring of the Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, they would suggest setting up of the independent Public Accounts Committees for examination of 'Expenditure'

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and 'Revenue Receipts' separately. The Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of the delegated powers of the Executive in the matter of grant of exemptions under the Customs and Central Excise Laws, besides examining the Reports of the Comptroller and Auditor General of India on Revenue Receipts.

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