

HUNDRED AND ELEVENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1981-82)

(SEVENTH LOK SABHA)

WORKING OF THE OFFICE OF THE JOINT
CHIEF CONTROLLER OF IMPORTS AND
EXPORTS, (CIA), NEW DELHI

MINISTRY OF COMMERCE
(DEPARTMENT OF COMMERCE)



Presented in Lok Sabha on 31 April, 1982

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CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	(iii)
INTRODUCTION	(v)
REPORT	1
A. Working of the Office of the Chief Controller of Imports and Exports	1
B. Non-realisation of cash compensatory support and Non-enforcement of export obligations	7
C. Overpayments and other irregularities	31
C(i) Overpayment to firm 'B' (M/s. Bharat Steel Tubes Ltd., New Delhi)	34
APPENDICES	
APPENDIX—I Statement showing the names of the Offices of the Import and Export Trade Control Organisation and their jurisdiction	44
APPENDIX—II Audit Paragraph 3 [Sub-para 5(i)—SVI]	46
APPENDIX—III Conclusions/Recommendations	50

*PART—II

Minutes of sittings of the Public Accounts Committee (1981-82) held on 23 October, 1981, 16 January, 1982 and 28 April, 1982.

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CORRIGENDA TO 111TH REPORT OF PAC(1981-82)

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(1981-82)**

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*Ceased to be Member of the Committee consequent on his appointment as a Deputy Minister w.e.f. 15 January, 1982.

**Ceased to be Member of the Committee consequent on his appointment as a Minister of State w.e.f. 15 January, 1982.

***Ceased to be Members of the Committee consequent upon their retirement from Rajya Sabha on 2 April, 1982.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf, this Hundred and Eleventh Report of the Public Accounts Committee (Seventh Lok Sabha) on paragraph 3 of the Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) on the working of the Office of the Joint Chief Controller of Imports and Exports (Central Licensing Area), New Delhi.

2. The Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) was laid on the Table of the House on 27 April, 1981. The Public Accounts Committee examined the Audit paragraph at their sittings held on 23 October, 1981 and 16 January, 1982. The Committee considered and finalised this Report at their sitting held on 28 April, 1982. The Minutes of the sittings of the Committee form Part II* of the Report.

3. The Committee have expressed the view that since the organisation of the Chief Controller of Imports and Exports has undergone a fundamental change from a primarily regulatory organisation in respect of import of goods to the field of export promotion also including disbursement of cash assistance, functioning of this Office should be examined by a team of management experts to suggest necessary changes to improve its working. The Committee have expressed surprise that although the organisation of the Chief Controller of Imports and Exports has been making payments of cash compensatory support to the tune of nearly Rs. 450 crores in a year, there is no internal audit organisation in that office. The Committee have recommended that Government should take immediate steps to set up an internal audit organisation independent of the office of the Chief Controller of Imports and Exports for audit of cash assistance transactions as also other allied funtions as may be assigned to it.

4. In this Report, the Committee have *inter alia* recommended that the Indian export products should not be heavily subsidised at the cost of the public exchequer and for the benefit of exporters who can afford to export goods without cash assistance. The Committee have recommended that Government should make an analytical study of the scheme of cash assistance and the extent to which it has been able to achieve its objectives. Government should also examine the

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feasibility of replacing the cash assistance scheme by an inbuilt system of providing relief to the exporters by way of relief in taxes, duties etc. The Committee have desired that a foolproof procedure should be evolved so that there is close coordination between the Reserve Bank of India and the organisation of the CCI&E in keeping watch over foreign exchange realisation against cash assistance.

5. The Committee have been informed that the statement prepared by the Reserve Bank of India for 1980 discloses 1800 cases involving Rs. 10 crores where foreign exchange has not been realised although cash assistance was paid. The Committee have concluded that there has been gross negligence both on the part of the organisation of the Chief Controller of Imports and Exports and Reserve Bank of India in the discharge of their duties.

6. A statement showing the conclusion/recommendations of the Committee is appended to the Report (Appendix III). For facility of reference, these have been printed in thick type in the body of the Report.

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

8. The Committee would also like to express their thanks to the Officers of the Ministry of Commerce (Department of Commerce), Ministry of Finance (Department of Economic Affairs) and the Reserve Bank of India for the cooperation extended by them in giving information to the Committee.

SATISH AGARWAL

Chairman

Public Accounts Committee.

NEW DELHI;

April 29, 1982

Vaisakha 9, 1904 (S)

REPORT

A. Working of the Office of the Chief Controller of Imports & Exports:

1. The Import Trade Control Organisation under the Ministry of Commerce controls the foreign trade i.e. imports and exports of the country. There is a net work of offices of the organisation in the country under the administrative control of headquarters office i.e. office of the Chief Controller of Imports & Exports, New Delhi. The main items of work at the Headquarters office are the following:

- (i) Policy (Import Policy, Export Policy & Export Promotion Policy)
- (ii) Capital Goods Licensing
- (iii) Export Control & Export Promotion
- (iv) Ad-hoc Licensing
- (v) Enforcement and Adjudication
- (vi) Statistics and Parliament work
- (vii) Appeals & Review, Vigilance, Public Relations
- (viii) Cash Assistance & duty Drawback
- (ix) Administration & House Keeping

2. The main items of work in the regional offices are indicated below:

- (i) Capital Goods Licensing (upto Rs. 20 lakhs)
- (ii) Raw Material and Components Licensing
- (iii) R.E.P. licensing
- (iv) Cash Assistance Disbursement
- (v) Export Licensing
- (vi) First Appeals
- (vii) Enforcement
- (viii) Administration, Vigilance, Public Relations and House Keeping.

3. A statement showing the names of the offices of the Import and Export Trade Control Organisation and their jurisdiction is at Appendix I.

4. When asked if there has been any management study or system analysis study of the organisation of Chief Controller of Imports

and Exports in order to streamline the procedure and improve its working, the Chief Controller of Imports & Exports stated before the Committee:

"I must say, there has been no such management study. There has been an examination of the functioning of the CCI&E organisation by the H. C. Mathur Committee in 1964-65. Subsequent to that, the only other examination which one can call it as a part of the larger issue has been done by the P. C. Alexander Committee in 1977-78."

5. When enquired if he was aware that there have been a number of complaints regarding the working of the organisation of CCI&E both in Parliament and Press, the witness replied:

"There are complaints."

The witness added:

"We would like to have a much better audit than we have. Our cross link systems are not good enough. A man may pursue a licence application. We may not have all the data. There are export obligation cases. Although the export obligation has been fulfilled, it is a little sad commentary that the organisation does not know that it has been fulfilled or we had to discover only afterwards or only after the audit pointed it out. To that extent, I admit that there are still some lacunae to be covered."

The general question of taking up the management study is a very important suggestion."

5. When asked about his views regarding need for a management study, Commerce Secretary stated before the Committee:

"I am very much inclined to agree with you. This organisation is being called upon to play an important role in terms of foreign exchange, in terms of giving impetus to export trade and others. It must have some sort of critical and also corrective examination. I am inclined to agree with you that P. C. Alexander Committee's Report is not a report which considered management as a central focus point of consideration for certain solutions. And I do feel, a time has come when we should really have some management study organised with this organisation."

7. The Committee enquired if the various complaints regarding the working of the organisation have been examined, categorised and efforts made to locate the defects in the system of functioning. In reply, the Chief Controller of Imports & Exports stated before the Committee:

"Individual complaints are, of course, attended to. But I would say that we have not made a total study of the type of complaints after which they get decided or they get looked into individually. But this is a part of the wider study which might have to be done. I admit that."

8. The witness further stated:

"One of the most effective ways of these complaints, apart from the individual complaints, being looked into and action taken, is to have a systems approach and this is what I was trying to inform the Committee. According to the systems approach, you can fix up the time, meet the officer concerned and bring to his notice the particular complaint. My impression is that once you submit your application after fulfilling all the formalities, you acquire a right to get your licence within 30 or 40 days and if you do not get the licence, then everybody in the System Cell or in our organisation knows that we have not issued the licence in 30 days and there will be questions why and in what circumstances the licence has not been issued. So, we at once take steps and see that the licence is issued immediately. Even while dealing with the application in time, there could be some elements that come in the way. I do not deny that. But we are trying to minimise the chance of delay in issuing the licence. If one has to get the licence within 30 days, the organisation is under obligation to provide that. In the simplification of cash assistance, I have the right if I give an application today, to get it in the afternoon or tomorrow morning across the table. My own feeling is that the motivation within the organisation is also a very important factor here and the motivation has to be, by means of providing better promotional and other opportunities within the system, which I must admit, has not been given sufficient attention in the past..... It is high time that we saw how the systems could be streamlined and made comparable to those in some of the good organisations in India. This is also something which is receiving our attention."

Internal Audit Organisation

9. The Committee desired to have details of internal audit organisation in the office of the Chief Controller of Imports and Exports. In reply, the CCI&E stated:

"We do not have an internal audit organisation."

10. Explaining the position, the Financial Adviser in the Ministry of Commerce stated:

"In the Ministry there is an internal audit system. But so far as the organisation of the Chief Controller of Imports and Exports is concerned, disbursements of cash compensatory support are not subjected to the internal audit. There are two categories of disbursements. In the case of normal system of disbursements, that is, non S.P. system, the first scrutiny is made by the Licensing Unit and the second scrutiny is made by the verification unit before payment. Now, verification unit is also part of the CCI&E organisation although it is manned by qualified and experienced officers drawn from audit and accounts department. But it is a part of the CCI&E, it is not an outside agency. So far as the simplified system is concerned, again it is this very unit which verifies the correction of facts on test check basis after the payment has been made and the test check various between 10 to 100 per cent, depending on the amount of the claims. I am told that the verification unit is conducting cent per cent check in the case of non-simplified procedure and a percentage test check is done, say between 10 and 100 per cent in the case of payments under simplified procedure. The verification unit is manned by professional people, but no other internal audit from the Ministry's side as such has been super-imposed. The factual position is that these transactions have not been subjected to internal audit."

11. In reply to a question, the witness stated:

"It is not that this aspect was totally lost sight of. It was considered, but because of the existence of the verification unit, and secondly because we were not equipped with the requisite staff on the internal audit side, that was not done. It is not that it was not deliberately done, but the fact is that it has not been done so far."

12. The Committee enquired if it would be possible to set up an internal audit organisation for the office of CCI&E within an annual expenditure of Rs. 25 lakhs, the financial Adviser stated:

"I think it should be less than that. We shall have to make an assessment considering the number of transactions and the amount involved in each transaction."

13. The Committee enquired about the outcome of the scrutiny of the records as a result of internal audit conducted by an audit party. In reply, the Financial Adviser stated before the Committee:

"We deputed one internal audit party. They have done test check for one month. The report related to Madras. The period was October.....The amount of inadmissible payments for the months of October 1981 works out to Rs. 86244/- . Taking into account the over-payment for the period prior to October 1981 in respect of the item referred to earlier the total amount works out to Rs. 3,58,693."

14. In a subsequent note* furnished to the Committee, the Ministry of Commerce have stated:

"In addition to the strengthening of the verification units attached to the Port Offices of the CCI&E's organisation, the Ministry also recognises the need for an independent agency, which will be external to CCI&E's organisation, for test auditing these payments on a percentage basis. Such an audit by an agency independent of CCI&E's office will not only serve as a moral check but also ensure that the internal check by verification unit is adequate and effective. During internal audit it will have to be ensured that it covers all disbursing centres and that a reasonable percentage of payments in respect of all product groups come under check. The internal audit of the Office of the Joint Chief Controller of Imports and Exports, Madras, undertaken in November—December 1981 was able to bring out erroneous payments and irregularities involving Rs. 3.6 lakhs relating to the period April 1981-October 1981. The party (consisting of 3 officers, supervised by a

*Not vetted in audit.

Dy. Controller of Accounts) was deployed for about a fortnight (involving 66 man days). This pilot study has served as an indicator to the necessity for intensifying such internal audit inspection on a more pervasive basis. It is now proposed to constitute internal audit parties for regular test check in the various port offices. These parties will conduct internal test audit of CCS payments made from these offices to the extent of the percentages to be prescribed. This internal audit agency will be independent of the administrative control of the CCI&E and will function under the direction and control of the Financial Adviser of the Ministry.

The proposal as outlined above will be processed for obtaining approval as per the prescribed procedure."

Steps to provide computerised service

15. The Committee desired to know if any steps had been taken for providing computerised service in the organisation of CCI&E. In reply, the Chief Controller of Imports and Exports stated:

"We are working in that direction, although we have not yet introduced it. We are working on certain improvements. We have made some studies in the Bombay office which handles almost half of the total work. We have got a proposal worked out. This we have got to finalise. This is regarding our localised computerised system of information, data-collecting, processing, data retrieval, deciding what sort of functions these computer systems can provide and so on. The emphasis is how it can speed up disposal and also be helpful in helping us to get a much better hold over individual matters. Government has set up a National Information Centre. This provides a wide range of computerised service to various departments after working out each individual department's requirements. We have one sub-group or committee at the Centre which relates to export and import. Our Export Commissioner has been nominated as Member of this Committee. I have been putting pressure on NIC to see to it that such a programme is worked out in this organisation. Of course various steps are needed to be taken before introducing it. I am sure, we will be able to work upon all these ideas in course of time, but it will take some time."

B. Non-realisation of cash compensatory support and Non-enforcement of export obligations

Audit Paragraph

16. Non-realisation of cash compensatory support

Under the scheme of cash compensatory support, payments are made subject to the condition that the export proceeds are realised in foreign exchange and brought to India. The scheme provides for prompt review of cases of default in this regard and recovery of the payment of cash compensatory support and other benefits paid to the exporters in such cases. The Manual of Cash Assistance Instructions, 1973 provides that the RBI shall send consolidated statements to the concerned licensing authorities, showing particulars of cases where foreign exchange has not been realised against the export. The position of defaults as on 31st December 1978, on the part of exporters as intimated (March-May 1980) by the RBI to the JCCIE is given below:

Year	No. of items	Amount of foreign exchange not realised and brought to India (In lakhs of rupees)
Prior to 1969	30	5.24
1969-70	48	9.17
1970-71	64	6.42
1971-72	91	17.13
1972-73	66	8.65
1973-74	116	18.63
1974-75	139	32.73
1975-76	140	37.58
1976-77	276	65.16
1977-78	325	107.36
1978-79 (till December 1978)	136	57.88
	1431	365.95

17. The exact amount of cash compensatory support recoverable from the defaulters in these cases could not be ascertained (October 1980) from the records of the JCCIE.

18. The department stated (October 1980) that action for recovery was in progress, but that the procedure prescribed was a lengthy one involving considerable time and efforts. However, had action been taken regularly from time to time, recovery of cash compensatory support paid in these cases would have been made.

19. **Non-enforcement of export obligations**—Licences for the import of capital goods are issued for the manufacture of items covered by the Industries (Development and Regulation) Act, 1951. The grant of such licences is subject to export conditions as may be decided in each case requiring the licensee to export goods of a specified description and value/quantity within a specified time-limit and subject to such other conditions as may be prescribed. Similarly, advance licences for import of raw material are issued subject to certain export obligation. On the failure of the licensees to fulfil their export obligations, penalties equal to the amount of the bonds/agreements are required to be recovered from the defaulters. A few cases of defaults are mentioned at Appendix-II.

20. The above mentioned audit paragraphs reveal:

- (i) The cases of defaults as on 31st December, 1978 on the part of the exporters, showed that a sum of Rs. 365.95 lakhs on account of foreign exchange had not been realised and brought to India and no action for recovery of cash compensatory support from the defaulters had been taken.
- (ii) Advance licences were issued to the exporters subject to certain export obligations, but a test-check in audit showed that action had not been taken against six defaulting exporters for their failure to fulfil export obligations nor had any responsibility been fixed in any case. Five cases of non-recovery of penalties (amount Rs. 17.85 lakhs) and 1 case of non-acceptance of legal agreement and non-fixing of penalty (case of firm 'K') due to the failure of the licensees to fulfil their export obligations are mentioned at Appendix II.

[Paragraph 3 (sub-paras 4 and 5 of the Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil)].

Cash assistance for exports

21. The scheme of grant of cash compensatory support on exports of specific non-traditional products to make Indian goods competitive in the international markets has been in operation since 1966. This form of assistance is given primarily with a view to compensating the exporter for the unrefunded taxes and levies which he has paid on the export goods and on the inputs going into the manufacture of the goods. The extent of support available on product to product basis, does not normally go beyond 25 per cent of the "value added" which is the amount arrived at by deducting the value of the import content from the f.o.b. realisation.

22. At present cash compensatory support is available on items covered under the following product groups:

- (i) Engineering goods
- (ii) Chemicals and allied products
- (iii) Plastics goods
- (iv) Processed foods
- (v) Leather and leather goods
- (vi) Silk goods, rayon and synthetic textiles
- (vii) Handicrafts, including woollen carpets
- (viii) Coir products
- (ix) Agricultural products
- (x) Woollen mixed items
- (xi) Cotton textiles
- (xii) Jute goods
- (xiii) Sports goods.

23. In order to enable the licensing authorities to maintain watch on the realisation of the proceeds of the exports in respect of which replenishment licences or cash assistance has been claimed, it has been prescribed by the Reserve Bank of India, Exchange Control Department, *vide* their Circular letters Nos. 30 and EC. Co. 42/X-3260-67 dated the 20th September, 1967 that the authorised dealers should indicate in their quarterly statement of outstanding export bills sent to the Reserve Bank of India, the items in respect of which they had earlier furnished a Bank Certificate to the licensing authority by placing an asterisk against the particular items and

giving an explanatory footnote. On the basis thereof, the RBI will compile a consolidating statement, indicating the names and addresses of such defaulters and send the same to the CCI&E, New Delhi for purpose of taking further action against them. These statements will be received by the Deputy Chief Controller in charge of Enforcement Division. Similarly, the Customs authorities may intimate particulars of exported goods that were returned.

24. On receipt of said statement from the RBI, or intimation from the Customs authorities about return of goods, which may be some time after the issue of the replenishment licence and/or cash assistance, the licensing authorities should follow the procedure indicated below:

- (i) The enforcement Division at the Headquarters will circulate the information to all the licensing authorities concerned.
- (ii) If a licensing authority receives any particulars of a case regarding return of goods exported, from the Customs which fall within the jurisdiction of another licensing authority, he should pass on the particulars to the concerned authority.
- (iii) As soon as it is detected that exported goods have been returned or the foreign exchange on sale proceeds of the exported goods has not been realised within the stipulated time limit, the licensing authority will send a letter to the applicant enquiring about the import licences/cash assistance which might have been obtained on the basis of the said exports.
- (iv) If, in the reply to the letter, referred at (iii) above it is revealed that the applicant has received import licences and/or cash assistance, and the goods on the basis of which these benefits have been taken, have been returned by the consignee, the licensing authority will keep a note so as to make adjustment of the value of the licences against the future import entitlements due to the party. In the case of cash assistance, the applicant shall be asked to repay the amount immediately. Apart from making a demand on the applicant to repay the amount immediately the licensing authority should also keep a note so that if, in the meanwhile, the applicant makes any further application for cash assistance on the basis of his subsequent exports, the amount of cash assistance already paid can be adjusted.

- (v) In the case of goods for which export proceeds are not realised within the stipulated period, the licensing authority will, after issue of the letter referred to in subparagraph (iii) if the party claims that the RBI has allowed further time for realising the sale proceeds, verify this from the RBI. If no further time has been allowed, the licensing authority will proceed to adjust/recover the amounts as in (iv) above. However, if the time has been extended, the licensing authority will wait till the expiry of such time. If the foreign exchange has not been realised, necessary action towards adjustment/recovery of the amount will be initiated as in (iv) above.
- (vi) Apart from adjustment/recovery of the amount, the question of penal action will also be considered by the licensing authority concerned. The need for taking penal action will depend on whether the applicant has committed a breach of Import Trade Control Regulation or Foreign Exchange Regulation. There would be a breach of the Import Trade Control regulations if in obtaining the import licence, the applicant has made any misdeclaration or misrepresentation in regard to the exports in question. If there is no such mis-statement/mis-declaration, no action will be possible straightway under the Import (Control) Order. In that event action can be taken only on grounds of violation of the foreign exchange regulations, in which case the action under the Import (Control) Order is only consequential and will depend on the action to be taken first by the RBI. Therefore, in such cases, the licensing authority will first write to the RBI to find out the final action taken by them against the party concerned.
- (vii) On receipt of a reply from the RBI, it will have to be decided whether any consequential penal action under the Imports (Control) Order should or should not be taken. On this question, a reference should be made by the licensing authority to the Headquarters (by name to the Deputy Chief controller incharge of enforcement Division) for advice. In every case, the Headquarters will keep in view the gravity of offence to decide whether action under the Imports (Control) Order is necessary in addition to the penal action taken by the Reserve Bank.

25. A monthly report about the disposal of items mentioned in these Reports will be put up to the Joint Chief Controller (Enforcement Division). Cases of interest will also be shown to the Chief Controller.

It has been stated by the Ministry of Commerce in a note *furnished to the Committee:

"Under the Scheme of Cash Compensatory Support, the annual disbursements during the three years 1979-80 to 1981-82 ranged between Rs. 341.66 crores and Rs. 451 crores as shown below:

	Rs. crore
1979-80	341.66
1980-81	374.56
1981-82 (R.E.)	451.00

The payments on account of CCS are made under two schemes—(i) the normal scheme and (ii) the simplified payment scheme (S.P.S.). Nearly 50 per cent of the payments are on S.P. system. Under the normal system, exporters submit applications covering all shipments made during the preceding quarter and these are paid only after scrutiny by the licensing staff followed by pre-check by the verification units attached to the Licensing Offices. In the major licensing offices, the verification unit is manned by staff drawn from Indian Audit Department. In the case of SPS payments are made on the same day of submission of claims. The claims are subjected to scrutiny by the Licensing Staff. Such claims are, however, required to be checked by the verification units after the payments are made. This is referred to as post-payment verification. Adjustments and recoveries to be made consequent on the post-check, are effected from the subsequent claims of the exporters; otherwise arrangements are made to effect recoveries in cash."

26. The Public Accounts Committee have from time to time examined the scheme of cash compensatory support and submitted

*Not vetted in Audit.

reports to Parliament. In particular, reference may be made to the following reports:

- (i) 174th Report (1975-76) (Fifth Lok Sabha) on cash assistance for export of walnuts.
- (ii) 178th Report (1975-76) (Fifth Lok Sabha) on cash assistance for export of man-made fabrics.
- (iii) 10th Report (1977-78) (Sixth Lok Sabha) on cash assistance for export of engineering goods.
- (iv) 17th Report (1977-78) (Sixth Lok Sabha) on cash assistance for export of bicycles and bicycle components.
- (v) 108th Report (1978-79) (Sixth Lok Sabha) on cash assistance for export of absorbent cotton.
- (vi) 129th Report (1978-79) (Sixth Lok Sabha) on cash assistance for export of transmission line towers.
- (vii) 39th Report (1980-81) (Seventh Lok Sabha) on cash assistance for export of deoiled rice bran.

27. In para 1.49 of their 174th Report (1975-76) relating to cash assistance for export of walnuts, the Committee had made the following observations:

"The basic defect in the system of granting cash assistance seems to be that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion, so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. Consequently, the assistance given from time to time has had little or no relevance to the realities of the situation at a given point of time and more often than not, such assistance proved to have been not only a drag on the exchequer but in the result infructuous."

28. In Para 1.120 of their 10th Report (1977-78) relating to cash assistance for export of engineering goods, the Committee had observed:

"While they are not unwilling to concede the necessity for boosting the country's exports through the instrumentality of cash assistance and allied incentives for export promotion, particularly in the context of the dumping

and pricing out tactics adopted by India's competitors in international trade and commerce, what they would like to emphasise is that a more discriminating administration of various export Promotion schemes should be possible and also practicable.....As a first step in this direction Government would do well to attempt a quantification, in monetary terms of the various concessions given in the past

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

29. In para 1.123 of their 10th Report (1977-78), the Committee had further observed:

"....An almost exclusive reliance had to be placed on the data furnished by the Export Promotion Council, which is comprised of the interested exporters and industrialists themselves and it was admitted by the Chairman of the Engineering Goods Export Promotion Council himself that there was also no machinery at the disposal of the Council to check the veracity of the data relating to cost of production furnished by the exporters for this purpose. Besides, the representative of the Finance Ministry also admitted that the data furnished in this regard by the Council was examined only "wherever possible" and that the weakest link in the scheme was the determination of f.o.b. realisation."

30. In Para 1.6 of their 77th Report (1981-82) on action taken on the 39th Report (1980-81) relating to cash assistance for export of deoiled rice bran, the Committee have observed:

"The Committee fail to understand as to how the grant of cash assistance on the export of a commodity could be justified if the export of that commodity results in substantial profit even without cash assistance. Since the profitability of the exports of a commodity can only be determined by carrying out cost study, the Committee are of the view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or renewing the cash assistance on any commodity and particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying this facility for a number of years."

31. The Committee desired to know if any evaluation of the cash compensatory support scheme has been conducted to find out how far the scheme has been successful in promoting exports and earning more foreign exchange. In reply, the Financial Adviser in the Ministry of Commerce stated during evidence:

"As far as the general scheme of the cash compensatory support is concerned, the scheme as it exists today, is based on decisions which were taken about three years ago and the parameters were defined. Based on these parameters, criteria and the norms, the present scheme is effective from 1-4-1979 to 31-3-1982. Now, the question of continuance of the present scheme in its present or modified form, is separately being considered by the Ministry of Commerce. In fact, it is in an advanced stage of consideration and a final view is going to be taken in the coming weeks. Some changes are proposed to be brought out. Since no final decision has been taken and as interministerial consultation is involved, for the time being, I am not able to give my opinion on that point."

32. Secretary, Ministry of Commerce stated before the Committee:

"Cash assistance scheme is to be viewed in the overall framework of exports. There are certain countries like Singapore, Hong-Kong, Sri Lanka etc. where they have given so many concessions for exports in terms of tax holidays, duty free, assistance of foreign exchange, etc. etc. that they are perhaps much better off than us. The concept of cash compensation is that it neutralises some of the burdens which are imposed on production activity in our country. This is being done by different countries in different ways and this is one case in which nobody confesses what they are doing. But there is no subsidy involved in cash compensation nor any extra-payment. It is to make our goods competitive in the international market."

33. Asked about the overall impact of the scheme, the representative of the Ministry of Finance stated:

"One part is the rupee support he gets. To that extent it is neutralising whatever rupee extra cost that he has to bear because of the indirect taxes etc. The idea is to put him at par, no more and no less. This has been our argument in many bilateral discussions."

34. Asked about the other incentives given to exporters, Commerce Secretary stated:

"We are of late giving the exporters a lot of support by permitting them to get technology and equipment. Usually, insurance guarantees are also provided so that they are able to go and compete better. Banking arrangements are being developed so that it becomes easier for them to contact the sales and obtain proceeds. Trade authorities are also giving them facilities to build up marketing image so that their marketing work is not hampered. There are a number of other promotional measures, a number of incentives and concessions which have been provided to support products which are meant for exports."

35. Asked if it was not a fact that in many countries, Indian goods were being sold not under India brand names, but under foreign brand names, Commerce Secretary replied:

"I would entirely go with you that these are the very impediments which we have to meet and provide an answer to them. In tea we have started using our brand name. Similarly, sports goods we are wanting to us 'Ashoka' as the brand name. We want to bring our tennis rackets and other sports goods under one name. Today our rivals are maligning us. They are trying their level best to bring discredit to us by bringing some bad quality goods of ours and projecting them out of proportion. We have to meet the challenge and come out successfully."

36. The Committee desired to know how far the grant of cash compensatory support resulted in increase in exports of these commodities. In reply, Commerce Secretary stated:

"No analytical or scientific study has been made in this regard, but certain reviews have been made which have been reflected in some of the reports submitted to the Ministry. According to the Alexander Committee report, in areas where cash compensation has been paid, the rise in export is of the order of 25 per cent and in the non-compensatory areas, it has been only 15 per cent. Simultaneously, we are submitting the whole thing to our constant review. Once we see that a certain product is able to cross the various hurdles, we simultaneously reduce the burden of cash compensation."

37. When asked if any cost study has been done with regard to any area or product, the Commerce Secretary replied:

"Perhaps we have not done any cost study in its entire detail, but we are making a constant review."

38. The Committee wanted to know how the rate of cash assistance was being determined without any cost studies. In reply, the witness stated:

"The procedure is like this. The Export Promotion Council takes up a certain product for which there is an export market. That particular Council gives us a certain basic data about the factors of production, taxes etc. and the final cost of that product and then compare it with a like product in some of the countries. Finally, they give us a figure and indicate as to how these excesses have got into it and escalated its price. They submit that if for instance 5 per cent is taken out, it will make that product competitive. We then compare it with the f.o.b. price and finally decide as to what should be the correct rate of percentage of cash compensation. I would, however, not say that we submit all this to a full test."

39. Asked if it was not possible to have some foolproof inbuilt system in the taxation structure itself instead of grant of cash assistance, the Commerce Secretary stated:

"We will look into that. But changing the system is not that easy. We are working on two fronts. While we try to change the system to meet the requirements of exports, we at the same time have to have short-term arrangements. But I agree that the final answer is not in adhoc arrangement."

40. In a subsequent note* furnished to the Committee, the Ministry of Commerce have outlined the following procedure for determining the rate of cash compensatory support:

"For fixing the rates of cash compensatory support on various items under different product groups, data in the prescribed proforma, which has been devised keeping in view prescribed criteria for determination of rates of cash compensatory support, is collected by the concerned Export Promotion Councils from some of the major units exporting

*Not vetted in Audit.

the item on which cash compensatory support is proposed to be fixed. The data so collected by the Councils, is sent to the commodity divisions concerned in the Ministry of Commerce alongwith the recommendations of the Export Promotion Councils. The data received is subjected to scrutiny by the commodity divisions and the proposals, alongwith the recommendations of commodity divisions, are then placed before an interministerial committee under the Chairmanship of Addl. Secretary, Ministry of Commerce, with representatives from Deptt. of Expenditure, Drawback Directorate, Deptt. of Economic Affairs etc. This committee considers the proposals and makes recommendations regarding rates of cash compensatory support on various items.

Rates of cash compensatory support on items which are to be brought within the purview of cash compensatory support scheme for the first time, are approved by the MDA Main Committee, on the basis of recommendations of the Cash Assistance Review Committee. The Main MDA Committee comprises Secretary (Commerce), Secretary (Expenditure) and Secretary (Economic Affairs).

It would, thus, be seen that rates of cash compensatory support are discussed and decided by the Cash Assistance Review Committee under the Ministry of Commerce and not at the sittings of Export Promotion Councils."

41. At the instance of the Committee, the Ministry have furnished the following note* stating the present position of cash assistance recoverable from the defaulters since the introduction of the cash compensatory support scheme:

"Out of the total overpayments of Rs. 555.96 lakhs detected so far an amount of Rs. 393.95 lakhs have been recovered leaving a balance of Rs. 162.01 lakhs to be recovered. The main reasons for non-recovery of balance amount is due to the fact that either the parties had preferred appeals against the decision of recovery of overpayments by the licensing authorities or had filed suit in the Court of Law against such recovery.

This does not include the information of Kanpur, CLA, (New Delhi) and Calcutta."

42. Explaining the position regarding non-recovery of cash assistance where the Reserve Bank of India had reported non-realisation of foreign exchange against assisted exports, the Ministry of Commerce (Department of Commerce) have stated:*

"The system of payment of CCS since June, 1986 has been that payments are made after the proof of export having actually taken place is produced. The policy does not provide that the exporter should realise export proceeds before payment is made.

The statements furnished by the RBI are not exclusively of defaulters in respect of assisted exports. The entries in these statements are more of defaults in non-assisted exports. It is a time consuming process to separate entries pertaining to assisted exports and then to verify whether the defaulters had, in fact, obtained cash compensatory support against the alleged exports and, if so, when.

Besides, the defaults mentioned by the RBI may not be those in which the Directorate of Enforcement had passed final orders against the exporters concerned under the Foreign Exchange Regulations Act. Looking to these limitations, the matter was placed before the Inter-Ministerial Working Group on Import Policy for 1979-80. The Working Group recommended that the best benefits in public interests would be derived by which the Directorate of Enforcement has passed a final order against the Indian Exporter under the Foreign Exchange Regulations Act. This was agreed to particularly by the RBI and the Department of E.A. Therefore, the question of licensing authorities taking action will arise only in such cases where a final order has been passed by the Enforcement Directorate."

43. The Committee desired to know whether any records were maintained to correlate cash compensatory support given and foreign exchange realised. The Ministry of Commerce have stated:

"No records are maintained in CCI&E's Office to correlate cash compensatory support paid and foreign exchange realised.

Watching of realisation of foreign exchange against exports is primarily the function of Reserve Bank of India. The

*Not vetted in Audit.

limited action in regard to recovery of cash assistance where foreign exchange has not been realised against exports which the licensing authorities should take on the basis of RBI's Statement is indicated below:

As soon as it is detected that exported goods have been returned or the foreign exchange on sale proceeds of the exported goods, has not been realised, within the stipulated time limit, the licensing authority will send a letter to the applicant enquiring about the cash assistance which might have been obtained on the basis of the said exports. If in the reply to the letter it is revealed that the applicant has received cash assistance and the goods on the basis of which those benefits have been taken have been returned by the consignee, the licensing authority will ask the applicant to repay the amount immediately. The licensing authority should also keep a note so that if in the meanwhile the applicant makes any further application for cash assistance on the basis of his subsequent exports, the amount of cash assistance already paid can be adjusted."

44. Giving their comments on five cases, referred to in the audit paragraph, of non-recovery of penalties (amount Rs. 17.85 lakhs) and one case of non-acceptance of legal agreement and non-fixing of penalty (case of firm 'K') due to failure of the licensees to fulfil their export obligations, the Ministry of Commerce have stated:*

"Out of the 5 cases, 3 cases have been referred by JC, CLA to CCI&E's office for necessary advice. Out of these, in two cases CCI&E's office has referred the matter to the Department of Industrial Development for their clarification in regard to the amendment of the export obligation, and in the 3rd case, instructions have been issued for extension of the period of export obligation for six months, which is still to expire.

One case has been referred to the Enforcement Division of the JCCI&E, CLA's office for investigation under the Imports & Exports Control Act.

In one case, the party had stated that they have fulfilled the export obligation and have submitted the relevant export documents for verification.

*Not vetted in Audit

In view of the position explained above, the question of taking action for delays/failures, if any, will be examined after the cases have been finalised.

The relevant case file relating to case of firm 'K' has been referred to the Department of Industrial Development for their clarification in regard to amendments in the Export Obligation condition. Its return is still awaited from that Department. Hence, the question of any penal action does not arise at this stage."

45. Expressing views on the scheme of cash compensatory support the Secretary, Ministry of Commerce (Dept. of Commerce) stated during evidence:

"When we allow all the facilities to an exporter, it is our duty to collect the foreign exchange from him. But the system between the Reserve Bank of India and ourselves was so complicated that from the list that they used to give it was difficult to find out which were the cases which really were connected with the cash assistance account. Thanks to the directions which we received from you in October, we took up the matter with the RBI and suggested streamlining the procedure to them so that we may be able to know whether those who were receiving cash compensation were getting back the export earnings or not. Now we have reached an agreement with them where the RBI agreed to issue instructions to the banks saying that in all cases where they have issued certificates for cash assistance receipts of their foreign exchange earnings should be specifically intimated to RBI who in turn will transmit this information to us. Information relating to the defaults would thus become evident. Earlier I had submitted before the Committee that we did not have specific procedures assisting us in this particular regard. But now with this particular change in procedure, I am sure, we will be able to ensure that the receipts are improved and we will be able to follow the track of those who have taken assistance from us but failed to bring in export earning."

46. The Committee enquired if there was no requirement on the part of the party getting the cash compensatory support to submit within a reasonable time, details of the foreign exchange amounts realised. In reply, the Chief Controller of Imports & Exports stated:

"At present, there is no such requirement."

47. When asked if it was not desirable to introduce such a requirement, the witness replied:

"We wanted to actually introduce a form where the upper portions can be torn off after filling these particulars. When we issue the cash assistance certificate, this form also will be there. The party will have to return the torn off portion when he realises the foreign exchange allocation."

48. The Committee enquired about the role played by the Reserve Bank of India in the cash compensatory support scheme. The Exchange Controller, Reserve Bank of India, Bombay, stated:

"Under the cash assistance scheme, there is actually an arrangement that wherever the banks have given a certificate to the exporters for the purpose of claiming the amount from the CCIE's office, i.e. cash compensatory certificate is given, then in the statement showing the outstanding export realisation, which is sent for that quarter, it is indicated by an asterisk, against a particular party that such a cash compensatory certificate has been given to him. Once in a year we compile a statement where the exports have not been realised within the six month's period, as per the statement and where cash compensatory certificate has been given to the various dealers and forwarded to the concerned JCCIE's office. The Reserve Bank has only the minimum linkage between the authorised dealer and the CCIE's office because the authorised dealer is giving a certificate to the exporter for having taken a bill for collection or negotiation so that on the basis of that certificate he goes to the CCI's office to claim compensation. If, however, after six months' period that amount is not realised he puts an asterisk against that particular name and sends it to the Reserve Bank. We in the Reserve Bank receive the statements furnished by all the authorised dealers and we compile a statement. Otherwise we have no responsibility directly, whatsoever in watching whether that compensation has been claimed properly; and we will not be aware of it."

49. The Committee pointed out that according to the existing procedure, the Reserve Bank is bound to intimate to the Ministry of Commerce where the certificates had been issued to the various

exporters and where the foreign exchange had not been realised. The representative of the Reserve Bank of India stated:

"We are furnishing it to the Commerce Ministry. But I cannot say how much of old data has been preserved. Whatever date is available can be furnished. But the 1980 data will be a cumulative one; it will show the outstanding at the level of the branch of the bank concerned. Even the CCIE's office 1980 data will be able to show the outstanding export realisation, for which cash compensation has been given, or for which cash compensation has been claimed, in respect of the previous years also."

50. The witness further stated:

"For the year 1980, in respect of about 1800 cases of consignments which has gone out of the country, foreign exchange has not been realised and cash compensation was paid. That means in respect of about 1800 consignments in the year 1980 export proceeds have not been given by them as per the certificate issued by the various dealers."

51. When asked about the amount of foreign exchange involved in these 1800 cases, the witness replied:

"Roughly Rs. 10 crores of the export value."

The witness further clarified:

"They are outstanding. They are being processed still. The banks have been taking steps to realise it. They have not been realised and it is delayed."

52. The Committee wanted to have the comments of the Chief Controller of Imports and Exports about the 1980 return and enquired whether they had received the details of 1800 cases where foreign exchange worth about Rs. 10 crores had not been realised and where cash assistance had been paid. The Chief Controller of Imports and Exports said:

"This statement has now been compiled by them as an abstract statement, taking into account all the individual statements which they may have. This was done in pursuance of our appearance before the Committee earlier. At that time our point was that since so many statements are coming, we are not able to make out which are the cases which we have to pursue. Now they have done the collation of the data. The names of the parties are yet to be given to us. The moment they are able to give the names, we will in turn ask our regional offices to pursue the individual cases concerned."

53. In reply to a question, the witness stated:—

"There are many items of export which do not pass through our organisation. They are freely exported. About them CCIE is not kept informed, nor need be kept informed. They are items like tea, coffee and so on. About two-thirds of the exports are outside the cash compensatory support system. Now the RBI have taken up 1,800 cases where CCS has been paid but foreign exchange has not been realised."

54. In reply to another question, the Chief Controller of Imports and Exports stated:

"The point made last time was that all the statements are not received regularly in some of the regional offices, because it was the responsibility of the foreign exchange dealer to send the statement, and sometimes that responsibility was not discharged. We also admitted that our own officers were not able to keep track of every statement and every case. In order to get over the problem and to have the total picture of the outstanding and non-realisation of foreign exchange, we have got this particular statement from the Reserve Bank. We will have to follow it up. In the future we will have to change the system so that it will more or less get done automatically, by something done on our part and matches by the RBI statement."

The total number of cases in the last few years, in which CCS has been paid but foreign exchange has not been realised, is stated to be 1,800 covering a total of Rs. 10

crores. Certainly, this needs to be attended to and recovered. But we are dealing with claims which number 2 to 3 lakhs and, by and large, some get covered by Letter of Credit arrangement. There is no difficulty in most of the cases. A general review shows that realisation is coming in most of the cases."

55. In reply to a question, the witness admitted that they were not in a position to state categorically before the Committee the numbers and names of parties which availed of cash assistance but failed to realise foreign exchange.

56. The Committee asked whether the Reserve Bank of India was sending consolidated statements to the licensing authorities showing particular cases where foreign exchange had not been realised against exports. The representative of the Reserve Bank of India stated:

"Dealer is only giving a certificate. If I understand correctly, when a particular commodity is said to be eligible for cash compensation and the exports have taken place, he gives a certificate to the effect that the particular export has taken place. In that context we are not actually concerned, but what subsequently the authorised dealer reports is that he has given certificate. At the end of December each year, from the statements which were received from all the 3000 branches we cull out the particulars of all these exporters whose exports have not been repatriated within 180 days and where cash compensation certificate is given. We do not know how much amount is given. We only know that the bank has given a certificate to the authority that he has lodged the document. This information is being passed on to the JCCI's office. But the delay upto 6 months may be there. Otherwise these are promptly being sent to the JCCI's office."

57. The Committee enquired if in order to ensure that foreign exchange had been realised against cash compensatory support given to exporters, it would be feasible for the Government to direct banks to furnish certificates indicating the realisation of foreign exchange to dealers who in turn might be asked to produce the requisite certificates to the Office of the JCCI&E. The representative of the Ministry of Finance (Dept. of Economic Affairs) replied:

"I think that the suggestion made by the Chairman is valid, and, in fact, some thought has been given already on

these very lines. All that remains to be done is to ask the various dealers to report this to the CCI direct. Subject to some administrative difficulties in terms of following this up in the CCI Office it is possible that various dealers will be reporting in very large numbers through their CCI Office.

Some measure of administrative tie-up has to be done so that immediately the cash compensatory support is given, it is linked up and I guess that cash support will not be given till such time export realisation is made. At present, I believe, the cash compensation support is given on the evidence of the export itself, not on the basis of export realisation. There is a time-lag, about 180 days, in normal cases."

58. The Additional Secretary and Financial Adviser of the Ministry of Commerce stated:

"To me this idea definitely sounds valid and, at the same time practicable. The only difficulty perhaps my colleagues had in mind was that there would be delay in producing such a certificate to the effect that foreign exchange has been brought in. In that case that would delay the next payment of cash assistance. My own feeling is that we could follow the advice which you have given. Beyond the stipulated period of 180 days or the extended period the burden of proof should be on him, that is the exporter, and if he is not able to satisfy or discharge that particular burden of proof, then, certainly we should not give him the next compensation which he asks for. But, I would humbly submit that since the idea is mooted for the first time, please permit us to see if there are any difficulties in it, which could also be resolved and procedure streamlined. I do not mean to say that we should not study it. But we should try to see if there are difficulties and how we could streamline this procedure. I, for one, would say that we would certainly examine this particular matter. It has lot of merits."

59. The witness further stated:—

"The second point is that if the period is 180 days within which the exporter is required to satisfy us in regard to the realisation of foreign exchange, here an inbuilt

system could be introduced that when he claims cash compensatory support after a period of 180 days or a little period which could be defined, then, while putting in that claim, there could be a column in his application wherein he could state in the application or in the form of a statement to be enclosed with the application—that in respect of the claims for the period prior to such and such the foreign exchange has actually been realised and he gives supporting evidence. Now, if this insistence is done in respect of applications where the period is more than 180 days or one year, as the case may be, no hardship will also be caused to the exporter because he cannot say that the claims on account of his payment are being delayed. We are required to make prompt payment in respect of his claims. How do we do that? We would be insisting on this condition only in those cases where he has to satisfy us in regard to realisation of foreign exchange and that too beyond a period of six months or 12 months. This suggestion looks feasible in principle. All that we have to do is to work out the practical part of it in the claim which he puts in, after a specified date."

60. The Committee desired to know whether the JCCI&E took any penal action against any offender. The Chief Controller of Imports and Exports stated:

"Under the foreign exchange regulations, very much so but not under the Import Trade Control Act because offences related to cash assistance are not covered by the Import Trade Control Act; only offences relating to actual import or export of commodities are covered under that. Cash assistance payments are outside the purview of the ITC Act. The ITC Act has been in force, with amendments, ever since 1947. The scheme of cash assistance first came into being in the year 1966 with major changes made in 1978 and 1979. As of now, offences under cash assistance are not offences under the ITC Act although, wherever there is an over-payment, we do proceed to recover it. We have a running account of the exporters and we are able to recover or we direct him to effect the payment into the account. All that is being done but, so far, I must say, it has not been treated as an offence under the ITC Act. Wherever there is an offence made

out, a serious offence or even an offence which shows that there was malafide on his part, we do de-register the exporter which will prevent him from claiming further benefits either in the form of licence or in the form of cash assistance."

61. The Ministry of Commerce have supplied to the Committee a list of 532 firms which were debarred during the year 1980-81 under section 5 of the Imports and Exports (Control) Act, 1947 from getting import licences. The Committee wanted to know how it is ensured that those very firms did not later get themselves registered under other names. The Chief Controller of Imports and Exports replied:

"For getting export benefits he has to apply for registration in a particular form. In that form all the details have been given. First of all he has to be a member of the Export Promotion Council. Exporters who are members of the Export Promotion Council concerned and having a past export performance and a good record and experience are eligible for registration. An applicant having no previous experience of export in a particular line because he may be a new entrant may also be registered if the registering authority is satisfied about the general commercial background of the applicant, his industrial experience, his export performance in other lines, etc. There are certain conditions subject to which the registration certificate can also get issued. The registration is done with the Export Promotion Council dealing with the commodity concerned and if the party has indulged in any offence he is deregistered and if he is deregistered then he is not eligible to make any claim on us, because with every application for CA or REP licence he has also to enclose a copy of the upto date certificate showing his registration-cum-membership."

62. Asked whether the names of firms deregistered were brought to the notice of the concerned Export Promotion Council, the witness replied:

"Once an exporter is deregistered in this manner, his name and particulars are supplied to the Export Promotion Council concerned and the licensing authorities all over India so that they will have a list with them and may know which are the parties that have been deregistered

at a given time and they will make a verification and see that he is not given any benefit by mistake."

63. Asked about the conditions for deregistration, the witness stated:

"The competent authority may deregister an exporter for a specified or an indefinite period for one or more export products where the exporter (a) has ceased to have the qualifications required for registration or the conditions of registrations have been violated, or (b) has indulged in any form in unfair, corrupt and fraudulent practices or has failed to fulfil any export obligation, or (c) has failed or, being a partnership, any of its partners has failed or being a limited company the wholetime Director or the Managing Director has failed to utilise subsequently any quota allotted for export earlier and the exporter will ordinarily be given a show-cause notice before he is deregistered."

64. The Committee pointed out that there would be a time lag between the period when a default comes to notice and the date of passing debarment orders against a firm. Asked how such cases are dealt with in the intervening period, the witness replied:

"There is a procedure whereby until the final order is passed the firm can be kept in abeyance during that period until the debarment order is communicated to the party concerned. Unless and until the case is over, the abeyance order is kept secret within the organisation. He is not to be given any of the benefits till such time as a decision is taken in that case."

65. At the instance of the Committee, the Ministry of Commerce have furnished the following information regarding prosecutions launched etc. by the CCI&E's Organisation during the last five years under Section 5 of the Imports (Control) Act, 1947:

1. (i) Number of cases where prosecutions have been launched.	74
(ii) Number of cases which have resulted in conviction.	16
(iii) Number of cases in which parties have been acquitted	1

(iv) Number of cases which are still pending in the courts.	57
2. (a) Number of cases referred to C.B.I. during the last five years by CCI&E's Organisation.	174
(b) Number of cases where prosecutions have been launched by the C.B.I.	74
(c) Number of cases where prosecutions were launched by the C.B.I. and which resulted in conviction.	16

66. The Committee enquired whether the EXIM Bank which had been set up recently, could be entrusted with the work of distribution of cash assistance to exporters. The Joint Secretary, Ministry of Finance (Dept. of Economic Affairs) stated:

"It is a very good question. The EXIM Bank has just been formed and any allotment of function or comment about it has to be made with due care and caution. Although it is called the EXIM Bank, the way it has been formulated now, it should be called the Export Bank, because there is no import element included in its present functions, although in the charter everything is included. The immediate idea is that this Bank will take care of all our exports. To start with, it will take over all the functions which are discharged by the International Finance Wing of the IDBI. For the present, to my knowledge, the functions of the Export Trade Guarantee Corporation and Exchange Control of the Reserve Bank of India have not been included in the charter of the EXIM Bank as yet.

This is a new institution which has not even started functioning. The suggestion of the hon. Member has a good deal of merit. I personally think this can be looked into. Any organisation which takes over the payment of compensation will have to observe the same procedure. A central organisation like the EXIM Bank may be able to discharge more effectively the cash support, receipt of foreign exchange etc."

67. The Secretary, Ministry of Commerce added:

"My first reaction is that it will have to be further looked into. Once we are creating a bank of this particular nature, which has to give support to exports, surely all support should come from that particular bank. If we

look at it from an administrative angle, whether an industrialist or a person who is involved in some sort of economic activity, he is very close to the licensing part of the export licence and it would be good for him, and better for us also, to exercise our control at that particular point to determine as to what are the drawbacks, what are the handicaps which make him less competitive. The basic objective is that in export we should become more competitive and get a greater share of the world market. In my view, the office of the CCIE has a better perception of this particular function than the Bank would be able to give.

Secondly, I completely agree with the point about the multiplicity of objectives, because once you have too many objectives, they become very weak. In order to correct the difficulty which we are facing in dealing with the cash compensatory support, a re-organisation of the CCIE is called for. If the data compilation, information flow, could be made faster and better with modern tools, we will be able to do well.

If one were to go through the record which is there, as against 1,433 cases where we have made mistakes, which is less than 2 per cent, if some efficiency could be introduced into it, the exporter will be much more happier, than asking him to go to the Bank. A new institution takes time to get into the business."

C. Overpayments and other irregularities

Audit Paragraph

68. A mention of the overpayments (Rs. 82.07 lakhs) of cash compensatory support pointed out by Audit as a result of test-check undertaken during 1974-75 to 1976-77 in the office of the JCCIE, New Delhi was made in paragraph 5 of the Advance Report of the Comptroller and Auditor General of India for 1976-77, Union Government (Civil). Out of 7860 cases (amount: Rs. 41.06 crores) of payment of cash compensatory support test checked in audit during 1977-78 to 1979-80, overpayments (amount: Rs. 29.83 lakhs) were noticed in 245 cases.

69. Year-wise details, the recoveries made by the JCCIE, New Delhi and the balance amounts to be recovered are given below:

Year	Over-payments pointed out by Audit	Over-payments accepted by the JCCIE, N. Delhi	Over-payments not yet accepted by the JCCIE, N. Delhi	Recoveries made	Balance to be covered
(Rupees in lakhs)					
1977-78	4.16	3.25	0.91	2.31	1.85
1978-79	8.44	5.92	2.52	4.39	4.06
1979-80	17.23	8.24	8.99	5.53	11.69
	29.83	17.41	12.42	12.23	17.60

In respect of overpayments (Rs. 12.42 lakhs) yet to be accepted by the JCCIE, the Department of Commerce stated (October 1980) that these were under various stages of scrutiny, verification of records, clarification from the concerned parties, etc.

Regarding non-recovery of Rs. 5.18 lakhs out of the overpayments of Rs. 17.41 lakhs accepted by the JCCIE, the department added that action to recover the balance was being taken.

[Paragraph 3 (sub-para 2) of the Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil)]

70. The Committee desired to know whether the cases of overpayments of Rs. 12.42 lakhs have been scrutinised by the JCCI&E and the extent to which the recoveries have been effected. The Ministry of Commerce have stated:*

"The amount of overpayment pointed out by Audit was Rs. 29.83 lakhs. Out of this, the licensing authority are yet to complete their scrutiny in regard to overpayment to the extent of Rs. 12.42 lakhs.

Out of the amount of overpayments accepted by the licensing authority, i.e. Rs. 17.41 lakhs, recoveries had earlier been made to the extent of Rs. 12.23 lakhs, as also indicated by

*Not vetted in Audit.

the Audit. This left a balance of Rs. 5.13 lakhs for recovery. Of this amount, a sum of Rs. 5,15,478/- has also been recovered leaving an unrecovered amount of Rs. 2,502/- only.

The overpayments in these cases have arisen on account of errors in calculation of the entitlements, after taking account of the description and the date in respect of the products exported, as available in the export documents. While in a vast majority of the cases, such errors are being eliminated because of the departmental checks, the possibility of such human errors still occurring in some cases cannot altogether be ruled out. It may be added that the number of cases in which overpayments were noticed is 245 out of the total number of 7860 cases dealt with. The percentage of overpayments to the amount of cash compensatory support disbursed during the last three years is less than half per cent.

As there did not appear to be any mala-fides involved, the question of fixing responsibility did not arise. However, during the visits of officers from Headquarters to the regional offices and during periodical meetings, emphasis is being laid on improving the scrutiny mechanism and minimising such errors."

71. The Committee desired to be informed about the present position regarding overpayments of cash compensatory support to the tune of Rs. 12.42 lakhs, in respect of which recoveries were yet to be effected. The Ministry of Commerce have furnished the following note:*

"Latest position regarding the overpayment of Rs. 12.42 lakhs which was not accepted by the Licensing Authority:

	Rs.
1. Cases where audit has since dropped the objections	4,20,412.00
2. Cases where overpayments have been recovered and audit duly intimated	1,88,378.00
3. Cases where overpayments detected by Audit have been accepted and recovery notices have been issued to the concerned exporters	52,765.00
4. Cases where overpayments detected by audit have been reviewed and found not acceptable. Audit has been requested to drop the objections but their replies awaited	4,18,319.00
5. Cases yet to be looked into	1,62,151.00
TOTAL	<u>12,42,025.00</u>

*Not vetted in Audit.

C. Overpayment to firm 'B' (M/s. Bharat Steel Tubes Ltd.,
New Delhi.)

72. Overpayment of Rs. 2.04 lakhs to firm 'B'.—Cash compensatory support on export of steel tubes and pipes was withdrawn with effect from 9th January 1974. It was, however, noticed (March 1979) in audit that the dates of 'mate' receipts shown in shipping bill Nos. 020646 dated 22-12-1973, 026168 dated 28-12-73, 020645 dated 22-12-73, 02063 dated 22-12-1973, 007923 dated 8-1-1974, 007922 dated 8-1-74 and 007924 dated 8-1-74 had been erased and overwritten as 5th, 4th, 5th, 5th, 8th, 8th and 8th January 1974 respectively. On these irregularities being pointed out (March 1979) by Audit, the JCCIE took up (March 1979) the matter with the Collector of Customs, Bombay who intimated (May 1979 and May 1980) that the actual dates of 'mate' receipts were 20th, 7th, 20th, 20th, 15th 16th and 16th January 1974 respectively. Since no cash compensatory support was admissible on exports made on or after 9th January 1974, the erasures and overwritings had resulted (August 1976) in overpayment of Rs. 2.04 lakhs on account of cash compensatory support in 6 cases. Recovery of Rs. 2.04 lakhs was made (June 1980) from firm 'B' but no responsibility was fixed for erasures and overwritings and the matter was not reported to police. Overpayments were made during August 1976, but recovery was made in June 1980 after Audit pointed them out.

[Paragraph 3(sub-para 3(i) of the Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil)].

73. The Committee have been informed that the Joint Chief Controller of Imports and Exports stated (November 1980) to Audit that "this case is pending in Enforcement Branch of this office due to certain clarifications from Customs".

74. The Committee enquired as to why the case had not been reported to the Police when it was clearly established that the dates of 'mate' receipts were fraudulently changed by erasures and overwritings. The Ministry have stated:*

"Enforcement proceedings under the Imports and Exports (Control) Act are of quasi-judicial nature. The Joint Chief Controller of Imports & Exports (Central Licensing Area-CLA) who is dealing with this case, had expressed the view that he could not proceed further in this case on

*Not yetted in Audit.

account of certain legal issues involved. The matter is still under examination.

The question of fixing any responsibility for the alleged lapses does not arise at this stage."

75. During evidence, the Committee enquired as to how such a lapse had taken place in this case. The Chief Controller of Imports and Exports stated:

"The case is pending in the enforcement Branch of the J.C.E. Office. They have made reference to the Headquarter's Office and in that case he raised a legal point. He has specifically pointed out that in a similar case of a sister concern, where a point had been raised that during the relevant period when exports were effected, that period is 1973-74. Policy provision was that the date of export will be the date of relevant Bill of Lading. That is to say we have to take for the purpose of cash assistance the date on the Bill of Lading as the operative date.

These exports have taken place in 1973-74 on a number of occasions. It was only in January, 1977 that the public Notice was issued to the effect that where a date on Bill of Lading and the date on receipt are there, whichever is later will have to be taken as the applicable date for export. The legal issue is whether the provisions of the public notice issued in January 1977 would affect cases of export which took place in 1973-74."

76. In reply to a question, the witness stated:

"We made a reference to the Customs in order to find out whether there was this change, whether it had been effected in the copy of the Bill of Lading which might be with them. There is one copy in their record. The answer is that the change had not been effected in their copy. This particular basic point of fact will be taken into account by the officer concerned when he goes into the case. Right now, the point is that the case can be heard after a show-cause notice is given, after the reply of the party is received, etc. The Joint Chief Controller has raised a doubt whether it would be proper or useful for him to take up the case now itself."

77. When asked if the party had contested the recovery of over-payment, the witness replied:

"Subject to check, the amount was adjusted against a subsequent claim, this is not uncommon here."

78. The organisation of the Chief Controller of Imports and Exports under the Ministry of Commerce consists of headquarters office in Delhi and 24 other regional offices. The functions of this organisation are wide ranging including laying down of policies relating to imports, exports and export promotion, capital goods licensing, cash assistance and duty drawback, raw material and components licensing, export licensing etc.

79. The Committee note that the functions of this organisation have undergone a fundamental change. From a primarily regulatory organisation in respect of import of goods, it at present serves as the main instrument of Government in the field of export promotion also including disbursement of cash assistance. The Committee are surprised to learn that no management study of this organisation has been conducted as yet to find out how far its present set up is adequate to discharge the additional functions entrusted to it from time to time. They feel that this organisation which has to perform multiple functions both regulatory and developmental in nature, has reached a stage where its working needs to be looked into and streamlined. The Committee, therefore, recommend that Government should get the set up and functioning of the office of the Chief Controller of Imports and Exports examined by a team of management experts to suggest necessary changes to improve its working.

80. As a result of test check undertaken by audit during 1974-75 to 1976-77 in the Office of the CCIE, New Delhi, overpayments amounting to Rs. 82.07 lakhs in respect of cash assistance disbursed were pointed out. A further test check in audit of this office during 1977-78 to 1979-80 disclosed overpayments amounting to Rs. 29.83 lakhs. On a test check in the office of the JCCIE, Bombay, Audit pointed out overpayments amounting to Rs. 38.39 lakhs in respect of cash assistance disbursed during 1977-78. The total cash assistance disbursed by the CCIE's Organisation was Rs. 341.66 crores, Rs. 374.56 crores and Rs. 451.00 crores (Estimated) during the year 1979-80, 1980-81 and 1981-82, respectively.

81. Under the present procedure, the applications for cash assistance are scrutinised by the licensing staff of the regional licensing

offices. A second check is made by the verification units. Under the simplified payment scheme the second check by the verification units is made after the payments are made. Although huge amounts have been paid every year by way of cash assistance and a large number of cases of overpayments have been detected by the statutory audit during test check only, the Committee are surprised to find that the Government at no time considered the need for having an internal audit system in the CCIE's organisation. At the instance of the Committee, an internal audit check was carried out in the office of the JCCIE, Madras. This single check led to detection of cases of overpayments/irregular payments amounting to Rs. 3.6 lakhs relating to the period April—October, 1981 only. The Committee are, therefore, of the view that the present system of verification in the offices of the CCIE is totally inadequate and has resulted in huge losses to the exchequer. The Committee have no doubt that the benefits accruing from an internal audit system would be several times more than the expenditure that would have to be incurred on an internal audit organisation. They therefore recommend that Government should take steps to set up an internal audit organisation for audit of cash assistance transactions as also other allied functions as may be assigned to it.

82. The Committee note that at present the office of the Chief Controller of Imports & Exports is not having any computerised service. However, a proposal in this regard is under examination. The Committee feel that in view of the vast number of applications being received, licences being issued and parties to be dealt with, it is desirable that the working of the organisation should be gradually computerised so as to provide more efficient and quick service.

83. The Committee find that at present the rates of cash compensatory support on various items are fixed on the basis of data collected by the Export Promotion Councils from some of the major exporters. The data along with the recommendation of the Export Promotion Council concerned is scrutinised by the concerned commodity division in the Ministry of Commerce and then placed before an inter-ministerial committee under the chairmanship of Additional Secretary, Ministry of Commerce. The interministerial committee considers the proposals and makes recommendations regarding the rates of cash compensatory support on various items. Where the proposal is for grant of cash compensatory support for the first time, the recommendations of the Export Promotion Council are

placed before the Marketing Development Assistance (Main) Committee which consists of Secretary, Ministry of Commerce, Secretary, Ministry of Finance (Department of Economic Affairs) and Secretary, Ministry of Finance (Department of Expenditure).

34. The Public Accounts Committee have time and again drawn the attention of the Government to the inadequacy of the present system of decision making in regard to grant of cash compensatory support for various export commodities. In para 1.49 of their 174th Report (1975-76) the Committee had pointed out that the basic defect in the system was that there was no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisation and the impact of various kinds of assistance given for export promotion. In para 1.120 of their 10th Report (1977-78), the Committee had recommended that Government would do well to attempt a quantification, in monetary terms, of the various concessions given in the past to exporters and make an assessment of the actual impact of these concessions with a view to determining how far these export promotion measures have actually succeeded in achieving the objectives envisaged. In para 1.123 of their 10th Report (1977-78), the Committee had further observed that an almost exclusive reliance had to be placed on the data furnished by the Export Promotion Councils which comprised of interested exporters and industrialists themselves. It was admitted that the Export Promotion Councils had no machinery to check the veracity of the cost data furnished by the exporters nor did the Ministry of Finance examine the data in all cases before agreeing to grant cash assistance. In para 1.6 of their 77th Report (1981-82), the Committee have expressed the view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or reviewing the cash assistance on any commodity and particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying this facility for a number of years.

35. Although the figures of f.o.b. values of exports of commodities and cash assistance paid in respect of those commodities have been furnished to the Committee, no study has been made to determine how far the cash assistance paid has actually contributed to an increase in exports of those commodities and what was the quantum of additional foreign exchange inflow generated thereby. In the view of the Committee, the absence of such vital data is the weakest link in the scheme of cash compensatory support. The Committee recommend that Government should make an analytical study of the scheme and the extent to which it has been able to achieve its objectives.

86. The Committee find that at present several export incentive schemes, such as, import replenishment scheme, duty drawback scheme, duty exemption scheme, duty drawback credit scheme, interest subsidy etc. are available to the Indian exporters. Over and above these, the Committee wonder whether cash compensatory support scheme, which involves a direct outgo from the Consolidated Fund of India, should be needed by the Indian exporters and that too on so many of the export products. While it is necessary that the handicaps faced by Indian exporters in the international markets should be neutralised to an extent, the Committee also consider that Indian export products should not be heavily subsidised at the cost of the exchequer and for the benefit of exporters who can afford to export goods without asking for cash assistance. Considering all aspects, the Committee are of the view that Government should examine the feasibility of replacing the cash assistance scheme by an inbuilt system of providing relief to the exporters by way of relief in taxes, duties etc.

87. The Committee are surprised to learn that in many foreign countries, Indian goods are being marketed under the brand of foreign firms which are marketing them and not under Indian brand names. The result is that Indian goods do not become popular and the market for Indian goods is not stable. The Committee would urge upon the Government to ensure that as far as possible Indian products are marketed in foreign countries under Indian brand names and Government should enforce strict quality control on these goods so that these may not bring discredit to the country.

88. The Committee need hardly emphasise that ultimately it is the quality of Indian goods and their acceptance in the international market which will boost up our exports. It is, therefore, imperative that instead of excessive dependence on cash assistance, greater attention is paid to other export promotion measures like improvement in quality of products, attractive packing, better publicity and adoption of latest technology and designs.

89. The Committee are surprised to learn that at present there is no mechanism to ensure that foreign exchange has actually been realised in respect of exports on which cash assistance has been given. Cash assistance is paid on the basis of certificate of actual export given by the foreign exchange dealer i.e. the banks, and not on foreign exchange realisation. While it is the responsibility of the foreign exchange dealer to send the statement of realisations to the Reserve Bank of India it is regrettable that in many cases this responsibility is not being discharged. Moreover, the consolidated

statements furnished by the Reserve Bank of India pertain to all items of exports including those on which cash compensatory support has not been given and thus do not concern the Chief Controller of Imports and Exports. There is no foolproof system of followup in the office of the Chief Controller of Imports and Exports. The Committee are shocked at the admission made by the Chief Controller of Imports and Exports before the Committee that "they are not in a position to state categorically before the Committee the number and names of parties which availed of cash assistance but failed to realise foreign exchange." The Committee are distressed at this state of affairs where huge amounts of funds are being paid from the public exchequer as cash compensatory support without ensuring whether the objectives of the scheme viz. earning of more foreign exchange, is being achieved or not.

90. From the statement of foreign exchange realisations against cash compensatory support prepared by the Reserve Bank of India in respect of the year 1980, at the instance of the Committee, the Committee note that there are 1800 cases involving a sum of Rs. 10 crores where foreign exchange has not been realised within the stipulated period. Since the scheme of cash compensatory support is in operation since 1966, the Committee have no doubt that the total number of cases of defaults involving huge amounts would be sufficiently large. The Committee cannot but conclude that there has been gross negligence both on the part of the Organisation of the Chief Controller of Imports and Exports and the Reserve Bank of India in the discharge of their duties. This is highly regrettable. The Committee expect that effective steps would be taken hereafter to enforce timely realisation of foreign exchange earnings by exporters.

91. The Committee find that at present there is no obligation on the party receiving the cash assistance to intimate the details of foreign exchange realised. This is really surprising because it is primarily the duty of the beneficiary of the assistance to ensure the realisation of foreign exchange and intimate the same to the office of the CCI&E. The Committee feel that this can easily be done by including in the application from for cash assistance details of foreign exchange realisation which can be retained by the party concerned and it should be the duty of the party to furnish the same giving details of foreign exchange realisation to the Office of the Chief Controller of Imports and Exports within a stipulated period. The details given may then be checked in the office of the CCI&E with the statement received from the authorised foreign exchange dealers. In case statements are not received from the concerned parties within the stipulated time, the matter should be pursued in

the office of the CCI&E with the parties concerned and in case no satisfactory reply is received within a prescribed period, steps should be taken to recover the amount of cash compensatory support. Further, in any application for cash compensatory support the party should be required to indicate if any cash compensatory assistance was received by him earlier and if so, whether details of foreign exchange realisations have been furnished. In case the party fails to furnish the details of foreign exchange realisations without satisfactory reasons for not doing so, no further cash assistance should be given to such party.

92. The Committee note that at present there is no proper co-ordination between the office of the CCI&E and the Reserve Bank of India in the matter of watching foreign exchange realisations against cash compensatory support. The statements are furnished by the Reserve Bank of India in a consolidated form to the office of the CCI&E which are usually very bulky and contain information both in respect of parties which have received cash compensatory support and those which have not received such assistance. The result is that it has not been possible for the office of the CCI&E to segregate them and pursue the matter with the parties who have received the cash assistance but in respect of which foreign exchange has not been realised. The Committee feel that the present system of keeping watch over foreign exchange realisations against cash assistance is totally unsatisfactory. The Committee would like the Government to examine whether the authorised foreign exchange dealers should not be required to submit the statement of foreign exchange realisations direct to the office of the CCI&E rather than routing it through the Reserve Bank of India. The Committee recommend that a foolproof procedure should be evolved at an early date so that there is close coordination between the Reserve Bank of India and the organisation of the CCI&E in keeping watch over foreign exchange realisations against cash assistance.

93. With regard to the statement compiled by the Reserve Bank of India which shows 1800 cases of default for the year 1980 involving Rs. 10 crores in realisation of foreign exchange, the Committee would urge upon the Government to take immediate steps to pursue these cases. The Committee also expect the Reserve Bank of India to prepare similar statements in regard to earlier years also as early as possible and submit the same to CCI&E for follow-up action. The Committee would like to be informed of the action taken in this regard.

94. The Committee have been informed that during the last five years, the organisation of the C.C.I.&E referred to C.B.I 174 cases under Section 5 of the Imports and Exports (Control) Act, 1947. Out of these 174 cases, prosecutions have been launched in 74 cases only and only in 16 cases, convictions have been secured so far. In one case the party has been acquitted. 57 cases are still pending in the Court. From the large number of complaints received in press as well as in Parliament, the Committee have reason to believe that the evil and malpractices in the field of violation of Imports and Exports (Control) Act, 1947 are quite widespread and the action so far taken has hardly touched the tip of the iceberg. The Committee are of the view that there is an urgent need for a strict machinery to thoroughly investigate the cases of violations of the Act and for taking effective and deterrent action against the offenders. The Committee therefore recommend that the organisation of the Chief Controller of Imports and Exports should be more vigilant in checking the cases of violation of the Imports and Exports (Control) Act, 1947, investigate these cases expeditiously and take adequate measures to ensure that the parties indulging in such malpractices, however powerful they may be, are not allowed to go scotfree.

95. With effect from January, 1974, Government had withdrawn cash compensatory support on export of steel tubes and pipes. In order to avail of the benefit, the dates of 'mate' receipts shown in shipping bills in respect of exports made by a firm, M/s. Bharat Steel Tubes Ltd., New Delhi were erased and substituted by 4th, 5th and 8th January, 1974 although the actual dates of 'mate' receipts were after 9 January, 1974. When this fact was brought to the notice of CCI&E by Audit, the CCI&E realised back the amount of cash compensatory support of Rs. 2.04 lakhs from the said firm. Certain cases of overpayments of cash compensatory support to this very firm were brought out in the earlier Audit Report also. e.g. the Audit Report 1976-77 had pointed out an overpayment of cash assistance amounting to Rs. 35.69 lakhs to this very firm and in that case also the amount was subsequently recovered. The Committee regret to note that although it was a clear case of fraud and conspiracy to defraud public exchequer, the case was not referred to the police for investigation and necessary action on the plea that certain legal issues are being sorted out.

26. The Committee deplore the casual way in which this case has been dealt with in the Office of the JCCI&E, Delhi and urge that the case should immediately be handed over to the CBI for investigation. The Committee would like to be apprised of the final action taken in this behalf. The Committee would like to emphasise here that in all cases of this nature, similar action should be taken and no leniency whatsoever should be shown to unscrupulous elements indulging in fraudulent practices.

NEW DELHI;

April 29, 1982

Vaisakha 9, 1904 (S)

SATISH AGARWAL,

Chairman.

Public Accounts Committee

APPENDIX I
(Vide para 3 of the Report)

Statements showing the names of the offices of the Import and Export Trade Control Organisation and their jurisdiction

Sl.	Name of the offices	Licensing jurisdiction
1	Chief Controller of Imports and Exports . . .	Headquarters.
2	Joint Chief Controller of Imports and Exports, Bombay.	Maharashtra.
3	Joint Chief Controller of Imports and Exports, Ahmedabad.	State excluding areas falling under the jurisdiction of Rajkot and New Kandla offices.
4	Dy. Chief Controller of Imports and Exports, Bhopal.	Madhya Pradesh.
5	Controller of Imports and Exports, Goa . . .	Goa, Daman, Diu, Dadra and Nagar Haveli.
6	Controller of Imports Exports, Rajkot . . .	The districts of Gujarat state known as Saurashtra (excluding kutch).
7	Controller of Imports and Exports, Kandla . . .	Kutch district of Gujarat and New Kandla.
8	Jt. Chief Controller of Imports and Exports, CPA, New Delhi.	Delhi, Haryana and five districts of UP i.e. Meerut Division.
9	Joint Chief Controller of Imports and Exports, Kanpur.	U.P. excluding 5 districts of Meerut division.
10	Dy. Chief Controller of Imports and Exports, Punjab, Amritsar.	
11	Dy. Chief Controller of Imports and Exports, Rajasthan, Jaipur.	
12	Controller of Imports and Exports, Srinagar . . .	Jammu and Kashmir.
13	Controller of Imports and Exports, Chandigarh . . .	Himachal Pradesh and Chandigarh.
14	Joint chief controller of Imports and Exports, Madras.	Tamilnadu.
15	Joint Chief Controller of Imports and Exports, Bangalore	Karnataka.
16	Joint Chief Controller of Imports and Exports, Hyderabad	Andhra Pradesh excluding the area under Controller, Visakhapatnam .

S.No.	Name of the offices	Licensing Jurisdiction
17	Dy. Chief Controller of Imports and Export, Ernakulam.	Kerala.
18	Controller of Imports and Exports, Pondicherry.	Pondicherry, Karikal, Mahi and Yanam.
19	Controller of Imports and Exports, Visakhapatnam.	Srikakulam, Visakhapatnam, East and West Godavari district of A.P.
20	Joint Chief Controller of Imports and Exports, Calcutta.	West Bengal, Sikkim and Andaman and Nicobar.
21	Dy. Chief Controller of Imports and Exports, Gauhati.	Assam, Arunachal Pradesh, and manipur.
22	Controller of Imports and Exports, Patna	Bihar.
23	Controller of Imports and Exports, Cuttack	Orissa.
24	Controller of Imports and Exports, Shillong	Meghalaya.
25	Controller of Imports and Exports, Agartala	Tripura and Mizoram.

APPENDIX-II

(Vide paras 19 and 20 of the Report)

Audit paragraph 5 (i)—5 (VI)

(i) Firm 'F' was granted (June 1973) import licence for Rs. 4.80 lakhs for import of certain machinery, with the condition to export 15 per cent of its ex-factory value of annual production for 5 years commencing from the 18th Month after the commissioning of the plant and machinery. A legal undertaking was obtained on 19th April 1974 and it provided that payment of 5 per cent of the value of export obligation subject to maximum of Rs. 5 lakhs would be made by firm 'F' by way of liquidated damages in the event of failure to fulfil the export obligation. The machinery was installed and its working was demonstrated on 29th March 1975. Though the export obligation became operative from October 1976, the firm failed to make any export and represented (27th March 1978) for removing the export obligation completely or for imposing a reasonable export obligation in the shape of consolidated value spreading over 5 years. The representation of firm 'F' was rejected on 28th May 1980. Meanwhile, follow-up action for fulfilment of export obligation remained suspended and the case was not pursued with firm 'F' to ascertain the year-wise details of production to work out its export obligation. The period of export obligation is to expire on 30th September 1981, but no action had been taken so far (October 1980) to enforce the legal undertaking. The department stated (October 1980) that firm 'F' had submitted statements of production and exports, which were under scrutiny.

(ii) Firm 'D' was granted (September 1974) a capital goods licence for the import of plant, machinery and equipment (C.i.f. value: Rs. 1.40 lakhs) with the condition to earn foreign exchange by exporting 100 per cent of its production of printed circuit boards annually for 3 years. The export was to commence from the 18th month after the commissioning of the plant/commencement of production.

As per certificate dated 16th December 1975 given by the Chartered Accountants, the plant was installed and commissioned on 13th June 1975. Subsequently, the then Ministry of Industry and Civil

Supplies agreed (June 1975) to the transfer of the industrial licence to a newly constituted firm 'O', of which the sole proprietor of firm 'D' was a director. In view of the change, a fresh legal undertaking which provided for payment of liquidated damages equal to 5 per cent of the value of export obligation subject to maximum of Rs. 5 lakhs, was obtained (August 1977) from firm 'O', but it had not been accepted so far (October 1980) due to certain errors and omissions.

Although the export obligation commenced from 13th December 1976, the export obligation and liquidated damages to be recovered from firm 'O' had not been worked out and enforced so far (October 1980).

(iii) Firm 'H' was issued (September 1976) an advance licence under "duty exemption scheme" for import of high carbon/high chromium steel strips worth As. 1.30 lakhs subject to the condition that it would export 10 lakh hand hacksaw blades to a foreign country for a total value of Rs. 3 lakhs within a period of 6 months from the date of importation of the first consignment in India.

Firm 'H' furnished (6th May 1977) a bond for Rs. 1.05 lakhs which accepted on 12th May 1977. The export obligation was to be completed by November 1977. Firm 'H' neither exported any goods up to November 1977, nor did it ask for extension of period for fulfilling its export obligation. The JCCIE decided (June 1979) to forfeit the bond and the bank was asked (22nd June 1979) to deposit the forfeited bond amount, but the amount had not been deposited by the bank or firm 'H' so far (October 1980).

(iv) Firms 'R' was issued (July 1974) release order for import of steel for Rs. 4.28 lakhs through the Hindustan Steel Limited (HSL) for fulfilling specific export order subject to the conditions:

- that it would execute the order received under IDA—credit for Uttar Pradesh State Electricity Board for supply of transmission line towers and accessories of the total f.o.b. value of Rs. 72.88 lakhs within 6 months from the date of supply of 1st consignment against the release order; and
- that it would, at the time of 1st consignment against the advance release order, execute a bond with bank guarantee valid for 2 years from the date of its execution for 50 per cent of the c.i.f. value of the advance release order in the prescribed form.

However, on 28th July 1975, the second condition was amended to substitute legal undertaking for the bank guarantee: The firm furnished the legal undertaking on 11th December 1975, which provided for liquidated damages up to Rs. 5 lakhs and was accepted on 8th January 1976. The firm, when asked to submit the documents in support of export obligation, intimated (1st July 1977) that it had surrendered the release order to the HSL and as such the question of its utilisation did not arise. When the matter was taken up with the HSL, it informed (21st September 1977) that full quantity of the material covered by the release order had been supplied to firm 'R' during February to June 1977. The matter had neither been sorted out, nor had any action been taken in this regard so far (October 1980). The department stated (October 1980) that enforcement action under the provisions of the Imports and Exports (Control) Act, 1947 and the Imports (Control) order, 1955 was being initiated against the firm.

(v) Firm 'K' was granted (November 1975) an industrial licence for the manufacture of 15,000 electrically operated cash registers per annum. An import licence for Rs. 23.41 lakhs (subsequently increased to Rs. 23.59 lakhs) was issued (December 1975) for the import of machinery subject to the condition that the firm should commence exports from 3rd year of production and export 15 per cent of its production of electrically operated cash registers during the 3rd year of production, 20 per cent during the 4th year of production and 25 per cent from the 5th year of production for a period of 3 years.

The production was to commence within 2 years from the date of issue (November 1975) of the industrial licence. As per certificate issued by the Director General, Technical Development (DGTD), the production activity started in May 1977.

Subsequently (March 1979), the above condition was substituted by the condition that the firm should export 10 per cent of its production of cash registers beyond 5,000 numbers annually for a period of 5 years. The firm submitted (28th April 1979) revised legal agreement in which it had amended the condition to the effect that export would commence from the date of production. Instead of accepting the legal agreement and enforcing the export obligation with effect from May 1977 (when the production had commenced), the firm was advised by the JCCIE to amend the legal agreement as per the original condition of export obligation from the 3rd year of production. The department stated (October 1980) that

the legal agreement could perhaps have been accepted. However, no reason for not doing so were on record.

(vi) An advance release order for stainless steel sheets for Rs. 10 lakhs was issued (January 1974) in favour of firm 'N' with one of the conditions that it would export stainless steel cutlery for a total f.o.b. value of Rs. 25. lakhs within 6 months from the date of delivery of 1st consignment against the advance release order.

The firm executed a bond with bank guarantee for Rs. 5 lakhs on 11th April 1974. The period of fulfilment of export obligations of 6 months expired on 10th October 1974. As the firm failed to show the fulfilment of export obligation within the stipulated period, a show-cause notice was issued (18th January 1975) to the firm by the JCCIE. In reply to the show-cause notice, the firm requested for extension in the period for fulfilment of export obligation, which was extended up to 10th April 1975 and the firm was asked to extend the bank guarantee up to 10th April 1977. Since, however, the firm failed to fulfil the export obligation within the extended period, orders were issued for the forfeiture of the bond on 22nd April, 1976. However, on the recommendation of the CCIE, the period was further extended up to 16th August 1976 and the bank guarantee was further extended up to 16th August 1978.

As the firm had utilised the release order for Rs. 3.60 lakhs only, the amount of bank guarantee was also reduced to Rs. 1.80 lakhs. The period of fulfilment of export obligation was again extended up to 30th September 1977 and bank guarantee was extended up to 16th August 1979. The firm had failed to furnish so far (October 1980) any evidence of exports made towards fulfilment of its export obligation and no action was taken against it.

Although in all the above 6 cases, firms failed to fulfil the export obligation, no action had been taken (October 1980) against the firms to debar them from future import licences, nor was responsibility fixed for the lapse.

APPENDIX-III

CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Ministry of Commerce	Dept. concerned	Conclusions/Recommendations
1	2	3	4	
1	78	Commerce (Dept. of Commerce)	3	<p>The organisation of the Chief Controller of Imports and Exports under the Ministry of Commerce consists of headquarters office in Delhi and 24 other regional offices. The functions of this organisation are wide ranging including laying down of policies relating to imports exports and export promotion, capital goods licensing, cash assistance and duty drawback, raw material and components licensing export licensing etc.</p>
2	79	—do—	4	<p>The Committee note that the functions of this organisation have undergone a fundamental change. From a primarily regulatory organisation in respect of import of goods, it at present serves as the main instrument of Government in the field of export promotion also including disbursement of cash assistance. The Committee are surprised to learn that no management study of this organisation has been conducted as yet to find out how far its present set up is adequate to discharge the additional functions entrusted to it from time to time. They feel that this organisation which has to perform multiple functions both regulatory and developmental in nature, has reached a stage where its working needs to be looked into and</p>

streamlined. The Committee, therefore, recommend that Government should get the set up and functioning of the office of the Chief Controller of Imports and Exports examined by a team of management experts to suggest necessary changes to improve its working.

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As a result of test check undertaken by audit during 1974-75 to 1976-77 in the Office of the JCCIE, New Delhi, overpayments amounting to Rs. 82.07 lakhs in respect of cash assistance disbursed were pointed out. A further test check in audit of this office during 1977-78 to 1979-80 disclosed overpayments amounting to Rs. 29.83 lakhs. On a test check in the office of the JCCIE, Bombay, Audit pointed out overpayments amounting to Rs. 38.39 lakhs in respect of cash assistance disbursed during 1977-78. The total cash assistance disbursed by the CCIE's Organisation was Rs. 341.66 crores, Rs. 374.50 crores and Rs. 451.00 crores (estimated) during the years 1979-80, 1980-81 and 1981-82 respectively.

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Under the present procedure, the applications for cash assistance are scrutinised by the licensing staff of the regional licensing offices. A second check is made by the verification units. Under the simplified payment scheme the second check by the verification units is made after the payments are made. Although huge amounts have been paid every year by way of cash assistance and a large number of cases of overpayments have been detected by the statutory audit during test check only, the Committee are surprised to find that the Government at no time considered the need for having an internal audit system in the CCIE's organisation. At the instance of the

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Committee, an internal audit check was carried out in the office of the JCCIE, Madras. This single check led to detection of cases of overpayments/irregular payment's amounting to Rs. 3.6 lakhs relating to the period April-October, 1981 only. The Committee are, therefore, of the view that the present system of verification in the offices of the CCIE is totally inadequate and has resulted in huge losses to the exchequer. The Committee have no doubt that the benefits accruing from an internal audit system would be several times more than the expenditure that would have to be incurred on an internal audit organisation. They therefore recommend that Government should take steps to set up an internal audit organisation for audit of cash assistance transactions as also other allied functions as may be assigned to it.

5 82 Commerce (Dept.
of Commerce)

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The Committee note that at present the office of the Chief Controller of Imports & Exports is not having any computerised service. However, a proposal in this regard is under examination. The Committee feel that in view of the vast number of applications being received, licences being issued and parties to be dealt with, it is desirable that the working of the organisation should be gradually computerised so as to provide more efficient and quick service.

6 83 —do—

The Committee find that at present the rates of cash compensatory support on various items are fixed on the basis of data collected

by the Export Promotion Councils from some of the major exporters. The data alongwith the recommendation of the Export Promotion Council concerned is scrutinised by the concerned commodity division in the Ministry of Commerce and then placed before an inter-ministerial committee under the Chairmanship of Additional Secretary, Ministry of Commerce. The inter-ministerial committee considers the proposals and makes recommendations regarding the rates of cash compensatory support on various items. Where the proposal is for grant of cash compensatory support for the first time, the recommendations of the Export Promotion Council are placed before the Marketing Development Assistance (Main) Committee which consists of Secretary, Ministry of Commerce, Secretary, Ministry of Finance (Department of Economic Affairs) and Secretary Ministry of Finance (Department of Expenditure).

The Public Accounts Committee have time and again drawn the attention of the Government to the inadequacy of the present system of decision making in regard to grant of cash compensatory support for various export commodities. In para 1.49 of their 174th Report (1975-76) the Committee had pointed out that the basic defect in the system was that there was no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisation and the impact of various kinds of assistance given for export promotion. In para

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1.120 of their 10th Report (1977-78), the Committee had recommended that Government would do well to attempt a quantification, in monetary terms, of the various concessions given in the past to exporters and make an assessment of the actual impact of these concessions with a view to determining how far these export promotion measures have actually succeeded in achieving the objectives envisaged. In para 1.123 of their 10th Report (1977-78), the Committee had further observed that an almost exclusive reliance had been placed on the data furnished by the Export Promotion Councils which comprised of interested exporters and industrialists themselves. It was admitted that the Export Promotion Councils had no machinery to check the veracity of the cost data furnished by the exporters nor did the Ministry of Finance examine the data in all cases before agreeing to grant cash assistance. In para 1.6 of their 77th Report (1981-82), the Committee have expressed the view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or reviewing the cash assistance on any commodity and particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying this facility for a number of years.

8 85

Commerce (Dept.
of Commerce)

Although the figures of f.o.b. values of exports of commodities and cash assistance paid in respect of those commodities have been

furnished to the Committee, no study has been made to determine how far the cash assistance paid has actually contributed to an increase in exports of those commodities and what was the quantum of additional foreign exchange inflow generated thereby. In the view of the Committee, the absence of such vital data in the weakest link in the scheme of cash compensatory support. The Committee recommend that Government should make an analytical study of the scheme and the extent to which it has been able to achieve its objectives.

The Committee find that at present several export incentive schemes, such as, import replenishment scheme, duty drawback scheme, duty exemption scheme, duty drawback credit scheme, interest subsidy etc. are available to the Indian exporters. Over and above these, the Committee wonder whether cash compensatory support scheme, which involves a direct outgo from the consolidated fund of India, should be needed by the Indian exporters and that too on so many of the export products. While it is necessary that the handicaps faced by Indian exporters in the international market should be neutralised to an extent, the Committee also consider that Indian export products should not be heavily subsidised at the cost of the exchequer and for the benefit of exporters who can afford to export goods without asking for cash assistance. Considering all aspects, the Committee are of the view that Government should examine the feasibility of replacing the cash assistance scheme by an inbuilt system of providing relief to the exporters by way of relief in taxes, duties etc.

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1	2	3	4
10	87	Commerce (Dept. of Commerce)	The Committee are surprised to learn that in many foreign countries, Indian goods are being marketed under the brand of foreign firms which are marketing them and not under Indian brand names. The result is that Indian goods do not become popular and the market for Indian goods is not stable. The Committee would urge upon the Government to ensure that as far as possible Indian products are marketed in foreign countries under Indian brand names and Government should enforce strict quality control on these goods so that these may not bring discredit to the country.
11	88	—do—	The Committee need hardly emphasise that ultimately it is the quality of Indian goods and their acceptance in the international market which will boost up our exports. It is, therefore, imperative that instead of excessive dependence on cash assistance, greater attention is paid to other export promotion measures like improvement in quality of products, attractive packing, better publicity and adoption of latest technology and designs.
12	89	—do—	The Committee are surprised to learn that at present there is no mechanism to ensure that foreign exchange has actually been realised in respect of exports on which cash assistance has been given. Cash assistance is paid on the basis of certificate of actual export given by the foreign exchange dealer i.e. the banks, and not on foreign exchange realisation. While it is the responsibility of the foreign exchange dealer to send the statement of realisations to the Reserve Bank of India it is regrettable that in many cases this

responsibility is not being discharged. Moreover, the consolidated statements furnished by the Reserve Bank of India pertain to all items of exports including those on which cash compensatory support has not been given and thus do not concern the Chief Controller of Imports and Exports. There is no foolproof system of follow-up in the office of the Chief Controller of Imports and Exports. The Committee are shocked at the admission made by the Chief Controller of Imports and Exports before the Committee that "they are not in a position to state categorically before the Committee the numbers and names of parties which availed of cash assistance but failed to realise foreign exchange." The Committee are distressed at this state of affairs where huge amounts of funds are being paid from the public exchequer as cash compensatory support without ensuring whether the objectives of the scheme *viz* earning of more foreign exchange, is being achieved or not.

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From the statement¹ of foreign exchange realisations against cash compensatory support prepared by the Reserve Bank of India in respect of the year 1980 at the instance of the Committee, the Committee note that there are 1800 cases involving a sum of Rs. 10 crores where foreign exchange has not been realised within the stipulated period. Since the scheme of cash compensatory support is in operation since 1966, the Committee have no doubt; that the total number of cases of defaults involving huge amounts would be sufficiently large. The Committee cannot but conclude that there has been gross negligence both on the part of the Organisation of the Chief Controller of Imports and Exports and the Reserve Bank of India in the discharge

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of their duties. This is highly regrettable. The Committee expect that effective steps would be taken hereafter to enforce timely realisation of foreign exchange earnings by exporters.

14. 91 Commerce (Dept. of Commerce)

The Committee find that at present there is no obligation on the party receiving the cash assistance to intimate the details of foreign exchange realised. This is really surprising because it is primarily the duty of the beneficiary of the assistance to ensure the realisation of foreign exchange and intimate the same to the office of the CCI&E. The Committee feel that this can easily be done by including in the application form for cash assistance details of foreign exchange realisation which can be retained by the party concerned and it should be the duty of the party to furnish the same giving details of foreign exchange realisation to the Office of the Chief Controller of Imports and Exports within a stipulated period. The details given may then be checked in the office of the CCI&E with the statement received from the authorised foreign exchange dealers. In case statements are not received from the concerned parties within the stipulated time, the matter should be pursued in the office of the CCI&E with the parties concerned and in case no satisfactory reply is received within a prescribed period, steps should be taken to recover the amount of cash compensatory support. Further, in any application for cash compensatory support the party should be required to indicate if any cash compensatory assistance was received by him earlier

and if so, whether details of foreign exchange realisations have been furnished. In case the party fails to furnish the details of foreign exchange realisation without satisfactory reasons for not doing so, no further cash assistance should be given to such party.

15. 92 -do-

The Committee note that at present there is no proper coordination between the office of the CCI&E and the Reserve Bank of India in the matter of watching foreign exchange realisations against cash compensatory support. The statements are furnished by the Reserve Bank of India in a consolidated form to the office of the CCI&E which are usually very bulky and contain information both in respect of parties which have received cash compensatory support and those which have not received such assistance. The result is that it has not been possible for the office of the CCI&E to segregate them and pursue the matter with the parties who have received the cash assistance but in respect of which foreign exchange has not been realised. The Committee feel that the present system of keeping watch over foreign exchange realisations against cash assistance is totally unsatisfactory. The Committee would like the Government to examine whether the authorised foreign exchange dealers should not be required to submit the statement of foreign exchange realisations direct to the office of the CCI&E rather than routing it through the Reserve Bank of India. The Committee recommend that a foolproof procedure should be evolved at an early date so that there is close coordination between the Reserve Bank of India and the organisation of the CCI&E in keeping watch over foreign exchange realisations against cash assistance.

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16. 93 Commerce (Dept.
of Commerce)

With regard to the statement compiled by the Reserve Bank of India which shows 1800 cases of default for the year 1980 involving Rs. 10 crores in realisation of foreign exchange, the Committee would urge upon the Government to take immediate steps to pursue these cases. The Committee also expect the Reserve Bank of India to prepare similar statements in regard to earlier years also as early as possible and submit the same to CCI&E for follow-up action. The Committee would like to be informed of the action taken in this regard.

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17. 94

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The Committee have been informed that during the last five years, the organisation of the C.C.I. & E. referred to C.B.I. 174 cases under Section 5 of the Imports and Exports (Control) Act, 1947. Out of these 174 cases, prosecutions have been launched in 74 cases only and only in 16 cases, conviction have been secured so far. In one case the party has been acquitted. 57 cases are still pending in the Court. From the large number of complaints received in press as well as in Parliament, the Committee have reason to believe that the evil and malpractices in the field of violation of Imports and Exports (Control) Act, 1947 are quite widespread and the action so far taken has hardly touched the tip of the iceberg. The Committee are of the view that there is an urgent need for a strict machinery to thoroughly investigate the cases of violations of the Act and for taking effective and deterrent action against the offenders. The Com-

mittee therefore recommend that the organisation of the Chief Controller of Imports and Exports should be more vigilant in checking the cases of violation of the Imports and Exports (Control) Act, 1947, investigate these cases expeditiously and take adequate measures to ensure that the parties indulging in such malpractices, however powerful they may be, are not allowed to go scotfree.

18. 95 -do-

With effect from January, 1974, Government had withdrawn cash compensatory support on export of steel tubes and pipes. In order to avail of the benefit, the dates of 'mate' receipts shown in shipping bills in respect of exports made by a firm, M/s. Bharat Steel Tubes Ltd., New Delhi were erased and substituted by 4th, 5th and 8th January, 1974 although the actual dates of 'mate' receipts were after 9 January, 1974. When this fact was brought to the notice of CCI&E by Audit, the CCI&E realised back the amount of cash compensatory support of Rs. 2.04 lakhs from the said firm. Certain cases of overpayments of cash compensatory support to this very firm were brought out in the earlier Audit Reports also e.g., the Audit Report 1976-77 has pointed out an overpayment of cash assistance amounting to Rs. 35.69 lakhs to this very firm and in that case also the amount was subsequently recovered. The Committee regret to note that although it was a clear case of fraud and conspiracy to defraud public exchequer, the case was not referred to the police for investigation and necessary action on the plea that certain legal issues are being sorted out.

19. 96 -do-

The Committee deplore the casual way in which this case has been dealt with in the Office of the JCCI&E, Delhi and urge that the

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case should immediately be handed over to the CBI for investigation. The Committee would like to be apprised of the final action taken in this behalf. The Committee would like to emphasise here that in all cases of this nature, similar action should be taken and no leniency whatsoever should be shown to unscrupulous elements indulging in fraudulent practices.

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