

TWENTY-FIRST REPORT PUBLIC ACCOUNTS COMMITTEE (1991-92)

(TENTH LOK SABHA)

IMPACT OF THE CENTRAL EXCISE DUTY CONCESSIONS IN RESPECT OF MAN-MADE FIBRES AND YARN IN THE BUDGET 1988 ON PRICES

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

**[Action taken on the 156th Report of Public
Accounts Committee (8th Lok Sabha)]**



*Presented to Lok Sabha on 29 April, 1992
Laid in Rajya Sabha on 29 April, 1992*

**LOK SABHA SECRETARIAT
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PUBLIC ACCOUNTS COMMITTEE (10TH LOK SABHA)

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(1991-92)

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(iii)

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Twenty-first Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Hundred and Fifty-sixth Report (Eighth Lok Sabha) on impact of the central excise duty concessions in respect of man-made fibres and yarn in the Budget 1988 on prices.

2. In the budget 1988-89, substantial concessions in central excise duty involving a revenue sacrifice of Rs. 241.26 crores were granted on man-made fibres and yarn. The underlying idea of this fiscal relief was to enable availability of the end-product to the ultimate consumer at reduced prices. The Committee had found that this did not happen. In their earlier Report of the Committee had recommended that the Government should address themselves to the seriousness of the issue and evolve a standing mechanism with a view to ensuring that the concessions intended for the ultimate consumer were actually passed on. In this Report, the Committee have observed that these concessions introduced were not followed up with an adequate mechanism for monitoring and taking remedial action whenever necessary. The Committee have also not accepted the view point that it may not be possible for the Government to devise a mechanism to see that the fiscal reliefs ultimately reach the consumers. The Committee have reiterated that the Government should evolve a suitable mechanism to assess the impact of excise duty concessions over the prices of the products concerned taking into account any variations in prices of inputs so that dispensation of fiscal reliefs do not entail loss of revenue without the benefit percolating to the intended beneficiaries. In case the Government is not in a position to evolve any such mechanism, then the whole system of excise duty concessions needs to be reviewed.

3. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 31 March, 1992. Minutes of the sitting form Part II of the Report.

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

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

NEW DELHI;
April 23, 1992

Vaisakha 3, 1914 (Saka)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the recommendations and observations contained in their 156th Report (Eighth Lok Sabha) on the Impact of the Central excise duty concessions in respect of man-made fibres and yarn in the Budget 1988 on prices.

1.2 The 156th Report which was presented to Lok Sabha on 25 April, 1989 contained 8 recommendations. Action taken notes have been received in respect of all the recommendations and these have been broadly categorised as follows:

- i) Recommendations and observations which have been accepted by Government:
Sl. No. 5.
- ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government:
Sl. Nos. 1, 4 and 6.
- iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:
Sl. Nos. 2, 3, 7, and 8.
- iv) Recommendations and observations in respect of which Government have furnished interim replies:

-NIL-

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

Non-passing of benefits to the ultimate consumers
(Sl. Nos: 2, 3, 7 and 8 — Paragraphs 15, 27, 36 and 37)

1.4 In the budget 1988-89, substantial concessions in central excise duty were granted on man-made fibres and yarn. As per the estimation made by the Ministry of Finance at the time of presentation of the Budget, these concessions involved a revenue sacrifice of Rs. 241.26 crores. The underlying idea of this fiscal relief was to enable availability of the end-product to the ultimate consumer at reduced prices. However, the Committee had found that, this did not happen. Commenting upon the

question of non-passing of the duty relief to the ultimate consumers of the goods, the Committee in paragraphs 15 and 27 of their 156th Report had observed as follows:

"Para 15

Significantly, these concessions were granted at a time when the country was facing unprecedented droughts. The underlying idea of this fiscal relief was to enable availability of the end-product to the ultimate consumers at reduced prices. It was expected and expressly so stated in the budget speech, that the reduction in duty would result in price reduction. Unfortunately, this did not happen. In fact, the prices of man-made fibres/yarn and fabrics either went up or remained at about the same level as existed prior to the grant of the concession and when the prices did go down slightly for a few initial months, it was not because of the duty concessions, but, as an effect of demand and supply of the product itself. The Committee are surprised to note that the concession involving a considerable revenue sacrifice was extended in a manner in which full trust was reposed in the manufacturers and no control over them was prescribed to meet the cases of non-passing of the duty relief to the ultimate consumers of the goods.

Para 27

The Committee note that a Price Monitoring Committee was constituted in May 1988 to monitor the selling prices of man-made fibres/yarn and fabrics with a view to determining whether the duty concessions given in the Budget 1988-89 were passed on down the line to the consumer. The Price Monitoring Committee were required to meet at least once a month to keep a watch over the price trends and advise the Government regarding the remedial measures, if necessary and the Convener of the Price Monitoring Committee, viz., the Textiles Commissioner, was to forward a Status Report regarding the price levels in relation to the duty concessions and recommendations to achieve the objectives."

1.5 Action taken note on paragraph 15 furnished by the Ministry of Finance (Department of Revenue) reads as follows:

"There are no specific recommendations in this paragraph though it is implied that controls should have been prescribed to ensure that the duty benefits were passed on to the ultimate consumers of the goods. The Committee has already noted that there has been some reduction for a few initial months. But it is also seen that the prices had gone up from July 1988, one of the reasons for which can be attributed to the increase in the prices of the inputs.

In the absence of any statutory price control over synthetic fibres and yarns, some trust had to be reposed in the manufacturers to

ensure that they passed on duty benefits to their consumers. To keep a watch on the prices, a Price Monitoring Committee was also set up to reivew the situation”.

1.6 In reply to the recommendation at paragraph 27 the Ministry of Finance (Department of Revenue) have stated:

“There are no specific recommendations in this paragraph on which action is to be taken by the Government”.

1.7 Emphasizing that the textile industry should be studied further, the Committee in paragraph 36 of their 156th Report recommended as follows:

“The Committee note that the BICP in their report in January 1989 has concluded that the ex-factory price of PSF in October 1988 was only marginally higher than the updated normative price of PSF, while the ex-factory price of PFY was nearly Rs. 7.00 per kg. more than the normative price. However, according to BICP there was a need for monitoring the ex-factory prices at regular intervals. The Committee’s attention has also been drawn to the views of the Price Monitoring Committee expressed in the meeting held on 30 December, 1988 for ascertaining the resonable level of prices of NFY, PFY, acrylic fibres etc. Due to non-availability of requisite date from the Ministry, the Committee have not been able to evaluate the impact of the duty concessions in fulfilling the other two objectives of the fiscal relief, viz. increasing the demand for fabrics and increasing the base of production, apart from lowering prices. The Committee are convinced that the facts relating to the textile industry should be studied further with a view to ensuring not only the growth of the industry at a satisfactory pace, but also that the consumers are protected from exploitation and receive the benefit of whatever concessions are extended to the industry”.

1.8 In their action taken note, the Ministry of Finance (Department of Revenue) have stated:

“Government has taken note of the recommendations of the Committee but would like to mention that keeping in view of the multiplicity of levels of trade, and the decentralised nature of a substantial portion of the textile industry, it may not be possible to evolve any statutory mechanism to ensure or ascertain that duty concessions are passed on down the line to the level of consumers”.

1.9 Emphasizing the need for evolving a standing mechanism to ensure that such fiscal reliefs ultimately reach the consumers, the Committee in paragraph 37 of their 156th Report recommended as follows:

“The facts emerging from the present case are equally applicable to other cases where similar concessions of indirect taxes are granted. It is common knowledge that the consumers in this country are the most

neglected lot. As stated in the outset of this Report, it is also widely known that the duty concessions intended to benefit the common man rarely reach him. It is, therefore, imperative that the Government address themselves to the seriousness of the issue and evolve a standing mechanism with a view to ensuring that the concessions intended for the ultimate consumers are actually passed on and that the immediate beneficiaries and intermediaries are not allowed to manipulate the market forces to their advantage and take away the revenue sacrifice intended for the common people and enrich themselves at their cost. The Committee would like to be informed of the action taken in the matter”.

1.10 In their action taken note, the Ministry of Finance (Department of Revenue) have stated:

“This paragraph contains a specific recommendation of the Committee for evolving a standing mechanism to ensure that the duty benefits are not absorbed by the manufacturers but passed on to the ultimate consumers. While this is also one of the objectives which Government have in mind while proposing duty concessions, it may not be possible to devise any statutory mechanism to ensure that concessions are passed on since the prices of most of the commodities are not subjected to any price control and there is a multiplicity of levels in the wholesale and retail trade before the goods reach the final consumers. Excise duty is only one of the factors contributing to the price of a product and unless the Government is in a position to control the prices at each stage, it is not possible to devise any fool proof method to ensure or ascertain that the duty reductions are passed on to the consumers”.

1.11 Concessions in central excise duty involving an estimated revenue sacrifice of Rs. 241.26 crores were granted on man-made fibres and yarn in the budget of 1988-89. These concessions were extended primarily to lower the prices of fabrics and this was to be achieved by the concerned administrative Ministries keeping a close watch on their price trends. Further the budget speech had stipulated withdrawal of the concessions if there was evidence of manufacturers taking undue advantage of these concessions. Despite these emphatic assurances, the excise duty reliefs have not been passed on to the consumers and the assurances of withdrawal of the same if the objective has not been met, has proved unreal. The Price Monitoring Committee set up for the purpose expressed their inability to monitor price trend as excise duties were only one of the factors affecting the price. In view of the prices of certain inputs having gone up, the Committee came to the view that the pre-budget prices had ceased to be the bench mark against which the post-budget prices can be compared in order to determine whether the duty concessions have been passed on. It felt that the cost structure study of the synthetic fibre industry need to be carried out by an organisation equipped to go into such depth. Accordingly the

Monitoring Committee delegated the above study to the BICP. The details of the assigned study to BICP and action taken thereon by the Ministry is not known.

The Committee are therefore unable to conclude whether the ultimate objective of lowering prices and passing on the benefit of excise duty concessions to the intended beneficiaries have been achieved or not, although the Government have foregone substantial revenue on this count. They are of the firm view that these concessions introduced were not followed up with an adequate machanism for monitoring and taking remedial action whenever necessary. The Committee are also unable to accept the viewpoint that it may not be possible for the Government to devise a mechanism to see that the fiscal reliefs ultimately reach the consumers. The Committee reiterate that the Government should evolve a suitable mechanism to assess the impact of excise duty concessions over the prices of the products concerned taking into account any variations in prices of inputs so that dispensation of fiscal reliefs do not entail loss of revenue without the benefit percolating to the intended beneficiaries. In case the Government is not in a position to evolve any such mechanism, then the whole system of excise duty concessions needs to be reviewed.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee were informed during evidence that the upward movement in the prices started from July 1988 onwards. They were further informed that as the Price Monitoring Committee failed to produce the desired results after their two meetings, it was decided to take up the matter at a higher level and the matter was referred to the Bureau of Industrial Costs and Prices (BICP) in November 1988. The Committee subsequently found that the reference to BICP was, infact, made on 17 October 1988. Having known the upward trend in prices and the ineffectiveness of the Price Monitoring Committee way back in July 1988 itself there was no justification for the delay on the part of Government in seeking remedial action. Evidently, the reference made to the BICP on 17 October 1988 was more a measure seeking a cover-up of the administrative failure of the executive to enforce price reduction, which was categorically assured in the budget speech. The Committee cannot but express their severe displeasure over the casual approach to such a vital issue.

[Sl. No. 5, Para No. 34 of Appendix to 156th Report of PAC (8th Lok Sabha)]

Action Taken

This paragraph does not contain any specific recommendation on which action is required to be taken by the Government. It is, however, seen that the Committee has expressed its displeasure over the reported delay on the part of the Government in referring the matter to the BICP. It is submitted that there has been no undue delay nor did the government approach the issues in a casual manner. It is seen that the prices of synthetic fibre showed an upward trend in July, 1988. However, the actual prices normally get reported to the Government in the following month and some time lag was also involved in getting the price data of various inputs. It was felt that pre-budget prices of the fibres and yarns were no longer a bench mark for determining whether benefits have been passed or not in the light of increase in prices of various inputs that it was decided to refer the matter to the BICP.

This issues with the approval of Finance Minister.

[Ministry of Finance (Deptt. of Revenue) (F.No. 234/3/89-CX.7).]

CHAPTER III

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

Recommendation

The Committee note that in the Budget 1988-89, substantial concessions in central excise duty were granted on man-made fibres and yarn. As per the estimation made by the Ministry of Finance at the time of presentation of the Budget, these concessions involved a revenue sacrifice of Rs. 241.26 crores. In the opinion of the Committee, the actual revenue loss would be far more. The Committee regret to point out that the Ministry of Finance failed to furnish the exact amount of the duty foregone on this score.

[Sl. No. 1, Para No. 14 of Appendix to 156th Report of PAC (8th Lok Sabha)]

Action Taken

There are no specific recommendations made in this paragraph on which action is to be taken by the Government. As regards the observation of the Committee regarding the quantum of revenue loss, it may be stated that the basis on which the revenue loss was calculated has been furnished to the Committee. While the observations of the Committee have been noted, Government have no further comments to offer besides what has already been furnished to the Committee.

[Ministry of Finance (Deptt. of Revenue) F. No. 234/3/ 89-CX.7]

Recommendation

The Committee are shocked to note that the Price Monitoring Committee met only thrice, i.e., on 13 June 1988, 29 July 1988 and 30 December 1988 after the announcement of the concessions in the Budget 1988-89. The third meeting was apparently held after the Public Accounts Committee were seized of the matter. Further, according to the Ministry of Finance, the Price Monitoring Committee did not make any specific recommendation regarding the change of customs/excise duties as a result of the meetings held on 13 June 1988, 29 July 1988 and 30 December 1988. This Committee are also yet to be informed of the Status Report furnished by the Textile Commissioner, if any. The Committee can only conclude that the Price Monitoring Committee was a total failure and the way it functioned is highly deplorable. During evidence, the representative of the Ministry of Textiles admitted that after two meetings the Price Monitoring Committee had to give up because they were not producing any result. In

the opinion of the Committee, the officers who have been charged with the responsibility of overseeing the working of the Committee have clearly been remiss in the discharge of the duties entrusted to them. The Committee recommend that the ineffective and irregular working of the Price Monitoring Committee should be probed and responsibility fixed for the lapses.

[Sl. No. 4, Para No. 28 of Appendix to 156th Report of PAC (8th Lok Sabha)]

Action Taken

The price monitoring committee was reconstituted under the convenorship of the Textile Commissioner to monitor the selling prices of synthetic fibres and fabrics with a view to determining whether the duty concession given in the Budget 1988-89 were passed on down the line to the consumer. The Committee was to meet regularly to keep a watch over the price trends and advise the Government regarding the remedial measure, if necessary.

The first meeting of the Committee was held on 13.6.1988 at Bombay and keeping in view the importance given by the Government to ensure that the duty concessions are passed on, the first meeting was presided over by the Minister for Textiles Shri R.N. Mirdha. Subsequent meetings were convened on 29.7.1988, 31.12.1988 and 2.6.1989. In the second meeting held on 29th July, 1988, it was brought to notice by the representatives of the industry that the cost of the raw materials for the synthetic industry like DMT, PTA and MEG had started going up. It was pointed out by them that price depends not merely on excise duties but to a large extent on the cost of raw materials, wages, fuel, electricity charges, and other overheads and the reduction in excise duty could be more than offset by increase in the cost of anyone or more of the inputs. The Price Monitoring Committee came to the view that the pre-budget prices had ceased to be the benchmark against which the post budget prices can be compared in order to determine whether the duty concessions have been passed on. It was felt that no useful purpose will be served by holding monthly meetings unless the cost structure of the synthetic fibre industry starting from naphtha stage was carried out by an organisation equipped to go into such depth. Accordingly, the Bureau of Industrial Costs and Prices was requested in October, 1988 to study the cost structure of the synthetic fibre industry taking into account the increase in the raw material prices. In the light of these, the periodicity of the meeting as stipulated earlier could not be adhered to, since the committee was in no position to give their recommendations in the light of changes in input cost structure. In view of this, it is stated that the Price Monitoring Committee was handicapped in monitoring the prices of synthetic fibres due to frequent fluctuations in the prices of inputs. As soon as it could realise its limitations, it brought the matter to the notice of the Government at

higher levels. The Government thus does not consider that any members of the Price Monitoring Committee was deliberately at fault for not holding the meeting regularly in view of the technical constraints beyond the scope of the Committee.

This issues with the approval of Minister of Finance.

[Ministry of Finance (Deptt. of Revenue) F. No. 234/3/89-GX.7]

Recommendation

From the facts stated in the foregoing paragraphs, the committee cannot but conclude that the duty concessions granted to the manufacturers were not passed on by them to the ultimate consumers which defeated the very objective of the fiscal measure. They strongly believe that the manufacturers of man-made fibres, yarn and cloth have enriched themselves by appropriating the duty concession to themselves and not passing the same on to the consumers at any stage after the concessions became effective. The Committee would like to be informed of the details of the total actual Government revenue sacrificed during the year 1988-89 on this account without any benefit to the consumers. The list of manufacturers who have been benefited by more than Rs. one crore by this duty concession should also be furnished to the committee along with the amount of concession by which they have been benefited during the year 1988-89.

[Sl. No. 6, Para No. 35 of Appendix to 156th Report of PAC (8th Lok Sabha)]

Action Taken

The Committee has concluded that the manufacturers have not passed on the duty concessions to the ultimate consumers. It may be stated that prices of man-made fibres and filament in respect of which the duty concessions were announced in the 1988 budget showed a declining trend after the announcement of duty concessions and there have been reductions in the prices of man-made and synthetic fabrics in some cases. However, these prices started showing an upward trend after a few months. The prices of fabrics depend on a variety of factors including the cost of the fibre and yarn the weaving and processing charges, the sectors, centralised or decentralised, where the fabrics are woven or processed and a multiplicity of levels through which the fabrics pass before they reach the final consumer, composition of the fabrics, market process etc. Thus manufacturers of fibres and yarn would have little control over the final consumer price of the fabrics. Excise duty element is only one of the factors which determine the price of the yarn or the fibre and consequently the final price of the fabrics. Unless it is possible to isolate the effect of each of these factors, it is not possible to say with any degree of certainty that a particular factor is responsible for the price increase in the fabrics. In view of this, it is not possible to say that a particular unit has passed on any benefit to the consumers in the absence of such individual cost study, and thus working out the revenue sacrifice in respect of such units is also not possible.

A list of manufacturers and their production of synthetic fibre/yarn during the year 1988-89 is given in Annexure-I. It is also not possible to indicate the revenue sacrificed in the year 1988-89 on account of duty concessions not benefiting the consumers. It has been already submitted to the Committee that revenue implication of the concessions amounted to Rs. 241.26 crores, and such estimate was based on certain assumptions regarding the growth of the demand for fabrics, and consequent increased production of fibres and yarn. Government has nothing further to add in this regard.

This issues with the approval of Minister of Finance

[Ministry of Finance (Deptt. of Revenue) F.No. 234/3/89-CX.7].

ANNEXURE-I

COMPANY-WISE PRODUCTION OF SYNTHETIC FIBRE IN 1988-89

Figures in tonnes

Sl. No.	Name of the Company	Production during 1988-89
I. ACRYLIC FIBRES		
1.	IPCL	14,845
2.	J.K. Synthetics	11,586
II. NYLON FILAMENT YARN		
1.	Century Enka	2,429
2.	Baroda Rayon	4,321
3.	Garware Nylon	5,081
4.	J.K. Synthetics	4,692
5.	Modipon Ltd.	5,020
6.	Nirlon Synthetics	1,539
7.	Shree Synthetics	4,013
8.	JCT Limited	4,798
9.	LML Fibres Ltd.	4,032
10.	Sterling Steel	6
III. POLYESTER STAPLE FIBRE		
1.	Bongaigaon Refinery	5,430
2.	Calico	3,775
3.	LML Limited	8,882
4.	J.K. Synthetics	14,394
5.	Indian Organic Chem. Ltd.	10,442
6.	Swadeshi Polytex	10,966
7.	Reliance (I) Ltd.	40,151
8.	India Polyfibres	9,283

Figures in tonnes

Sl. No.	Name of the Company	Production during 1988-89
9.	Orissa Synthetics	8,994
IV. POLYESTER FILAMENT YARN		
1.	Petrofils Cooperative	10,043
2.	Century Enka	16,275
3.	Garware Nylon	4,194
4.	J.K. Synthetics	18,632
5.	Modipon Ltd.	3,519
6.	Shree Synthetics	5,114
7.	Baroda Rayon	1,637
8.	Orkay Limited	8,434
9.	Reliance (I) Limited	57,218
10.	Haryana Petrochem	2,917
11.	Nirlon Synthetics	2,339
12.	Parasrampuriah Synthetics	2,070
13.	Indian Organic Chem.	6,722
14.	JCT limited	787
15.	LML Limited	533
16.	Sterling Steel	772
17.	Ester (I) Limited	1,804

CHAPTER IV

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

Recommendation

Significantly, these concessions were granted at a time when the country was facing unprecedented droughts. The underlying idea of this fiscal relief was to enable availability of the end-production to the ultimate consumer at reduced prices. It was expected and expressly so stated in the budget speech, that the reduction in duty would result in price reduction. Unfortunately, this did not happen. In fact, the prices of man-made fibres/yarn and fabrics either went up or remained at about the same level as existed prior to the grant of the concession and when the prices did go down slightly for a few initial months, it was not because of the duty concessions, but, as an effect of demand and supply of the product itself. The Committee are surprised to note that the concession involving a considerable revenue sacrifice was extended in a manner in which full trust was reposed in the manufacturers and no control over them was prescribed to meet the cases of non-passing on of the duty relief to the ultimate consumers of the goods.

[Sl. No. 2, Para No. 15 of Appendix to 156th Report of P A C (8th Lok Sabha)].

Action Taken

There are no specific recommendations in this paragraph though it is implied that controls should have been prescribed to ensure that the duty benefits were passed on to the ultimate consumers of the goods. The Committee has already noted that there has been some reduction for a few initial months. But it is also seen that the prices had gone up from July, 1988. One of the reasons for which can be attributed to the increase in the prices of the inputs.

In the absence of any statutory price control over synthetic fibres and yarns, some trust had to be reposed in the manufacturers to ensure that they passed on duty benefits to their consumers. To keep a watch on the prices, a Price Monitoring Committee was also set up to review the situation.

(This issues with the approval of Minister of Finance).

[Ministry of Finance (Deptt. of Revenue) F. No. 234/3/89-CX. 7.]

Recommendation

The Committee note that a Price Monitoring Committee was constituted in May 1988 to monitor the selling prices of man-made fibres/yarn and fabrics with a view to determining whether the duty concessions given in the Budget 1988-89 were passed on down the line to the consumer. The Price Monitoring Committee were required to meet at least once a month to keep a watch over the price trends and advise the Government regarding the remedial measures, if necessary and the Convener of the Price Monitoring Committee, viz., the Textiles Commissioner, was to forward a Status Report regarding the price levels in relation to the duty concessions and recommendations to achieve the objectives.

[Sl. No. 3, Para No. 27 of Appendix to 156th Report of P A C (8th Lok Sabha)].

Action Taken

There are no specific recommendations in this paragraph on which action is to be taken by the Government.

(This issues with the approval of Minister of Finance)
[Ministry of Finance (Deptt. of Revenue) F. No. 234/3/89-CX. 7.]

Recommendation

The Committee note that the BICP in their report in January 1989 has concluded that the ex-factory price of PSF in October 1988 was only marginally higher than the updated normative price of PSF, while the ex-factory price of PFY was nearly Rs. 7.00 per kg. more than the normative price. However, according to BICP there was a need for monitoring the ex-factory prices at regular intervals. The Committees' attention has also been drawn to the views of the Price Monitoring Committee expressed in the meeting held on 30 December, 1988 for ascertaining the reasonable level of prices of NFY, PFY, acrylic fibres etc. Due to non-availability of requisite data from the Ministry, the Committee have not been able to evaluate the impact of the duty concessions in fulfilling the other two objectives of the fiscal relief, viz increasing the demand for fabrics and increasing the base of production, apart from lowering prices. The Committee are convinced that the facts relating to the textile industry should be studied further with a view to ensuring not only the growth of the industry at a satisfactory pace, but also that the consumers are protected from exploitation and receive the benefit of whatever concessions are extended to the industry.

[Sl. No. 7, Para No. 36 of Appendix to 156th Report of P A C (8th Lok Sabha)].

Action Taken

Government has taken note of the recommendations of the Committee but would like to mention that keeping in view of the multiplicity of levels of trade, and the decentralised nature of a substantial portion of the textile industry, it may not be possible to evolve any statutory mechanism to ensure or ascertain that duty concessions are passed on down the line to the level of consumers.

(This issues with the approval of Minister of Finance)
[Ministry of Finance (Deptt. of Revenue) F. No. 234/3/89-CX. 7].

Recommendation

The facts emerging from the present case are equally applicable to other cases where similar concession of indirect taxes are granted. It is common knowledge that the consumers in this country are the most neglected lot. As stated in the outset of this Report, it is also widely known that the duty concessions intended to benefit the common man rarely reach him. It is, therefore, imperative that the Government address themselves to the seriousness of the issue and evolve a standing mechanism with a view to ensuring that the concessions intended for the ultimate consumers are actually passed on and that the immediate beneficiaries and intermediaries are not allowed to manipulate the market forces to their advantage and take away the revenue sacrifice intended for the common people and enrich themselves at their cost. The Committee would like to be informed of the action taken in the matter.

[Sl. No. 8, Para No. 37 of Appendix to 156th Report of P A C (8th Lok Sabha)].

Action Taken

This paragraph contains a specific recommendation of the Committee for evolving a standing mechanism to ensure that the duty benefits are not absorbed by the manufacturers but passed on to the ultimate consumers. While this is also one of the objectives which Government have in mind while proposing duty concessions, it may not be possible to devise any statutory mechanism to ensure that concessions are passed on since the prices of most of the commodities are not subjected to any price control and there is a multiplicity of levels in the wholesale and retail trade before the goods reach the final consumers. Excise duty is only one of the factors contributing to the price of a product and unless the Government is in a position to control the prices at each stage, it is not possible to devise any fool proof method to ensure or ascertain that the duty reductions are passed on to the consumers.

(This issues with the approval of Minister of Finance)
[Ministry of Finance (Deptt. of Revenue) F. No. 234/3/89-CX. 7]

CHAPTER V

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

-NIL-

NEW DELHI;
April 23, 1992

Vaisakha, 3, 1914 (S)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

PART II

MINUTES OF THE SITTING OF PAC HELD ON 31 MARCH, 1992

The Committee sat from 1500 hrs. to 1735 hrs. on 31 March, 1992.

PRESENT

CHAIRMAN

Shri Atal Bihari Vajpayee

MEMBERS

2. Shri Girdhari Lal Bhargava
3. Shri Nirmal Kanti Chatterjee
4. Shri Kashiram Rana
5. Shrimati Krishna Sahi
6. Shri R. Surender Reddy
7. Shri Pratap Singh
8. Shri R.K. Dhawan
9. Shri Vishvjit P. Singh

Lok Sabha Secretariat

- | | |
|----------------------|--------------------|
| 1. Shri S.C. Gupta | — Joint Secretary |
| 2. Smt. Ganga Murthy | — Deputy Secretary |
| 3. Shri K.C. Shekhar | — Under Secretary |

Representatives of Audit

- | | |
|----------------------------|-------------------------------------|
| 1. Shri A.K. Menon | — Addl. Dy. C&AG |
| 2. Shri N. Sivasubramanian | — Addl. Dy. C&AG (Reports) |
| 3. Shri Dharam Vir | — Director General of Audit-CR(I) |
| 4. Shri P.K. Bandhopadhyay | — Pr. Director (Indirect Taxes) |
| 5. Shri A.K. Banerjee | — Pr. Director (Reports) Central |
| 6. Shri T.N. Thakur | — Pr. Director of Audit-Sc. Deptts. |
| 7. Shri Dhirendra Swarup | — Pr. Director of Audit-CR(II) |

2. The Committee took up consideration of the following Draft Reports:

- | | | | | |
|---------|----|----|----|----|
| (i) ×× | ×× | ×× | ×× | ×× |
| (ii) ×× | ×× | ×× | ×× | ×× |
- (iii) Draft Report on Action taken on 156th Report (8th Lok Sabha) of

PAC relating to Impact of the Central Excise Duty Concessions in respect of man-made fibres and yarn in the Budget 1988 on prices.

(iv) ×× ×× ×× ×× ××

3. The Committee adopted draft Report at (iii) above **subject** of modifications/amendments shown in Annexure III.....

4. The Committee authorised the Chairman to present the **Reports** to the House after incorporating therein modifications/**amendments** arising out of factual verification by Audit.

5. ×× ×× ×× ××

The Committee then adjourned.

ANNEXURE-III

Amendments/Modifications made by the Public Accounts Committee in the draft Report on Action taken on 156th Report (8th Lok Sabha) relating to Impact of the Central Excise Duty Concessions in respect of man-made fibres and yarn in the Budget 1988 on prices.

Page	Para	Line	Amendments/Modifications
7	1.11	13 from bottom	<i>For the existing lines</i> "The Committee may..... period of six months" <i>Substitute</i> 'In case the Government is not in a position to evolve any such mechanism, then the whole system of excise duty concessions needs to be reviewed'.

APPENDIX

Conclusions/ Recommendations

S. No.	Para No.	Ministry/ Deptt. Concerned	Conclusions/ Recommendations
1	2	3	4
1	1.11	Ministry of Finance (Department of Revenue)	1.11 Concessions in central excise duty involving an estimated revenue sacrifice of Rs. 241.26 crores were granted on man-made fibres and yarn in the budget of 1988-89. These concessions were extended primarily to lower the prices of fabrics and this was to be achieved by the concerned administrative Ministries keeping a close watch on their price trends. Further the budget speech had stipulated withdrawal of the concessions if there was evidence of manufacturers taking undue advantage of these concessions. Despite these emphatic assurances, the excise duty reliefs have not been passed on to the consumers and the assurances of withdrawal of the same if the objective has not been met, has proved unreal. The Price Monitoring Committee set up for the purpose expressed their inability to monitor price trend as excise duties were only one of the factors affecting the price. In view of the prices of certain inputs having gone up, the Committee came to the view that the pre-budget prices had ceased to be the benchmark against which the post-budget prices can be compared in order to determine whether the duty concessions have been passed on. It felt that the cost structure study of the synthetic fibre industry need to be carried out by an organisation equipped to go into such depth. Accordingly the Monitoring Committee delegated the

1

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3

4

above study to the BICP. The details of the assigned study to BICP and action taken thereon by the Ministry is not known.

The Committee are therefore unable to conclude whether the ultimate objective of lowering prices and passing on the benefit of excise duty concessions to the intended beneficiaries have been achieved or not, although the Government have foregone substantial revenue on this count. They are of the firm view that these concessions introduced were not followed up with an adequate mechanism for monitoring and taking remedial action whenever necessary. The Committee are also unable to accept the viewpoint that it may not be possible for the Government to devise a mechanism to see that the fiscal reliefs ultimately reach the consumers. The Committee reiterate that the Government should evolve a suitable mechanism to assess the impact of excise duty concessions over the prices of the products concerned taking into account any variations in prices of inputs so that dispensation of fiscal reliefs do not entail loss of revenue without the benefit percolating to the intended beneficiaries. In case the Government is not in a position to evolve any such mechanism, then the whole system of excise duty concessions needs to be reviewed.