

PUBLIC ACCOUNTS COMMITTEE

(1973-74)

(FIFTH LOK SABHA)

HUNDRED & FOURTH REPORT

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 80th Report (Fifth Lok Sabha) on Chapter II of the Report of the Comptroller and Auditor General of India for the year 1970-71—Central Government (Civil)—Revenue Receipts, relating to Customs.]

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LOK SABHA SECRETARIAT
NEW DELHI

January, 1974/Magha, 1895 (SAKA)

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PUBLIC ACCOUNTS COMMITTEE

(1973-74)

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Shri Jyotirmoy Bosu

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3. **Shri S. C. Besra**
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22. **Shri Sawaisingh Sisodia**

SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri M. S. Sundaresan—*Deputy Secretary.*

Shri T. R. Krishnamachari—*Under Secretary.*

*Elected on 29-11-73 *vice* Shri D. S. Afzalpurker died.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Fourth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Eightieth Report (Fifth Lok Sabha) on Chapter II of the Report of the Comptroller & Auditor General of India for the year 1970-71—Central Government (Civil)—Revenue Receipts relating to Customs.

2. On the 26th May, 1973 an 'Action Taken' Sub-Committee was appointed to scrutinise the replies from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with the following Members:

Shri H. N. Mukerjee—*Convener*.

2. Shri Sunder Lal	}	<i>Members</i>
3. Shri Biswanarayan Shastri		
4. Shri M. Anandam		
6. Shri H. M. Patel		
5. Shri Nawal Kishore		

3. The Action Taken Sub-Committee of the Public Accounts Committee (1973-74) considered and adopted this Report at their sitting held on 8th January, 1974. The Report was finally adopted by the Public Accounts Committee on the 31st January, 1974.

4. For facility of reference the main conclusions/recommendations of the Committee had been printed in thick type in the body of the Report. A statement showing the summary of the main recommendations|observations of the Committee is appended to the Report (Appendix).

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

NEW DELHI;

February 4, 1974.

Magha 13, 1895 (S).

JYOTIRMOY BOSU

Chairman,

Public Accounts Committee

CHAPTER I

REPORT

1.1. This Report deals with action taken by Government on the recommendations contained in the Eightieth Report of the Public Accounts Committee (Fifth Lok Sabha) on Chapter II of the Report of the Comptroller & Auditor General of India for the year 1970-71—Central Government (Civil)—Revenue Receipts relating to Customs, which was presented to the House on 12th April, 1973.

1.2. Action Taken Notes in respect of all the 23 recommendations contained in the Report have been received from Government. The Action Taken Notes have been categorised as under:

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

S. Nos. 1—3, 6—10, 13—16, 18, 19, 21 & 23.

(ii) *Recommendations/observations which the Committee do not desire to pursue in view of replies of Government*

Nil.

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

Nil.

(iv) *Recommendations/observations in respect of which Government have furnished interim replies:*

S. Nos. 4, 5, 11, 12, 17, 20 & 22.

1.3. The Committee hope that final replies in regard to the recommendations/observations to which interim replies have been furnished will be submitted to them expeditiously after getting them vetted by Audit.

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

Cost of collection of customs duties—Paragraph 1.25 (S. No. 4)

1.5. Dealing with the expenditure incurred on the collection of customs duties the Committee had made the following recommen-

dition in paragraph 1.25 of the Report:

"As a result of the increase in customs revenue the percentage of expenditure to the revenue has come down to 1.4 per cent during 1971-72. In the absence of information regarding the expenditure on staff employed on assessment and collection of duties alone from year to year, the Committee are unable to judge clearly whether there has been genuine improvement. There should be an apportionment of the cost between the assessment work and other activities of the Department with a view to having an effective control over the cost of assessment and collection of customs duties. It is also necessary to see how far the lower percentage was due to a more rise in the rate of taxation. The Committee suggest that the Department should carry out a detailed and meaningful analysis of the cost of collection so that a correct appreciation of the position becomes possible."

1.6. The Ministry of Finance (Department of Revenue & Insurance) in their reply dated 6th December, 1973 have stated as below:

"The Director of Inspection, Customs & Central Excise who was nominated as the co-ordinating officer has been asked to collect necessary data for processing the suggestion to maintain separate accounts in regard to 'preventive functions' and 'other functions' of the Customs Department. He accordingly collected the necessary material which was discussed in a departmental meeting. The conclusions reached were communicated to the C&AG for his approval. It is understood from the Director of Inspection (Customs & Central Excise) that the C&AG has made some further suggestions for consideration. The Director has already sent his reply to the suggestions and a final decision is likely to be taken very early after informal discussion in a meeting to be held in early December 1973."

1.7. The Committee note that the question of maintaining separate accounts in regard to preventive functions and other functions is under consideration of Government in consultation with Audit. The Committee trust that after apportionment of the expenditure, the cost of assessment and collection of customs duties as compared with total collections will be analysed having regard to the effect of increase in the rate of taxation as already suggested by them. The outcome of the examination may be intimated to them.

Charges paid to the Union Excise Department in respect of outports and land customs work—Paragraph 1.26 (S. No. 5)

1.8. In paragraph 1.26 of the Report, the Committee made the following observations regarding charges paid by the Customs to the Excise Department for outports and land customs work:

“Out of an increase of Rs. 3.05 crores, in the expenditure of the Department during the period 1967-68 to 1970-71 ‘charges paid to the Union Excise Department for outports and land customs work’ alone accounted for an increase of Rs. 1.41 crores. The charges paid to the Union Excise Department amounted to Rs. 3.69 crores out of the total expenditure of Rs. 8.66 crores during 1970-71. The Committee desire that the reasonableness of the charges paid and of the increase from 1967-68 should be gone into to ascertain whether there is any scope for economy. In this connection the Committee understand that the question of revising the prescribed formula for working out the charges payable to the Excise Department is under examination. This should provide ample justification for the examination suggested by the Committee. The results of the examination and the decision taken in the matter may be intimated to the Committee.”

1.9. In their reply dated 6th December, 1973, the Ministry of Finance (Department of Revenue & Insurance) have stated as follows:—

“Having regard to the recommendation of the Public Accounts Committee, the Ministry suggested a new formula to the C&AG for the allocation of expenditure between Customs & Central Excise. This formula was discussed in a meeting attended on 29th May, 1973 by the Revenue Department, Comptroller & Auditor General and Budget Division. It was decided in that meeting that, before revising the existing formula, a sample, study of two or three Central Excise Collectorate should be undertaken. Accordingly, a team of two officers (viz. one from C&AG's Office and one from Revenue Department) was constituted. This Team has already conducted Colleeorate and prepared a report.

"The Director of Receipt Audit has proposed that Bombay, Calcutta & West Bengal and Cochin Collectrates may also be surveyed. It is expected that the study team will start the survey of the above mentioned Collectrates early December (the tentative date being 10th December 1973). It has been impressed upon the Director of Inspection (Customs & Central Excise) to ensure early completion of the survey and finalise the report."

1.10. The Committee desire that the proposed survey of the Bombay, Calcutta and West Bengal and Cochin Collectrates should be completed expeditiously. They would like to be apprised of the decision taken on revising the formula for allocation of expenditure between Customs and Central Excise.

Variation between the Reserve Bank of India figures and Directorate General of Commercial Intelligence & Statistics figures regarding exports—Paragraph 1.35 (S. No. 7)

1.11. The Committee made the following observations in paragraph 1.35 of the Report regarding variation between the figures of exports maintained by the Reserve Bank of India and Directorate General of Commercial Intelligence:

"The variation between the Reserve Bank of India figures and Directorate General of Commercial Intelligence and Statistics figures is not confined to jute and hides and skins alone. It is the case with practically all the commodities, while the variations in regard to oil cakes and iron ore also are quite marked. The Committee are of the view that since the statistics maintained by two agencies are depended upon for policy making, normally the variations should not be large. They have been informed that a Committee has been appointed to go into the present system of compilation of foreign trade statistics based on customs data. Steps taken to build up reliable statistics as a result of this study may be reported to them."

1.12. In a note dated 26th September, 1973 the Ministry of Commerce stated as follows:

"Minhas Committee appointed to examine the system of compilation of export statistics and to look into the working of the office of the D.G.C.I.&S., Calcutta have *inter alia* gone into the question of divergences between the balance of payments data compiled by R.B.I. and the customs data compiled by the D.G.C.I.&S. The Committee in their

interim report have stated that normally the two sets of data differ on account of the divergence in the source of data, method of valuation, coverage, timing and classification. However, the divergence in the overall export figures between the two sets of data has widened after the introduction of the method of compiling export statistics on the basis of original (i.e. provisionally passed) copy of the shipping bill with adjustment being made for short and shutout shipments information received during the period introduced by the D.G.C.I.&S. in Nov. 1970. It is possible that under this system the divergencies between the two sets of data have been exentuated because of the lack of complete reporting of fully shut out shipments by the shippers. The RBI data are based on the duplicate copy of the G.R. forms which are broadly comparable to the finally passed shipping bills. The principal recommendations made by the Committee in their interim report for ensuring accuracy in the compilation of export statistics based on customs data are as follows:—

- (i) A change over with effect from 1st April, 1973 to the compilation of export statistics on the basis of shipments, i.e. from the duplicate (finally passed) copy of the shipping bills instead of the original (provisionally passed) copy on which adjustments for short and shut out shipments were being made but with a time lag depending on the receipt of this information by the Customs from the shippers. This recommendation has already been accepted and implemented.
- (ii) For proper co-ordination of work between the Customs Houses and D.G.C.I.&S. and also ensuring accuracy, strengthening of the staff both at the Customs and the D.G.C.I.&S.'s offices has been recommended. The case for upgradation/creation of posts both at the Customs and the D.G.C.L.&'s office is being processed in consultation with the Ministry of Finance."

1.13. The Committee would await the steps taken to build up reliable statistics on the basis of the final report of the Minhas Committee.

Claim for drawback and cash assistance—Paragraph 1.55 (S. No. 11).

1.14. Referring to a case where both drawback and cash assis-

tance had been claimed, the Committee made the following observations in paragraph 1.55 of the Report:

“Besides drawback, cash assistance is also allowed to promote exports. While the admissibility and rates of duty drawback are fixed by the Ministry of Finance (Department of Revenue & Insurance), the cash assistance is fixed by the Ministry of Foreign Trade. In this connection, the Committee understand that a case is under investigation where drawback was claimed on a declaration that imported materials had been used while cash assistance was also obtained stating that indigenous materials had been used. The result of the investigation may be reported to the Committee. In order to guard against such malpractices and ensure that a person does not get more benefit than is justified, the Committee are of the view that the fixation of drawback and cash assistance should be centralised in one agency.”

1.15. In their reply dated 22-10-1973, the Ministry of Finance (Department of Revenue & Insurance) stated as follows:

“The Committee’s suggestion that fixation of drawback and cash assistance should be centralised in one agency is being further examined, in the light of the views of the Ministry of Commerce received recently that they do not consider it a feasible proposition. Possible alternatives that would achieve the desired results are also being considered.

2. As regards the specific case where drawback was claimed on the basis that certain materials were imported while for purposes of cash assistance they were stated to be indigenous materials, the position is that a company (.....) had declared to the Drawback Directorate that certain imported materials had been used in the manufacture of their export products. On verification it was found that in the case of imported natural raw rubber, a small percentage had not been utilised in the manufacture of the export products, and that in respect of certain chemicals, the data furnished were insufficient for the purpose of working out the duty incidences on them. However, these factors did not materially affect the fixation of the drawback rates. In the case of imported natural raw rubber a general decision had been taken to

consider only 20 per cent of the natural raw rubber as imported and the rest as indigenous, in spite of the evidence of higher utilisation of imported rubber by the company. The chemicals referred to above were not taken into account while calculating the rates of drawback. The drawback rates were accordingly fixed on the above basis, in consultation with the Comptroller and Auditor General of India.

3. As regards the results of the investigation into the company's claim for cash assistance, the Ministry of Commerce who are concerned, have been requested to report the position to the Lok Sabha Secretariat."

1.16. The Committee note that in view of the Ministry of Commerce, centralisation of fixation of drawback and cash assistance in one agency is not feasible and that in the light of this view the matter is being further examined. Possible alternatives that would achieve the desired results are also stated to be under consideration. The Committee desire that the matter should be examined expeditiously and the outcome reported to them.

1.17. The Committee await the results of the investigation into the claim for cash assistance in the case referred to by them.

Incorrect assessment to duty—Paragraph 1.63 (S. No. 12).

1.18. Commenting on a case of incorrect assessment of opera glasses imported in a major port, the Committee had made the following observations in paragraph 1.63 of the Report:

"The opera glasses imported in a major port were assessed to customs duty as 'optical appliances' at 20 per cent *ad valorem*. The goods were merely 'toy binoculars' which should have been assessed appropriately as toys at 100 per cent *ad valorem*. It should have been clear to the Customs House that none of the items classified as 'optical instruments' would have so low a value as Rs. 4/- each. The Committee do not think that the procedure for classification of goods, examination etc. is satisfactory. Further, as the assessment has since been revised classifying the articles as toys, licence for optical instruments would not cover their imports. This aspect may, therefore, be examined with a view to taking suitable action in case the goods were not covered by proper import licence."

1.19. The Ministry of Finance (Department of Revenue and Insurance) in their reply dated 31-10-1973 stated:

"Item 77(4) I.C.T. covers 'optical instruments, apparatus and appliances' and as long as an appliance is designed to be used as an aid to vision it would ordinarily merit classification under this item irrespective of its value. It does not always follow that an article having as low a value as Rs. 4/- would not be classifiable under the item. In fact, a simple magnifying glass would be properly assessable under item 77(4) ICT. In the particular case, however, the opera glasses in question, being more in the nature of 'toys', rather than 'optical instruments' should have been classified accordingly. The error in treating the goods as 'optical appliances' and not as 'toys' was due to a mistake in judgment on the part of the assessing officer and was not due to any lacunae or short-coming in the procedure for classification of goods.

The observations of the Committee that suitable action should be taken in case the goods were not covered by proper Import Licence have been noted and the matter is being examined by the Collector of Customs, Bombay. Final action taken in the matter will be intimated to the Committee."

1.20. The Committee note that pursuant to their suggestion the question of taking suitable action in case the goods were not covered by proper Import Licence, is still under examination. The Committee do not appreciate the delay in carrying out this examination and would urge expeditious action in the matter.

Short levy of customs duty due to adoption of erroneous weight (Paragraph 1.71—S. No. 13).

1.21. Dealing with a case of incorrect assessment involving short levy of Customs duty the Committee made the following observations in paragraph 1.71 of the Report:

"The Committee learn that the import of floor plates mentioned in the Audit Paragraph was made by a Public Sector Undertaking under a special procedure whereby the goods imported are provisionally assessed first and thereafter on detailed examination at the project site of full details final assessment is made. The goods in this case

were assessed on the declared net weight of 18,640 Kgs., whereas the gross weight was 41,060 Kgs. As the packing material could not have accounted for such difference in weight, the Committee are at a loss to understand why the discrepancy was not reconciled at the time of assessment. It is surprising that the Internal audit also did not point out the omission. Further, as under the special procedure the goods are permitted to be immediately removed to the plant site to facilitate erection, the possibility of its weighment in cases where discrepancies in weight are noticed later, appears to be remote. This lacuna in the procedure, therefore, requires to be remedied. Arrangement should also be made to avoid delay in assessment of goods under the procedure as has happened in this case."

1.22. The Ministry of Finance (Department of Revenue & Insurance) in their reply in a note dated 13-12-1973 stated as follows:

"The observations of the Committee have been noted. At the time of audit of the relevant bill of entry, Appraisers were not posted in the Internal Audit Department of the Custom House. As the Committee is aware, Internal Audit Department has since been strengthened by posting Appraisers for audit.

In this case, the discrepancy between net weight and gross weight arose out of wrong declaration which should have been detected at the time of assessment. The mistake in assessment is, therefore, due to human error rather than any lacuna in the procedure. Even after the goods are taken into use, it should be possible to arrive at the net weight of the goods on the basis of literature, packing specification and other relevant documents, as was done in this case. However, to avoid such instances in future instructions have been issued by the Collector of Customs, Calcutta (copy enclosed, page 23) to ensure that packing list shipper's specification etc. are available for reference at the time of assessment. Collectors of other major Custom Houses have also been asked to take similar action. Steps have also been taken to post experienced Appraisers to finalise special procedure bills of entry."

1.23. The Committee note that the Collector of Customs, Calcutta, has issued certain instructions to enable a correct assessment of goods under the special procedure. The Committee suggest that the

Board should ensure that similar action is taken by the other Custom Houses concerned.

Fraudulent drawal of drawback payments from treasury—Paragraph 1.110 (S. No. 21)

1.24. Commenting on certain fraudulent withdrawals of drawback payment from treasury, the Committee in paragraph 1.110 of the Report observed as follows:—

“There have been a number of lapses both in the Treasury and the Custom House which facilitated these fraudulent drawals. The Treasury did not verify the genuineness of the payment orders with reference to the duplicate copies which are required to be received directly from the Custom House under the rules. Further, payment orders with the same serial numbers are stated to have been paid over twice by the Treasury. The checks are required to be tightened up to guard against any fraudulent practices.”

1.25. In their note dated 24-9-1973 the Ministry of Finance (Department of Revenue & Insurance) replied as follows:

“The relevant extracts of the Committee’s report have been forwarded to the Deputy Commissioner, Delhi requesting him to issue suitable instructions to the T.O. concerned for taking measures to guard against such fraudulent occurrences in future, vide Ministry’s letter F. No. 442/4/73-Cus. IV dated 7-9-73 (copy enclosed, page 31). To prevent occurrence of such frauds in future, a procedure of making payments of drawback claims and refunds by cheques has also been formulated and sent to C&AG and Budget Division of the Deptt. of Expenditure for concurrence.

1.26. The Committee would like to know the action taken by the Deputy Commissioner, Delhi to tighten up the checks by the Treasury to guard against fraudulent withdrawals.

CHAPTER II

RECOMMENDATIONS|OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The variation between the Budget estimates and the actuals of customs revenue ranged from—19.8 per cent to+28.48 per cent during the period 1961—71. The Committee have been repeatedly urging that there should be a closer estimation of revenue. In spite of the steps stated to have been taken in pursuance of the Committee's recommendations it is regrettable that variation is still large. The Ministry assure the Committee that all attempts are now being made to prepare the budget estimates on a realistic basis as far as possible so as to reduce the gap between the estimates and the actuals. The Committee will watch with close interest results of these further efforts through future Audit Reports and trust that they will indicate noticeable improvement.

[Serial No. 1 (Paragraph 1.12) of appendix to the 80th Report of
P.A.C.—5th Lok Sabha]

Action taken

The observations made by the Committee have been noted.

[Ministry of Finance (Department of Revenue & Insurance) O.M.
No. 342|1|73—TRU dated 25-8-1973]

Recommendation

In pursuance of an earlier recommendation of the Committee, a Directorate of Tax Research was to be set up. A provision in this regard was made in the 1965 budget. However, it took 5 years to bring the Directorate into existence. The reasons adduced for so much delay are not convincing; they do indicate on the contrary that the efforts were not determined enough. The Committee wish to observe that the Ministry should regard it as their moral obligation to give effect to the Committee's recommendations once these

are accepted. If they come across insuperable difficulties, they should on their own initiative apprise the Committee of those difficulties at the earliest opportunity.

[S. No. 2 (Paragraph 1.13) of the 80th Report of
P.A.C.—5th Lok Sabha]

Action taken

The instructions of the Committee have been noted for future guidance.

[Ministry of Finance (Department of Revenue & Insurance) O.M.
No. H. 11013/1/73—Ad. I dated 14-12-1973].

Recommendation

While the Customs revenue had come down from Rs. 513.35 crores during 1967-68 to Rs. 423.31 crores during 1969-70, the expenditure of the Department has gone up from 5.61 crores to Rs. 7.83 crores. The percentage of expenditure to revenue had thus increased from 1.1 per cent to 1.85 per cent. This was partly due to strengthening of the Department in pursuance of the recommendations of the Customs Study Team set up in March, 1966. Besides creation of new posts, there had been upgradation of several posts. The Ministry are unable to indicate specifically the posts created for collection work. The Committee find it difficult to understand why no specific study was made regarding the potentiality of the existing staff before deciding upon the quantitative strengthening of staff in various departments of Customs House. In view of the increasing need for economy in administrative expenditure, the Committee consider that such an objective study is an essential prerequisite to guard against unjustified addition to the existing strength of staff, and desire that this should be borne in mind at least in future.

[Sl. No. 3, (Para. 1.24) of Appendix to the 80th Report of
P.A.C.—5th Lok Sabha]

Action taken

The Committee's observations and recommendations have been noted. It may, however, be submitted that the bulk of the increase in staff during the relevant period were made pursuant to the recommendations of the Customs Study Team which had made a detailed examination of the working of the Customs Department.

The other increases in staff for handling additional work-load were sanctioned on being satisfied that the additional work-load could not be managed by the existing staff. Although for this purpose, a detailed study of the potentiality of the existing staff was not specifically made before sanctioning additional staff, the feasibility of the existing staff to handle the additional workload is certainly kept in view while considering any increase in staff. In cases where the increase in work-load in any particular Department of the Custom House has been clearly beyond the capacity of the existing staff of the department to manage, having regard to the prescribed norms, if any, and there has not been any perceptible decrease of workload in any other department so as to permit diversion of the existing staff from the latter department to the former department, sanctioning of more staff for handling the additional work-load becomes clearly inescapable. It is further submitted that a detailed study which was made recently by the Directorate of Inspection (Customs and Central Excise) of the staffing requirements of the Customs Houses pursuant to the Committee's recommendations contained in para 1.21 of their 8th Report (1971-72) has shown that there was no excess deployment of staff in the performance of functions relating to collection of duties on imports. The Ministry assure that Committee that only such increases of staff strength are sanctioned as are considered absolutely necessary for handling additional workload with regard to the need for economy in administrative expenditure.

[Ministry of Finance (Department of Revenue & Insurance) O.M. No. H.11016/19/73-Ad.IV, dt. 7-11-1973].

Recommendation

Although gross revenues from Customs duties registered an increase of Rs. 107.50 crores during 1970-71, revenue from customs exports fell by Rs. 12.03 crores. This fall in export duty was explained as partly due to fall in exports of jute and hides and skins. From the figures furnished to them, the Committee find that whereas export of jute yarn and manufactures were to the extent of Rs. 233.5 crores, Rs. 204.6 crores and Rs. 161 crores during 1968-69, 1969-70 and 1970-71 according to the Reserve Bank of India, the exports were Rs. 218.0 crores, Rs. 206.7 crores and Rs. 190.0 crores according to the Directorate General of Commercial Intelligence and Statistics. Further Reserve Bank of India figures of exports of hides and skins were Rs. 19.6 crores, Rs. 17.4 crores and Rs. 10.0 crores and Directorate General of Commercial Intelligence and

Statistics figures were Rs. 5.3 crores, 6.3 crores and Rs. 3.8 crores. Thus the two sets of figure vary widely. It is significant to note that the RBI figures for hides and skins exports were consistently higher. The Committee therefore desire that the variations should be critically gone into and the results reported to them.

[Sl. No. 6 Paragraph 1.34 of Appendix to the 80th Report of
P.A.C.—5th Lok Sabha]

Action taken

This Ministry is keeping a close watch on the trends shown by export statistics as and when these become available from the DGCI&S as well as the RBI. Any unusual divergences between the two sets of data are taken note of and are examined with a view to identify the factors responsible for the divergence. Differences between the DGCI&S and the RBI export figures are perhaps inevitable owing to differences in the sources of data, coverage, valuation, timing and other factors. For example, the territorial coverage of the two series is not identified. The DGCI&S include trade with Nepal while the RBI figures do not. There is also an inevitable time lag between the shipment of goods by the shippers and the submission of relevant exchange control documents by the authorised dealers for foreign exchange to the RBI. Sometimes the actual invoice values recorded in the GR form on which RBI data are based are not identical with the f.o.b. values recorded by the Customs. Apart from these reasons there are other factors which makes it difficult to compare data on exports of individual commodities as compiled by the DGCI&S and those compiled by the RBI.

While the broad commodity classification of exports in the two series is the same, the DGCI&S classification is more comprehensive and is based on the physical scrutiny of the consignment. RBI, however, accepts the commodity classification given by the exporters which may not be adequate in all cases and for some cases may be different from the one adopted by the DGCI&S. For example, while goat and sheep skin undressed are included by the RBI under hides and skins raw, the DGCI&S includes a portion of them which is semi-tanned but unfinished under leather. If the two items—raw hides and skins and leather are taken together the difference bet-

ween the RBI and DGCI&S figures would be narrowed down considerably.

Exports of raw hides & skins and leather

	1968-69		1969-70		1970-71	
	RBI	DGCI&S	RBI	DGCI&S	RBI	DGCI&S
1. Raw hides and skins . . .	19.6	5.3	17.4	8.5	10.0	3.8
2. Leather & leather manufactures .	66.9	72.7	77.1	81.5	70.0	72.2
	85.5	78.0	94.5	90.0	80.0	76.0

The DGCI&S compiles its export figures f.o.b. from the DTRs prepared by the Customs. On the other hand, RBI commodity-wise figures are a mixture of f.o.b., of and c.i.f. invoice values. For exports of leather goods, the cash subsidy is provided at the rate of 50 per cent of the cost of air-freight or 10 to 15 per cent of the f.o.b. value of exports. The high cost of transport would partly explain the higher figures of RBI for this commodity.

The main reasons for the difference between the commodity-wise export data compiled by the DGCI&S and the RBI have been identified. The difference between the two sets of data at commodity level can only be explained by the severality of factors responsible which it is difficult to identify separately, assigning weights to every one of them. The DGCI&S data are compiled in terms of value and quantity whereas the RBI data are only in value terms.

[D.O. letter No. 22(4)/73-EPL, dated 11-10-1973 from the Ministry of Commerce].

Recommendation

The variation between the Reserve Bank of India figures and Directorate General of Commercial Intelligence and Statistics figures is not confined to jute and hides and skins alone. It is the case with practically all the commodities, while the variations in regard to oil cakes and iron ore also quite marked. The Committee are of the view that since the statistics maintained by two

agencies are depended upon for policy making, normally the variations should not be large. They have been informed that a committee has been appointed to go into the present system of compilation of foreign trade statistics based on customs data. Steps taken to build up reliable statistics as a result of this study may be reported to them.

[Sl. No. 7 Paragraph No. 1.35 of Appendix to the 80th Report of P.A.C.—5th Lok Sabha]

Action taken

Minhas Committee appointed to examine the system of compilation of export statistics and to look into the working of the office of the DGCI&S, Calcutta, have *inter alia* gone into the question of divergences between the balance of payments data compiled by RBI and the customs data compiled by the DGCI&S. The Committee in their interim report have stated that normally the two sets of data differ on account of the divergence in the source of data, method of valuation, coverage, timing and classification. However, the divergence in the overall export figures between the two sets of data has widened after the introduction of the method of compiling export statistic on the basis of original (i.e., provisionally passed) copy of the shipping bill with adjustment being made for short and shutout shipments information received during the period introduced by the DGCI&S in November, 1970. It is possible that under this system the divergencies between the two sets of data have been eventuated because of the lack of complete reporting of fully shutout shipments by the shippers. The RBI data are based on the duplicate copy of the G.R. forms which are broadly comparable to the finally passed shipping bills. The principal recommendations made by the Committee in their interim report for ensuring accuracy in the compilation of export statistics based on customs data are as follows:—

- (i) A change over with effect from 1st April, 1973 to the compilation of export statistics on the basis of shipments, i.e., from the duplicate (finally passed) copy of the shipping bills instead of the original (provisionally passed) copy on which adjustments for short and shut-out shipments are being made but with a time lag depending on the receipt of this information by the Customs from the shippers. This recommendation has already been accepted and implemented.

- (ii) For proper co-ordination of work between the Customs Houses and DGCI&S and also ensuring accuracy, strengthening of the staff both at the Customs and the DGCI&S's offices has been recommended. The case for upgradation/creation of posts both at the Customs and the DGCI&S's office is being processed in consultation with the Ministry of Finance.

[D.O. letter No. 22(4)/73-EPL, dt. 11-10-1973 from the Ministry of Commerce].

Recommendation

Payments towards refunds and drawback increased from Rs. 30.52 crores in 1969-70 to Rs. 37.32 crores in 1970-71. The Committee understand that at present these payments are not shown in accounts separately. As it is of some importance to Government to know the variations in refunds and drawbacks from year to year, the Committee suggest that the desirability of showing these payments separately in accounts may be considered in consultation with the Comptroller and Auditor General.

[Sl. No. 8 Paragraph 1.52 of Appendix to the 80th Report of P.A.C.—5th Lok Sabha].

Action taken

The Committee's recommendation to show payments of refunds and drawback separately in accounts has been accepted by the Government. However, the matter has been referred to the Comptroller and Auditor General of India on 7th August, 1973 for their concurrence. Their comments are awaited.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 342/1/73-TRU, dt. 12-11-1973].

Recommendation

From the figures furnished to the Committee on the basis of Departmental returns they find that the drawback payments registered an increase of Rs. 8.04 crores in 1970-71. The Chairman, Central Board of Excise and Customs has undertaken to examine the reasons for this significant increase. The Committee awaits the results of this examination.

[S. No. 9 (Paragraph 1.53) of Appendix to the 80th Report of P.A.C.—5th Lok Sabha].

Action taken

A study has been made to examine the reasons for increase in payments of drawback during the year 1970-71 as compared to the amount of drawback paid during the year 1969-70. In this connection, some of the commodities on which large amounts of drawback have been paid, and also there is increase in drawback payments *vis-a-vis* the previous year, were examined, and the following is found to be the position:—

Year	Drawback paid	Corresponding f.o.b. value
(i) Rubber products :		
1969-70	Rs. 72.12 lakhs	Rs. 329.12 lakhs
1970-71	Rs. 109.73 lakhs	Rs. 522.32 lakhs.
Reasons for increase —Increase in volume of exports.		
(ii) Paper and paper products :		
1969-70	Rs. 33.48 lakhs.	{ F.O.B. value not known since drawback is mostly on packing materials.
1970-71	Rs. 62.35 lakhs	
Reasons for increase —The main reasons for this increase is upward revision of rates.		
(iii) P.V.C Leather Cloth :		
1969-70	Rs. 5.82 lakhs.	Rs. 89.63 lakhs.
1970-71	Rs. 25.35 lakhs	Rs. 968.24 lakhs
Reasons for increase :—Increase in Volume of exports		
(iv) Cinema films :		
1969-70	Rs. 7.14 lakhs.	Rs. 221.40 lakhs.
1970-71	Rs. 7.34 lakhs.	Rs. 292.09 lakhs.
Reasons for increase —(1) Increase in volume of exports, and		
(2) Increase in rates of drawback from Rs. 15/- per 100 lines metres to Rs. 17/- per 100 linear metres.		
(v) Electrical Goods and accessories :		
1969-70	Rs. 14.04 lakhs.	Rs. 89.88 lakhs.
1970-71	Rs. 20.85 lakhs.	Rs. 247.22 lakhs.
Reasons for increase —Increase in volume of exports.		

<i>Year</i>	<i>Drawback paid</i>	<i>Corresponding f.o.b value</i>
<i>(vi) Dye Stuffs :</i>		
1969-70 . . .	Rs. 10·24 lakhs.	Rs. 105·97 lakhs.
1970-71 . . .	Rs. 22·85 lakhs.	Rs. 183·61 lakhs.
<i>Reasons for increase</i> —Increase in volume of exports.		
<i>(vii) Woollen fabrics :—</i>		
1969-70 . . .	Rs. 156·57 lakhs.	Rs. 659·67 lakhs.
1970-71 . . .	Rs. 297·81 lakhs.	Rs. 1084·67 lakhs.
<i>Reasons for increase</i> :—(1) Increase in volume of exports .		
(2) Increase in rates of drawback.		
<i>(viii) Machine tools Small & Cutting Tools and Hand tools</i>		
1969-70 . . .	Rs. 17·43 lakhs.	Rs. 298·88 lakhs.
1970-71 . . .	Rs. 44·79 lakhs.	Rs. 624·04 lakhs.
<i>Reasons for increase</i> —(1) Increase in volume of exports.		
(2) Apart from increase in volume of exports, there was increased settlement of claims of earlier years (where no brand rates were available) consequent to giving retrospective effect of 'all industry' rates fixed for these items in 1970-71.		
<i>(ix) Cast Iron products :—</i>		
1969-70 . . .	Rs. 12·49 lakhs.	Rs. 227·90 lakhs.
1970-71 . . .	Rs. 13·42 lakhs	Rs. 284·95 lakhs.
<i>Reasons for increase</i> :—Increase in volume of exports		
<i>(x) Articles made of brass :</i>		
1969-70 . . .	Rs. 26·98 lakhs.	Rs. 437·93 lakhs.
1970-71 . . .	Rs. 44·56 lakhs.	Rs. 767·72 lakhs.
<i>Reasons for increase</i> :—Increase in volume of exports.		
<i>(xi) Motor and Motor Vehicle parts :</i>		
1969-70 . . .	Rs. 82·19 lakhs.	Rs. 434·61 lakhs.
1970-71 . . .	Rs. 211·33 lakhs.	Rs. 1214·21 lakhs.
<i>Reasons for increase</i> :—Increase in volume of exports.		
<i>(xii) Diesel Engines and parts thereof :</i>		
1969-70 . . .	Rs. 7·90 lakhs.	Rs. 148·23 lakhs.
1970-71 . . .	Rs. 30·85 lakhs.	Rs. 476·78 lakhs.

<i>Year</i>	<i>Drawback paid</i>	<i>Corresponding f.o.b. value</i>
<i>Reasons for increase: Increase in volume of exports.</i>		
<i>(xiii) Articles made of Copper</i>		
1969-70 . . .	Rs. 10.57 lakhs.	Rs. 79.52 lakhs.
1970-71 . . .	Rs. 99.14 lakhs.	Rs. 1242.13 lakhs.
<i>Reasons for increase :— Increase in volume of exports.</i>		
<i>(xiv) Chemical and Pharmaceuticals :</i>		
1969-70 . . .	Rs. 19.61 lakhs.	Rs. 165.17 lakhs.
1970-71 . . .	Rs. 6325 lakhs.	Rs. 630.36 lakhs.
<i>Reasons for increase :—Increase in volume of exports.</i>		

2. Besides the above, rates of drawback 'all industry' basis in respect of the following commodities were fixed during the year 1970-71 for the first time and pending provisional claims where no brand rates of drawback had been fixed were also settled at these rates, and this resulted in increased disposal during the year 1970-71 of the claims pertaining to earlier years.

1. Oil Mill Machinery.
2. Footwear.
3. Textile Machinery.
4. Radios and Transistors.
5. Domestic Refrigerators.
6. Asbestos Cement Products.
7. Copper winding Wires.

3. Disposal of more claims during the year 1970-71 is also another factor that contributed to the increase in payments of drawback. During the year 1970-71, 1,49,977 claims were disposed of as against 1,22,164 claims during the year 1969-70.

4. During the year 1970-71, 5,000 additional brand rates were fixed resulting in the disposal of a number of 'Provisional' claims of the earlier years.

5. From the above it will be seen that the factors responsible for increased payment of drawback during the year 1970-71, as compared to the year 1969-70, are broadly the following:--

- (I) Increase in volume of exports;
- (II) Increase in rates of drawback;
- (III) Disposal of more claims during the year.
- (IV) Fixation of more 'all industry' and brand rates of drawback.

[Ministry of Finance (Department of Revenue & Insurance) O.M.
No. 603/8/73—DBK dated 28-9-1973].

Recommendation

The Committee find that as on 31-3-1972, 18,089 drawback claims were pending in the various Custom Houses for more than three months. The delay is largely due to non-fixation of drawback rates. There appears to have been considerable delay in verifying the data furnished by the exporter for the purpose of fixation of drawback rates. Further, where the rates are already available the claims are pending either for want of certificates of export inspection agencies or laboratory test reports or due to delay in tracing the original bills of entry. All this point to a rather unsatisfactory state of affairs. The Committee have earlier stressed the need to dispose of the drawback claims expeditiously. As drawback is allowed as one of the export promotion measures, the claim should not remain pending for more than three months so that hardship to the exporters is reduced to the minimum.

[S. No. 10(Paragraph 1.54) of appendix to the 80th Report of P.A.C—
5th Lok Sabha].

Action taken

The Committee's observations have been noted. These have also been brought to the notice of the Collectors of Customs [Central Excise for information and necessary action.

2. The pending drawback claims could be categorised into (i) provisional claims and (ii) other than provisional claims. The pendency position of provisional claims as on 31-3-1972 was 15984 and this has now been brought down to the figure of 7273. These are cases where special brand rates applicable to individual manufacturers are required to be fixed as they are not covered by all industry rates or because the all industry rates already existing are not

being availed of by certain individual manufacturers on the ground that they are less than 75 per cent of the actual duty incidence in their particular cases. For fixation of drawback rates in this category of cases, it is necessary that manufacturers|exporters furnishes certain basic data showing particulars of composition, utilisation and procurement of raw materials, wastage, etc., and also arrange for their verification by the Government. Experience shows that the parties concerned take considerable time for doing so, and as a consequence the fixation of drawback rates gets delayed. An analysis of the pending provisional claims in major Custom Houses as on 31-12-1972 revealed that in respect of as high as 51 per cent of pendency, even basic data for fixation of rates had not been submitted and in another 28 per cent of the cases, the data, though submitted, were yet to be verified. Keeping in view the inherent and inevitable delays in the matter of fixation of brand rates, certain facilities, like (1) acceptance of data certified by statutory auditors in lieu of prior verification and fixing and granting drawback on that basis subject to post verification, (2) making provisional payment of drawback upto 75 per cent of the amount claimed, have been made available.

3. As regards the second category of claims i.e. other than provisional claims, where rates are available, the claims pending for over three months on 31-3-1972 were 2155 only, and this worked out to about 4 per cent of the intake during the earlier quarter. A small pendency is unavoidable in some cases. The need to call for Bills of Entry in certain cases has also been dispensed with, through suitable modification in the manner of fixation and computation of the drawback rate.

[Ministry of Finance (Department of Revenue & Insurance) O.M. No. 603/4/73—DBK dated 19-12-1973].

Recommendation

The Committee learn that the import of floor plates mentioned in the Audit Paragraph was made by a Public Sector Undertaking under a special procedure whereby the goods imported are provisionally assessed first and thereafter on detailed examination at the project site of full details final assessment is made. The goods in this case were assessed on the declared net weight of 18,640 Kgs. whereas the gross weight was 41,060 Kgs. As the packing material could not have accounted for such difference in weight, the Committee are at a loss to understand why the discrepancy was not reconciled at the time of assessment. It is surprising that the Internal audit also did not point out the omission. Further, as under the

special procedure the goods are permitted to be immediately removed to the plant site to facilitate erection, the possibility of its weight in cases where discrepancies in weight are noticed later, appears to be remote. This lacuna in the procedure, therefore, requires to be remedied. Arrangement should also be made to avoid delay in assessment of goods under the procedure as has happened in this case.

[S. No. 13(Paragraph 1.71) of appendix to the 80th Report of P.A.C.
—5th Lok Sabha].

Action taken

The observations of the Committee have been noted. As the time of audit of the relevant bill of entry, Appraisers were not posted in the Internal Audit Department of the Custom House. As the Committee is aware, Internal Audit Department has since been strengthened by posting Appraisers for audit.

In this case, the discrepancy between net weight and gross weight arose out of wrong declaration which should have been detected at the time of assessment. The mistake in assessment is, therefore, due to human error rather than any lacuna in the procedure. Even after the goods are taken into use, it should be possible to arrive at the net weight of the goods on the basis of literature, packing specification and other relevant documents, as was done in this case. However, to avoid such instances in future instructions have been issued by the Collector of Customs, Calcutta (copy enclosed) to ensure that packing list/shipper's specification etc. are available for reference at the time of assessment. Collectors of other major Custom Houses have also been asked to take similar action. Steps have also been taken to post experienced Appraisers to finalise special procedure bills of entry.

[Ministry of Finance (Department of Revenue & Insurance) O.M.
No. 521/6/73—Cus.(TU) dated 13-12-1973].

(ENCLOSURE)

Price: 13 Paise

Customs: 210

PUBLIC NOTICE

SUBJECT:—Pasting of the copy of packing list/Shippers' specification on the Bills of Entry relating to special procedure cases—
Instruction reg:—

With a view to speedy disposal and finalisation of the cases relating to the special procedure it has been decided that a copy of

the packing list|Shippers' specification should be pasted on the reverse of the original Bills of Entry—particularly in respect of those bills of entry the assessment of which is made at specific rate or where value is based on weight. In case the packing list|Shippers' specification is not available, the plant site authorities of the Importers should certify as to the accuracy of the net weight declared on the bills of entry and wherever possible value based on such weight at the time of final assessment and the assessing officer at the plant-site should countersign the same.

Sd/-

Custom House, Calcutta,
The 21st November, 1972.

Collector of Customs.

File No. S10-168|7|1A 583|aup|22-11-72.

Recommendation

Under Section 2(A) of the Indian Tariff Act, 1934, additional duty is leviable on imported goods equal to the excise duty leviable if goods are manufactured or produce in India. Where different rates prevail the highest rates of duty should be adopted. This provision came into effect from 2nd February, 1963. The Ministry of Law gave opinion in 1966 that the excise duty would cover the duty leviable under the State Enactment also. Although the additional duty was leviable on imported liquors from 2nd February, 1963, it was not levied till October, 1967. The Government of India issued exemption notification in October, 1967, pegging down the rates of duty in respect of imported liquors. The additional duty fixed under the notification was arrived at as Rs. 20.00 per litre for Whisky, Brandy, Gin and Rum and Rs. 1.50 per litre for Beer by rounding off the then highest prevalent State Excise Duty rates of Rs. 20.65 and Rs. 1.54 respectively. The Committee have been informed that in view of the constantly varying position owing to changes in the rates of excise duty by the States it was decided that a definiteness to the position should be given by fixing an effective rate by issue of a notification. While the Committee appreciate this decision, they feel that as more than 5 years have elapsed since the issue of the notification it is the time now to consider a revision of the additional duty to correspond to the subsequent increase in the States excise duties. They also feel that in future revision of the effective rates of additional duty notified should be considered as frequently as possible but preferably once a year, after ascertaining the rates of States excise duties.

[S. No. 14 (Paragraph 1.77) of Appendix to the 80th Report
of PAC—5th Lok Sabha].

Action taken

The observations of the Committee have been noted. The rates of additional (Countervailing) Duty on imported liquors were reviewed in 1971-72 and it was decided that the existing rates need not be revised. The rates are under review in the current year also.

[Ministry of Finance (Department of Revenue & Insurance)
O.M. No. 370/46/72-Cus. I, dated 29-12-1973].

Recommendation

The Committee note that when the rate of duty on wine was enhanced in September, 1954, sacramental wine was exempted from the enhancement by a notification. While it is reasonable to presume that the exemption notification will continue to operate despite any further enhancement of basic duty, it is doubtful whether the additional duty levied with effect from 2nd February, 1963, could be exempted under this notification. The Committee desire that the relevant notification should be amended suitably in case the intention is to exempt the sacramental wine from the additional duty also.

[S. No. 15 (Paragraph 1.81) of appendix to the 80th Report
of P.A.C. 5th Lok Sabha]

Action taken

1.81—Notification No. 79-Customs dated the 16th May, 1957, has since been amended by the issue of Notification No. 128-Customs, dated the 12th September, 1973, a copy of which is enclosed.

[Ministry of Finance (Department of Revenue & Insurance)
O.M. No. 369/8/73-CUS. I, dated 4-12-1973]

(ENCLOSURE)

To be published in Part II, Section 3 of the Gazette of India Extraordinary dated the 16th May, 1957.

GOVERNMENT OF INDIA

*Ministry of Finance (Department of Revenue), New Delhi, the 18th
May, 1957.*

NOTIFICATION**CUSTOMS**

No. 79—In exercise of the powers conferred by section 23 of the

Sea Customs Act, 1878 (8 of 1878), as in force in India and as applied to the State of Pondicherry, and in supersession of the notification of the Government of India in the Ministry of Finance (Revenue Division), No. 155-Customs dated the 20th November, 1954, the Central Government hereby exempts wine falling under Item No. 22(3) (b) of the First Schedule to the Indian Tariff Act, 1934 (32 of 1934), when imported into India or the State of Pondicherry and established to the satisfaction of the Customs Collector to be a sacramental wine, from so much of the customs duty leviable thereon under the second mentioned Act, as is in excess of the duty of Rs. 9.50 per Imperial gallon.

Sd.-

Joint Secretary to the Government of India.

C. No. 14/4/57-Cus. I.

Copy forwarded to:—

- (1) All Collectors of Customs.
- (2) All Collectors of Central Excise.
- (3) The Collector of Land Customs, Calcutta.
- (4) The Collector of Customs & Central Excise, Pondicherry.

TO BE PUBLISHED IN PART II, SECTION 3, SUB-SECTION (i)
OF THE GAZETTE OF INDIA EXTRAORDINARY DATED
THE 12TH SEPTEMBER, 1973.

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Revenue and Insurance)

New Delhi, the 12th September, 1973.

NOTIFICATION

CUSTOMS

G.S.R. No. 431(E).—In exercise of the powers conferred by sub-section (1) of section 25, read with sub-section (3) of section 160, of the Customs Act, 1962 (52 of 1962), the Central Government, being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the Ministry of

Finance (Department of Revenue) notification No. 79—Customs, dated the 16th May, 1957, namely:—

In the said notification, for the words and figures “from so much of the customs duty leviable thereon under the second mentioned Act, as is in excess of the duty of Rs. 2.10 per litre”, the following shall be substituted, namely:—

- (i) “from so much of that portion of the duty of customs leviable thereon which is specified in the First Schedule to the Indian Tariff Act, 1934 (32 of 1934), as is in excess of Rs. 2.10 per litre, and
- (ii) the whole of the additional duty leviable thereon under section 2A of the Indian Tariff Act, 1934 (32 of 1934)”.

Sd.|-

Deputy Secretary to the Government of India.

No. 128/F. No. 369/8/73-Cus. I.

Copy forwarded to:— As per list attached.

NOTE:—This notification purports to make it clear that sacramental wine which is partially exempt from the basic customs duty under notification No. 79-Customs, dated the 16th May, 1957, as amended, is totally exempt from the additional duty leviable under Section 2A of the Indian Tariff Act, 1934 (32 of 1934).

Sd.|-

Under Secy. to the Govt. of India.

EXPLANATORY MEMORANDUM TO THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE AND INSURANCE)

NOTIFICATION No. 128-CUSTOMS, DATED THE 12TH SEPTEMBER, 1973.

(File No. 369/8/73-Cus. I)

Under notification No. 79-Customs, dated the 16th May, 1957, as amended by notification No. 106-Customs, dated the 1st October, 1960, wine falling under item No. 22(3) (b) of the First Schedule to the Indian Tariff Act, 1934 (32 of 1934), when imported into India and established to the satisfaction of the Customs Collector to be a sacramental wine, is exempt from so much of the customs duty leviable thereon under the Indian Tariff Act, as is in excess of the duty of Rs. 2.10 per litre.

2. Section 2A of the Indian Tariff Act, 1934 was introduced with effect from the 2nd February, 1963. Under that section, countervailing duty is levied on the imported goods. This notification purports to regulate the exemption from the payment of countervailing duty on imported sacramental wine. No loss of revenue is involved.

Recommendation

Arising out of this case is the general question of review of exemptions as and when important tariff changes take place. The Committee hope that in future Government will leave no ambiguity in the operation of exemption notification in the context of tariff changes.

[S. No. 16 (Paragraph 1.82) of appendix to the 80th Report of
P.A.C.—5th Lok Sabha]

Action taken

The observations of the P.A.C. have been noted for appropriate action.

[Ministry of Finance (Department of Revenue & Insurance)
O.M. No. 369/8/73—Cus. I, dated 4-12-1973]

Recommendation

The exporters also do not seem to have protested against the wrong levy of cess. In this connection the Committee learn that important announcements to trade are made by the Customs Houses through issue of public notices. In this case no such public notice was issued on receipt of the Ministry's instructions in June 1968. The Committee hope that such omissions will not recur in future.

[S. No. 18 (Paragraph 1.91) of Appendix to the 80th Report of
P.A.C.-5th Lok Sabha]

Action taken

Instructions have since been issued to the various Collectors of Customs|Central Excise in this regard, vide the enclosed copy of circular letter No. 454/6/71-Cus. V, dated the 25th May, 1973.

[Ministry of Finance (Department of Revenue & Insurance)
O.M. No. 454/6/71-Cus. V dated 22-10-1973]

(ENCLOSURE)

F. No. 454/6/71-Cus. V.

Government of India/Bharat Sarkar.

Ministry of Finance/Vitta Mantralaya.

(Department of Revenue and Insurance) (Rajaswa Aur Bima Vibhag)
New Delhi, the 25th May, 1973.

To

The Collector of Customs,
Bombay|Calcutta|Madras,
Collector of Customs, Bombay (Preventive)
The Collector of Customs and Central Excise,
New Delhi/Cochin.
The Deputy Collector of Customs, Goa/Visakhapatnam.
The Assistant Collector of Customs, Kandla.
The Collector of Central Excise, Madurai/Ahmedabad.

SUBJECT:—Levy of cess on export of groundnut kernels after its
abolition with effect from 1-4-1966 (Public Accounts
Committee matter).

Sir,

I am directed to say that it has come to the notice of the Audit that at the certain ports the cess was continued to be levied on export of groundnut kernels even when there was no legislative sanction for the levy of the same with effect from 1st April, 1966, in spite of the instructions contained in this Ministry's letter F. No. 4/6/68-Cus. V. dated the 7th June, 1968. It has also been noticed that no public notice was issued by the Custom Houses concerned, as regards the withdrawal of the levy for the information of the public, as is usually the practice in such matters. In this connection a copy of paragraph 1.91 of the 80th Report of the Public Accounts Committee (1972-73) is enclosed herewith for information and future guidance.

2. Attention, in this connection is also invited to this Ministry's letter of even number, dated the 23rd May, 1972.

Please acknowledge receipt.

Yours faithfully,

Sd/-

Under Secy. to the Government of India.

Recommendation

It is indeed surprising that the Indian Customs Tariff published by the Director General, Commercial Intelligence, Calcutta continued to mention levy of cess on oil seeds right up to the 61st issue as on 10th August, 1971, which apart from negligence seems to have been partly responsible for the levy even after June, 1968. It is obvious that the tariff is not being corrected properly from time to time. As the tariff forms the basis of levy on duty|cess, the Committee cannot too strongly stress that adequate care should be taken to see that it is brought upto date as and when changes take place.

[S. No. 19(Paragraph 1.92) of appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action Taken

The matter was enquired from the Directorate General of Commercial Intelligence & Statistics, Calcutta, who has clarified that although according to the usual procedure, deletions|additions|alterations etc. in the rate of duty to different items are made on the basis of relevant Acts and Notifications, the particular Act or Notification requiring the change in question was not made available to that Department by the Local Customs Authorities. In the absence of a copy of the relevant Act or Notification, the Directorate General of Commercial Intelligence & Statistics was not aware of the abolition of cess on oil seeds.

2. This clarification cannot, however, be accepted as satisfactory or valid in the context of the oversight pointed out by the Public Accounts Committee. Accordingly Government regret for the omission on the part of the Directorate General of Commercial Intelligence & Statistics. Steps have, however, been taken to ensure that this does not recur again. In the 62nd Issue of the Indian Customs & Central Excise Tariff—Volume-I necessary corrections have been made.

[Ministry of Commerce O.M. No. 4(13)/73—P&P dated 4-10-1973]

There have been a number of lapses both in the Treasury and the Custom House which facilitated these fraudulent drawals. The Treasury did not verify the genuineness of the payment orders with reference to the duplicate copies which are required to be received directly from the Custom under the rules. Further, payment orders with the same serial numbers are stated to have been paid over twice

by the Treasury. The checks are required to be tightened up to guard against any fraudulent practices.

[S. No. 21(Paragraph 1.110) of appendix to the 80th Report of P.A.C.
—5th Lok Sabha]

Action Taken

The relevant extracts of the Committee's report have been forwarded to the Deputy Commissioner, Delhi requesting him to issue suitable instructions to the T.O. concerned for taking measures to guard against such fraudulent occurrences in future, *vide* Ministry's letter F. No. 442/4/73-Cus. IV dated 7-9-73 (copy enclosed). To prevent occurrence of such frauds in future, a procedure of making payments of drawback claims and refunds by cheques has also been formulated and sent to C&AG and Budget Division of the Deptt. of Expenditure for concurrence.

[Ministry of Finance (Department of Revenue & Insurance) O.M.
No. 442/4/73-Cus. IV dated 29-11-1973].

(ENCLOSURE)

IMMEDIATE

F. No. 442/4/73-Cus. IV
Ministry of Finance

(Department of Revenue & Insurance)

New Delhi, the 7th Sept., 1973.

From

The Under Secretary to the Govt. of India.

To

The Deputy Commissioner,
Delhi.

Subject:—Recommendations made by PAC in their 80th Report on Audit para 17 of the Audit Report for 1970-71 on fraudulent drawal of drawback payments from New Delhi Treasury—Action taken by Govt. thereon—

Sir,

I am directed to refer to the enclosed extracts of paras 1.109 to 1.112 of the PAC's 80th Report on 'fraudulent drawal of drawback payment from (New Delhi) Treasury' and to say that the amount of

Rs. 1.19 lakhs involved in this fraudulent payment actually represents the payments made unauthorisedly by the New Delhi Treasury on the basis of forged drawback payment-orders. Pursuant to the recommendations of the PAC contained in para 1.110 of their Report you may like to issue suitable instructions to the Treasury Officer concerned for taking measures to guard against such occurrences in future.

Yours faithfully,

Sd/-

Under Secretary to the Govt. of India.

Copy with extracts of para 1.109 to 1.112 of the PAC's Report referred to above is sent to the Treasury Officer, New Delhi for necessary action.

Under Secretary to the Govt. of India.

Recommendation

The Committee understand that the system of payment of drawback claims by cheques is under examination. They feel that it is desirable at least to introduce the system where Customs Houses do not have their own treasuries as in the case of Delhi. A quick decision in the matter is, therefore, called for.

[Sl. No. 23 Para. 1.112 of Appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action taken

The recommendation of the PAC has been noted. The draft procedure for payment of drawback claims by cheques has been sent to C.&A.G. and Budget Division, Expenditure Department, for concurrence.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 442/6/73-Cus.IV, dt. 12-11-1973].

CHAPTER III

RECOMMENDATIONS|OBSERVATIONS WHICH THE COM- MITTEE DO NOT DESIRE TO PURSUE IN VIEW OF REPLIES OF GOVERNMENT

NIL

CHAPTER IV

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

1

NIL

5

CHAPTER V

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

Recommendation

As a result of the increase in customs revenue the percentage of expenditure to the revenue has come down to 1.4 per cent during 1971-72. In the absence of information regarding the expenditure on staff employed on assessment and collection of duties alone from year to year, the Committee are unable to judge clearly whether there has been genuine improvement. There should be an apportionment of the cost between the assessment work and other activities of the Department with a view to having an effective control over the cost of assessment and collection of customs duties. It is also necessary to see how far the lower percentage was due to a mere rise in the rate of taxation. The Committee suggest that the Department should carry out a detailed and meaningful analysis of the cost of collection so that a correct appreciation of the position becomes possible.

[Sl. No. 4 (Para. 1.25) of Appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action taken

The Director of Inspection, Customs and Central Excise who was nominated as the coordinating officer has been asked to collect necessary data for processing the suggestion to maintain separate accounts in regard to 'preventive functions' and 'other functions' of the Customs Department. He accordingly collected the necessary material which was discussed in a departmental meeting. The conclusions reached were communicated to the C&AG for his approval. It is understood from the Director of Inspection (Customs & Central Excise) that the C&AG has made some further suggestions for consideration. The Director has already sent his reply to the suggestions and a final decision is likely to be taken very early after informal discussion in a meeting to be held in early December, 1973.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No.
5/5/73-IFU(B&A), dt. 6-12-1973].

Recommendation

Out of an increase of Rs. 3.05 crores, in the expenditure of the Department during the period 1967-68 to 1970-71 "charges paid to the Union Excise Department for out-ports and land customs work" alone accounted for an increase of Rs. 1.41 crores. The charges paid to the Union Excise Department amounted to Rs. 3.69 crores out of the total expenditure of Rs. 8.66 crores during 1970-71. The Committee desire that the reasonableness of the charges paid and of the increase from 1967-68 should be gone into to ascertain whether there is any scope for economy. In this connection the Committee understand that the question of revising the prescribed formula for working out the charges payable to the Excise Department is under examination. This should provide ample justification for the examination suggested by the Committee. The results of the examination and the decision taken in the matter may be intimated to the Committee.

[Sl. No. 5 (Paragraph 1.26) of Appendix to the 80th Report of
P.A.C.—5th Lok Sabha]

Action taken

Having regard to the recommendation of the Public Accounts Committee, the Ministry suggested a new formula to the C&AG for the allocation of expenditure between Customs and Central Excise. This formula was discussed in a meeting attended on 29th May, 1973 by the Revenue Department, Comptroller and Auditor General and Budget Division. It was decided in that meeting that, before revising the existing formula, a sample study of two or three Central Excise Collectorates should be undertaken. Accordingly, a team of two officers (*viz.*, one from C&AG's Office and one from Revenue Department) was constituted. This Team has already conducted a sample study of Chandigarh Central Excise Collectorate and prepared a report.

The Director of Receipt Audit has proposed that Bombay, Calcutta and West Bengal and Cochin Collectorates may also be surveyed. It is expected that the study team will start the survey of the above mentioned Collectorates early December (the tentative date being 10th December, 1973). It has been impressed upon the Director of Inspection (Customs and Central Excise) to ensure early completion of the survey and finalise the report.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 5/5/73-IFU(B&A), dt. 6-12-1973].

Recommendation

Besides drawback, cash assistance is also allowed to promote exports. While the admissibility and rates of duty drawback are fixed by the Ministry of Finance (Department of Revenue & Insurance), the cash assistance is fixed by the Ministry of Foreign Trade. In this connection, the Committee understand that a case is under investigation where drawback was claimed on a declaration that imported materials had been used while cash assistance was also obtained, stating that indigenous materials had been used. The result of the investigation may be reported to the Committee. In order to guard against such malpractices and ensure that person does not get more benefit than is justified, the Committee are of the view that the fixation of drawback and cash assistance should be centralised in one agency.

[Sl. No. 11 (Paragraph 1.55) of Appendix to the 80th Report
of P.A.C.—5th Lok Sabha].

Action taken

The Committee's suggestion that fixation of drawback and cash assistance should be centralised in one agency is being further examined, in the light of the views of the Ministry of Commerce received recently that they do not consider it a feasible proposition. Possible alternatives that would achieve the desired results are also being considered.

2. As regards the specific case where drawback was claimed on the basis that certain materials were imported while for purposes of cash assistance they were stated to be indigenous materials, the position is that a company had declared to the Drawback Directorate that certain imported materials had been used in the manufacture of their export products. On verification it was found that in the case of imported natural raw rubber, a small percentage had not been utilised in the manufacture of the export products, and that in respect of certain chemicals, the data furnished were insufficient for the purpose of working out the duty incidences on them. However, these factors did not materially affect the fixation of the drawback rates. In the case of imported natural raw rubber a general decision had been taken to consider only 20 per cent of the natural raw rubber as imported and the rest as indigenous, in spite of the evidence of higher utilization of imported rubber by the company. The chemicals referred to above were not taken into account while calculating the rates of drawback. The drawback rates were accordingly fixed on the above basis. In consultation with the Comptroller and Auditor General of India.

3. As regards the results of the investigation into the company's claim for cash assistance, the Ministry of Commerce who were concerned, have been requested to report the position to the Lok Sabha Secretariat.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 603|2|73-DBK, dt. 22-10-1973].

Recommendation

The opera glasses imported in a major port were assessed to customs duty as 'optical appliances' at 20 per cent *ad valorem*. The goods were merely 'toy binoculars' which should have been assessed appropriately as toys at 100 per cent *ad valorem*. It should have been clear to the Customs House that none of the items classified as 'optical instruments' would have so low a value as Rs. 4 each. The Committee do not think that the procedure for classification of goods, examination etc., is satisfactory. Further, as the assessment has since been revised classifying the articles as toys, licence for optical instruments would not cover their imports. This aspect may, therefore, be examined with a view to taking suitable action in case the goods were not covered by proper import licence.

[Sl.No. 12 para. 1.63 of appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action taken

Item 77(4) I.C.T. covers "optical instruments, apparatus and appliances" and as long as an appliance is designed to be used as an aid to vision it would ordinarily merit classification under this item irrespective of its value. It does not always follow that an article having as low a value as Rs. 4/- would not be classifiable under the item. In fact, a simple magnifying glass would be properly assessable under item 77(4)ICT. In the particular case, however, the opera glasses in question, being more in the nature of 'toys', rather than "optical instruments" should have been classified accordingly. The error in treating the goods as "optical appliances" and not as "toys" was due to a mistake in judgment on the part of the assessing officer and was not due to any lacunae or short-coming in the procedure for classification of goods.

The observations of the Committee that suitable action should be taken in case the goods were not covered by proper Import Licence have been noted and the matter is being examined by the

Collector of Customs, Bombay. Final action taken in the matter will be intimated to the Committee.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 521/5/73-Cus.(TU), dt. 31-10-1973].

Recommendation

There was no legislative sanction for the levy of 'cess' on export of oil seeds w.e.f. 1st April, 1966. The Ministry of Finance had also issued instructions in June, 1968 that the 'cess' was no longer leviable and wherever it was levied steps should be taken to refund it expeditiously. Instead of taking action to refund erroneous levy made before June, 1968, it is strange that the cess was continued to be levied in three minor ports until the mistake was pointed out by Audit in April, 1969. What is more surprising is that the erroneous levy was not detected in internal Audit although shipping bills relating to export of ground-nut kernels were audited by them on several occasions. The Committee desire that the responsibility for this lapse should be fixed.

[Sl. No. 17 Para. 1.90 of appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action taken

Action in this regard is in progress.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 454/6/71-Cus.-V, dt. 22-10-1973].

Recommendation

The Committee are concerned to learn that 16 Fake drawback payment orders totalling Rs. 1.19 lakhs were fraudulently encashed in the New Delhi Treasury by forging signatures of the Assistance Collector of Customs. The Police are stated to have investigated the case and 5 people of whom one was working in the Treasury have been arrested. The Committee trust that deterrent action will be taken against all the delinquent officials concerned.

[Sl. No. 20 Para. 1.109 of appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action taken

The amount of Rs. 1.19 lakhs involved in fraudulent drawal of drawback payments represents the payments made unauthorisedly by the New Delhi Treasury. The case against the persons involved in this fraud is still *sub judice* in the Court of Law. The question

of fixing up responsibility for negligence, if any, on the part of official(s) will be examined in the light of CBI's findings after the decision of the court is received.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 442|3|73-Cus.-IV, dt. 12-11-1973].

Recommendation

There was a failure on the part of the Customs Department in not verifying the figures of payments on account of refund and drawback at the time of reconciliation of departmental and treasury figures. The Ministry have explained that Rule 585 of the C.T. Rules specifically provides for reconciliation of Central Excise receipts and refunds and that in the absence of a similar provision reconciliation of Customs receipts and refunds seems to have been overlooked. The Committee desire that a suitable procedure for the reconciliation of the figures of Customs duty receipts, drawback and refunds should be evolved forthwith in consultation with the Comptroller and Auditor General of India and provision made in the departmental rules as well as in the Treasury Rules.

[Sl. No. 22 Para. 1.111 of appendix to the 80th Report of P.A.C.—
5th Lok Sabha].

Action taken

Action is being taken to amend the Central Treasury Rules, so as to make provision therein for reconciliation of Customs revenue collected by Central Excise Department, on the lines of similar provision in respect of Central Excise revenue and the revenue of the Narcotics Departments. A proposal has since been sent to the Department of Economic Affairs (Budget Division) in this regard. A procedure for departmental reconciliation of these figures has also been formulated and sent to the Comptroller and Auditor General of India for concurrence.

[Ministry of Finance (Deptt. of Revenue & Insurance) O.M. No. 442|5|73-Cus. IV, dated 31-10-1973].

NEW DELHI;
February 4, 1974,
Magha 13, 1895 (S).

JYOTIRMOY BOSU,
Chairman,
Public Accounts Committee.

APPENDIX

Summary of Main Conclusions|Recommendations

Sl. No.	Para No. of Report	Ministry/ Department concerned	Conclusions/Recommendations
1	2	3	4
1	1.3	Ministry of Finance (Dept. of Revenue and Insurance)	The Committee hope that final replies in regard to the recommendations observations to which interim replies have been furnished will be submitted to them expeditiously after getting them vetted by Audit.
2	1.7	-do-	The Committee note that the question of maintaining separate accounts in regard to preventive functions and other functions is under consideration of Government in consultation with Audit. The Committee trust that after apportionment of the expenditure, the cost of assessment and collection of customs duties as compared with total collections will be analysed having regard to the effect of increase in the rate of taxation as already suggested by them. The outcome of the examination may be intimated to them.
3	1.10	-do-	The Committee desire that the proposed survey of the Bombay, Calcutta and West Bengal and Cochin Collectorates should be completed expeditiously. They would like to be apprised of the decision taken on revising the formula for allocation of expenditure between Customs and Central Excise.

1	2	3	4
4	I 13	Ministry of commerce	The Committee would await the steps taken to build up reliable statistics on the basis of the final report of the Minhas Committee.
5	I.16	Ministry of Finance (Deptt. of Revenue and Insurance (Ministry of commerce.	The Committee note that in view of the Ministry of Commerce, centralisation of fixation of drawback and cash assistance in one agency is not feasible and that in the light of this view the matter is being further examined. Possible alternatives that would achieve the desired results are also stated to be under consideration. The Committee desire that the matter should be examined expeditiously and the outcome reported to them.
6	I.17	-do-	The Committee await the results of the investigation into the claim for cash assistance in the case referred to by them.
7	I.20	Ministry of Finance (Deptt, of Revenue and Insurance	The Committee note that pursuant to their suggestion the question of taking suitable action in case the goods were not covered by proper Import Licence, is still under examination. The Committee do not appreciate the delay in carrying out this examination and would urge expeditious action in the matter.
8	I 32	-do-	The Committee note that the Collector of Customs, Calcutta has issued certain instructions to enable a correct assessment of goods under the special procedure. The Committee suggest that the Board should ensure that similar action is taken by the other Custom Houses concerned.

1.26

-d0-

The Committee would like to know the action taken by the Deputy Commissioner, Delhi to tighten up the checks by the Treasury to guard against fraudulent withdrawals.
