

Chapter 6

Redemption of EPCG authorisations

As per paragraph 5.13 of HBP Vol I, EPCG authorisation holder shall submit to the concerned RLA, an application in ANF5B (statement of Export for redemption of EPCG authorisation) along with documents prescribed therein. On being satisfied with declarations made in the ANF5B, the RLA shall redeem the licence by issue of an Export Obligation Discharge Certificate (EODC) to the authorisation holder and send a copy to customs authority with whom Bank Guarantee /letter of undertaking has been executed.

We reviewed the process of redemption in the selected RLAs by reviewing a sample of 461 licence files where the redemption was due as export obligation period had expired and another 431 licence files where the licences had been redeemed. Our findings are given below:

6.1 Inaction by RLAs on non-receipt of redemption applications

We have commented on the lack of monitoring of installations and progress of export obligation etc. in the earlier parts of this report. Some RLAs had informed us that all requirements were taken care of at the time of redemption. However, we observed that lack of monitoring was also evident at the redemption stage. The RLAs were not tracking the receipt of redemption applications on the due dates i.e. on completion of eight years from date of issue of licence. We examined 461 EPCG authorisations issued prior to March 2003 by eleven RLAs, for which the period for EO fulfilment was over and redemption was due. We found that redemption applications were available on file only in 51 cases and the EO period was extended by the RLAs in 40 cases.

Redemption applications were not available in the remaining 370 licence files. RLAs had not taken any action in 284 cases (62 per cent of the sample of 461), issued 86 SCNs and referred 13 cases to the customs department. The customs department had initiated action in 87 cases on their own. The details are tabulated overleaf:

RLA	No. of unredeemed lics. Audited	EO (₹ in crore)	Duty saved (₹ in crore)	No. of licences				
				EO Period extended	Redemption application not on file	SCN issued by RLA	Reference to Customs by RLA	Action taken by Customs Deptt
Ernakulum	23	62.03	15.30	5	18	4	13	14

RLA	No. of unredeemed lics. Audited	EO (₹ in crore)	Duty saved (₹ in crore)	No. of licences				
				EO Period extended	Redemption application not on file	SCN issued by RLA	Reference to Customs by RLA	Action taken by Customs Deptt
Chennai	54	1227.34	101.72	10	44	10	0	19
Coimbatore	75	825.29	31.37	12	63	4	0	38
Madurai	14	59.93	2.07	2	12	4	0	6
Delhi	63	1096.28	62.79	3	42	23	0	1
Ludhiana	33	103.29	6.11	4	29	11	0	0
Hyderabad	52	195.29	15.32	0	52	5	0	0
Bengaluru	60	538.67	8.58	0	41	7	0	9
Mumbai	10	538.67	34.06	1	9	0	0	0
Ahmedabad	34	280.92	27.04	0	32	14	0	0
Kolkata	43	127.96	11.55	3	28	4	0	0
Total	461	5055.67	315.91	40	370	86	13	87

Our findings showed that in majority of cases, although the redemption applications were not available, the RLAs had failed to take any action.

RLA, Delhi replied that cases are monitored licensing year-wise and SCNs had been issued in all licences of 2002. They also stated (March 2011) that since the eight years period of EO is available till March 2011 and the firm has the facility of availing extension upto another four years, SCNs in such cases shall be issued only if the firm does not apply for extension.

The reply was not acceptable because extension, if any, had to be sought by the licensee before expiry of the EO period of eight years. The RLA was not required to wait for four years in anticipation of an extension request. Moreover, monitoring licences year wise was not appropriate as EO period was counted from the day of issue of licence and not as per year of licencing.

RLAs, Hyderabad and Rajkot accepted the audit observation. RLAs, Coimbatore, Ernakulum, Madurai and Mumbai initiated corrective action. RLA, Bengaluru assured necessary action for effective monitoring.

6.2 Receipt and disposal of redemption applications

We checked the action taken by RLAs in those cases where the licencees had submitted the redemption applications.

Paragraph 5.13 of HBP Vol I also provides that the Regional Authority shall act on redemption applications within 30 days. Shortcomings, if any, shall be pointed out in one go. The issue of final discharge certificate/rejection shall be completed within a period of 90 days from date of receipt of initial request.

In order to ensure that the disposal of redemption applications takes place within 90 days, it would necessarily entail that the RLAs maintain the date wise record of the receipt and disposal of redemption applications. We found that most of the RLAs had not kept proper record of the receipt and disposal of redemption applications. Consequently, they were not able to furnish the statistics of the number of redemption applications received and those that were pending for disposal during the period covered in the review.

Only RLAs, Ernakulum and Ahmedabad were able to provide the year wise details of applications. However, although they were able to furnish the statistics, the Redemption application registers maintained by them did not have the date of receipt of redemption application. Therefore, they were not in a position to monitor whether the disposal was taking place within the prescribed 90 days.

Since the receipt and disposals were not maintained properly, there was a risk that there would be delays in issuing the EODC. In the absence of proper centralised records, we scrutinised the timeliness of issue of EODC from 431 redeemed licence files.

6.3 Delay in finalisation of redemption applications

6.3.1 We observed that out of 431 redeemed licences test checked in the various RLAs, In 193 cases (44.7 per cent) there was a delay in finalisation of applications for redemption.

In 62 cases at RLAs at TN, Kolkata, Karnataka, AP, Gujarat, Kerala and Delhi, the delay was more than one year. The delay in these cases was reckoned from the date of submission of requisite documents called for till the date of redemption by the RLA. They included 10 cases in RLA, Kolkata, in which the applications for redemption submitted between November 2006 and December 2010 had not been disposed off till March 2011 pending verification of declarations submitted by the licencees.

The delays were attributable to both the RLAs and licencees. For instance, RLA, Delhi initiated the processing of five applications after a delay of one to two years. In eight applications, the deficiency memos were issued after a delay of two months to three years. In 18 applications the licencees had delayed the replies to deficiency memos.

RLA, Ahmedabad furnished a reply, stating that licencees are not complying the deficiencies pointed out at one go and due to oversight of the staff, processing of the applications are delayed. Acute shortage of staff was also mentioned.

RLA, Ernakulum stated that the delay was due to need for further verification.

In our opinion, the absence of a proper centralised record makes proper monitoring impossible and there is no way to identify long pending cases to initiate any review or prioritise action.

The RLAs, Bengaluru and Hyderabad accepted the observation and assured necessary corrective action.

6.3.2 The delay in redemption and issue of EODC is not just a procedural shortcoming and has a much larger implication. Under the EPCG Scheme, exports made against EPCG authorisations, which have not been redeemed, shall not be added up for calculating the average export obligation in a subsequent EPCG licence issued to the same licensee. This implies that there is an inbuilt incentive for the licensee to keep his licences unredeemed for the maximum period as it will help him, through lower fixation of average EO, in case he applies for future EPCG licences. For example, in RLA, Delhi, we observed that in 16 cases, though the export obligation was fulfilled by the licensee within one to three years of issue of authorisation, the application for redemption was only filed after eight years. We have also pointed out in the previous paragraph that in a large majority of cases, the licensees are not submitting applications for redemption at the end of eight years i.e. the outer limit for fulfilling export obligation.

Therefore, it is imperative that a proper monitoring system should be introduced to speed up the redemption process and to ensure that the redemption is not getting unnecessarily delayed.

Recommendation 7: *It is recommended that the process of monitoring of the receipt of redemption applications on due dates and their processing thereafter, upto the issue of EODC, should be automated.*

The DGFT while accepting the recommendation replied (August 2011) that as regards automation of process for receipt and disposal of application for issuance of EODC against EPCG Authorisations, EDI is seized of the matter.

In our opinion the data obtained through computerisation should be used as an effective tool for better monitoring of finalisation of redemption applications timely.

Summary of findings for the performance audit

Under Export Promotion Capital Goods (EPCG) Scheme, the licences issued have to be monitored over an eight year period through many prescribed checks. We found that after issuing licences, the Regional Licencing Authorities (RLAs) were not exercising any of the key controls like post verification of declarations, verification of addresses, monitoring of installation, monitoring of progress of achieving the export obligation (EO) and monitoring of receipt of redemption applications at the conclusion of the EO period. Consequently, the degree of compliance to

various requirements and the conditions of the scheme was very low. This abrogation of responsibility for the entire duration of the period of EO could not be an acceptable practice and is required to be corrected. In view of the large number of licences and long currency of eight years of the EO period, monitoring various aspects through manual processes was not practicable. Therefore, we recommend that an automated monitoring system should be implemented by the Director General of Foreign Trade in a time bound manner. This system should have an interface with the customs Electronic Data Interchange (EDI) system for access to import and export data that would be required to exercise some of the key controls and should be effectively used for better monitoring and exercising of controls.

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