P. A. C. No. 505

PUBLIC ACCOUNTS COMMITTEE
(1975-76)

(FIFTH LOK SABHA)

TWO HUNDRED AND EIGHTH REPORT

NEW PORT AT TUTICORIN

MINISTRY OF SHIPPING AND TRANSPORT

[Paragraph 37 of the Report of the Comptroller and Auditor General of India for the year 1973-74—Union Government (Civil)].

LOK SABHA SECRETARIAT
NEW DELHI

March, 1976/Chaitra, 1898 (S)

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(1975-76)

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Shri N. Sunder Rajan—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman, Public Accounts Committee, having been authoraised by the Committee, do present on their behalf this Two Hundred and Eighth Report on Paragraph 37 of the Report of the Comptroller & Auditor General of India for the year 1973-74—Union Government (Civil), relating to construction of Deep Sea Harbour at Tuticorin.

2. The Report of the Comptroller and Auditor General of India for the year 1973-74—Union Government (Civil) was laid on the Table of the House on the 30th April, 1975. The Committee examined paragraph 37 of the said Audit Report at their sitting held on the 19th June, 1975 (F.N.). The Committee considered and finalised this report at their sitting held on the 23rd March, 1976. Minutes of these sittings form Part II* of the Report.

3. A statement showing the main conclusions/recommendations of the Committee is appended to the Report (Appendix V). For facility of reference these have been printed in thick type in the body of the Report.

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

5. The Committee would also like to express their thanks to the Officers of the Ministry of Shipping & Transport, the New Port of Tuticorin and the Department of Fertilizers and Chemicals for the co-operation extended by them in giving information to the Committee.

NEW DELHI;
March 23, 1976.
Chaitra 3, 1898 (*Saka*).

H. N. MUKERJEE,
Chairman,
Public Accounts Committee.

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CHAPTER I

INTRODUCTORY

Early History

1.1. The earliest mention of Tuticorin in literature is found in "Periplus of the Erythrean Sea" written (88 A.D.) by a Greek navigator. The first known reference to Tuticorin in a historical work was in 123 A.D. when the celebrated Greek writer, Ptolemy mentioned it. Even in antiquity, Tuticorin was noted as a flourishing centre for chaunk and pearl fishing and it had contacts with a number of western and eastern countries where pearl fishery was then at its height.

1.2. Tuticorin was under the rule of the Pandyas and the Cholas from the 7th to the 12th century. The proverbial wealth of the part of India, known as Tamil Nadu, lured traders, travellers, adventurers and eventually also colonisers from all directions. The Portuguese were the first to arrive in 1532 and they took lively interest in trade as well as in local politics. The political kaleidoscope changed from time to time on account of rivalry between the foreigners themselves. To make a long story short, the English Company ultimately took over the administration of Tuticorin and other cities attached to it like Kayalpattinam, Punnakayal etc. on the first of June, 1825.

1.3. The early years of the 19th century marked the rise of Tuticorin to a position of importance in the world of commerce. The English tempted by prospects of exploiting the rich and populous hinterland, the prospering maritime trade and the advantageous position of Tuticorin with its splendid natural Harbour went ahead in their quest of profit and of power. A lighthouse built in 1842 replacing the Dutch obelisk, marked the beginning of the modern history of Tuticorin Harbour, now reaching, in independent India, its greatest phase.

Existing Facilities at Minor Port

1.4. The existing old port at Tuticorin, though technically 'minor', is the largest Intermediate Port in India handling more than 1 million tonnes of traffic per annum. The principal commodities handled at the port are salt, coal, cement, fertilisers, cotton products, etc.

1.5. It is situated in latitude 8°48' North and longitude 78°09' East, on the East, Coast of India about 500 km. South-West of Madras. At present the ships are anchored in the open roadstead about 9 kilometres away from the minor port and the cargo is handled by means of lighterage vessels plying between the port and the ship anchorage, the stretch of sea generally sheltered against cyclones by its geographical situation, with Ceylon on the East and Rameswaram Island on the North.

Port-Development-Proposals of the Past

1.6. The proposal to construct a Deep-Sea Harbour at Tuticorin was first thought of in the year 1914, though it was not followed up on account of the out-break of the First world war. The initial proposal was framed by the firm of Sir John Wolf, Barry, Lyster and Partners, Consulting Engineers, U.K. This was followed by the Bristow Scheme in 1920. One Robert Bristow was instructed to prepare detailed plans and estimates for the scheme of Harbour Development of Tuticorin on the lines suggested by the former firm. He did a lot of spade work and in 1922 formulated a new proposal after a detailed survey of the area. The then Government of Madras, after discussion with the Port Trust, decided that the scheme should be referred to an independent Committee of harbour engineers for a thorough examination and report. In this way there emerged what is known as the Palmer Committee Scheme. For lack of adequate finance, the recommendations of the Palmer Committee were not further pursued by the Government of Madras.

1.7. The issue was again taken up by the Madras Government in 1954 and a former Chief Engineer of Calcutta Port drew up what came to be called the Chatterjee Scheme. This was also dropped for reasons of financial stringency.

In 1955 the Government of India constituted a committee known as Sethusamudram Committee to link up the development of Tuticorin with the feasibility of connecting the Palk Strait with the Gulf of Manner. The Sethusamudram Committee estimated their scheme to cost around Rs. 9.62 crores. Then, it was followed by schemes suggested by Shri I. G. Chacko, the then Officer on Special Duty in the Ministry of Transport and Shri H. P. Mathrani the then Development Adviser in the Ministry of Transport.

Evolution of the Present Scheme

1.8. In 1960, the Intermediate Ports Development Committee was formed and the Committee put forward a scheme for developing Tuticorin into a Deep-Sea Harbour. The cost of the project for a 30-foot harbour with 4 alongside berths, two for coal, one for salt and one for general cargo, worked out to roughly Rs. 10.27 crores. In 1963 Government took a policy decision to construct a deep sea harbour off Hare Island 9 kilometres South-East of minor port at Tuticorin. The preliminary project report prepared in February 1963 estimated an outlay of Rs. 14 crores and an allotment of Rs. 5 crores was pro vided in the Third Five Year Plan. The scheme was included in the Third Plan in the following terms:

> "The development of an all-weather alongside port of Tuticorin is considered necessary in order to enable the port to handle the existing traffic efficiently and to provide capacity for increases in traffic. The exact scope of the project will depend upon the volume of traffic which the port is expected to handle in future. A substantial part of the present traffic consists of commodities which enter into the coastal trade and about this it will be possible to take a long run view only after the report of the Committee on Transport Policy and Coordination is available."

1.9. In 1961, the Ministry of Transport had appointed a Technical Advisory Committee for the Project comprising Technical experts representing the Ministries of Transport and Railways, and the State Government of Tamil Nadu, to scrutinise the layout and designs for the Harbour, advise on technical matters and to watch the progress of the Project. Pending final sanction of the detailed estimates and finalisation of the scope of the Project, scheduled to be commissioned by 1969 according to the preliminary project report, various works were sanctioned from time to time and a sum of about Rs. 5.22 crores had been spent on this project till the end of 1966-67.

1.10. The Chief Engineer and Administrator of the Port submitted in November 1964, a detailed report and an estimate for Rs. 23.02 crores for sanction. The proposals envisaged the construction of a harbour of 30—32 ft. draft with 6 berths in stage I consisting of 2 coal berths, 1 salt berth, 1 general cargo berth, 1 ships repairs-cum-cargo berth, and 1 oil berth. After a scrutiny of the Project report of the Chief Engineer, the Technical Advisory Committee reduced the requirement in the first stage to 5 berths by omitting the provision of the oil berth from the scheme. The Project report was referred to the Planning Commission on 1-7-1965. The project was taken up for discussion at the Planning Commission in December 1966 and it was decided to review the trend of traffic on the basis of industrialisation of the area and assess the probable traffic in 1971-72.

1.11. The Director of Transport Research in the Ministry of Transport was simultaneously requested to make a study indicating the economic and financial aspects of the Project. The Study of the Director of Transport Research had revealed that a traffic of 11.50 lakh tonnes would be offered for the proposed port. The report was considered at an Inter-Ministerial meeting held in April 1967 and it was decided that the traffic estimates made in the report should be re-examined.

1.12. A senior officer of the Planning Commission and a senior officer of the State Government were deputed to carry out a joint study on the traffic potential of the region. The team (Luthra-Thirumalai Committee) visited Tuticorin and had discusisons with the concerned interests and later with the representatives of the State Government. The report of the joint team submitted in September, 1967 indicated that on the basis of the various industrial developments planned and likely to materialise in the near future, the firm traffic estimate for the port of Tuticorin for 1971-72 (when the project was expected to be commissioned) and 1975-76 would be 22.35 lakh tonnes and 35.10 lakh tonnes respectively. The likely traffic projected for 1980-81, as assessed by the team, was 44.20 lakh tonnes.

1.13. On the basis of the joint team's report the facilities to be provided and the economics of the project were re-examined. It was proposed that the new all-weather port to be completed by 1971-72 would provide a 30 ft. harbour with 5 alongside berths—one each for coal, salt and cement and 2 for general cargo, the estimated cost of the facilities being Rs. 22.8 crores. To cater for additional traffic envisaged by 1975-76, an additional alongside berth and other facilities were to be provided at an estimated cost of Rs. 1.60 crores. The layout of the harbour was designed to meet the requirements of additional berths for deep sea fishing vessels.

1.14. The proposals and designs of the various shore and marine structures were finalised to cater to 30' draft vessels in the first stage. The proposals contemplated the construction of an artificial deep-sea harbour by forming as enclosed basin between two break-waters (South and North) each about 4,000 m. long getting into the sea and 1,275 m. apart with an entrance of 122m. width. The detailed project estimates were submitted to the Government and the Government accorded administrative approval in 1968 to the construction of an all-weather port at Tuticorin at a cost of Rs. 24.40 crores, involving construction of 6 berths, four along the eastern wharf—one for salt, one for coal, one for cement and one for general cargo—and two berths along the finger pier—one for general cargo-*cum*-ship repair and one for fertilizer. However, expenditure sanction was accorded during July 1969 for Rs. 21.76 crores for the construction of only 4 berths, *i.e.* one each for fertilizer, salt, cement and general cargo. The end two berths from the northern end have been designed for taking 35' draft Vessels.

1.15. The Deep-Sea Harbour is constructed with rubble mound type parallel breakwaters, north and south (including eastern arm) of a length of 4,086 m. and 3,862 m. respectively, with an entrance of 152.4 m. (500'), enclosing an area of 960 acres in sea. The rubble mound breakwaters are constructed with core zone of stones weighing 10 to 500 kg. wrapped with armour stones weighing 1 MT to over 8 MT. The marine terminals are proposed in the form of alongside wharf adjoining the eastern arm of South Breakwater to cater to 4 berths located in the natural deep waters at a distance of about 3,000 m. from the shore. The connection between wharf and shore is by means of road and railway links laid over the reclaimed approach arm adjoining South Break-Water for 61 m. (200').

Progress of Construction

1.16. The preliminary work on the port commenced during the year 1963. The actual marine works were inaugurated on the 5th November, 1964. The major contracts were settled (for South Breakwater Rs. 7.84 crores and for North Breakwater Rs. 4.17 crores—total Rs. 12.01 crores including escalation for increase in cost of labour) after the expenditure sanction in 1969 and the works on South and North Breakwaters started in August/October 1970 respectively by M/s. Andhra Civil Construction Company.

1.17. The South Breakwater was to be completed in 30 months by February 1973. The North breakwater was also to be completed in 30 months by May 1973. All the preliminary works, shore works and railway sidings as contemplated in the expenditure sanction have been completed. As on the 1st February, 1976 the North Breakwater has been completed to the extent of 73 per cent. The South Breakwater is stated to have been 'almost completed'. 64 per cent of the work on the wharf wall has been completed and out of 4 berths, 2 have been completed and opened for traffic with the berthing of the first ship on the 20th September, 1975. With the present tempo of works, it is expected that all the marine works would be completed by December, 1976.

Additional Proposals—Coal Berths and Oil Jetty

1.18. In the vicinity of the port, a fertilizer complex (SPIC) has also come up and it is functioning from July 1975. The feed stock like naptha and fuel oil required for the Fertilizer Complex are being unloaded by M/s. Indian Oil Corporation Ltd. (the suppliers) through an improvised temporary oil mooring berth specially put up for this purpose to meet the emergent requirements of the SPIC, and the temporary oil mooring berth was commissioned on the 16th July, 1974. Proposals for the construction of a permanent Oil Jetty have also been submitted to the Government in August 1975 for Rs. 97.50 lakhs and on receipt of sanction, construction of the permanent oil jetty also will be taken for execution within 2 years from the date of sanction.

1.19. The new schemes, undertaken by the project are:

(i) *Construction of Coal Berths* (2 *Nos.*): To cater to the coal requirements of the proposed 2 x 210 MW Thermal Power Station at Tuticorin, 1.2 to 1.8 million tonnes of sea-borne coal have to be handled at Tuticorin. For that Tamil Nadu Electricity Board have requested construction of the coal berths. The approximate cost of two coal berths will be in the order of Rs. 300 lakhs. Proposals for this scheme are under way.

(ii) *Procurement of* 1 *No.* 25-*T Bollard Pull Tug*: For berthing of ships at oil jetty and coal berths, it has been proposed to procure one more Tug of 25-T Bollard Pull at a cost of Rs. 60 lakhs in addition to the two tugs provided in the sanctioned project estimate.

Traffic Handled so far

1.20. As regards traffic potential, the Committee have been informed that even before declaration of the port, it became necessary to unload the heavy machineries required for the SPIC and Heavy Water Project and 11,353 tonnes of machinery have been unloaded so far in the midstream with the harbour basin during 1972—74. The project, even during the construction stage, was declared as the Tenth Major Port of the country on the 11th July, 1974, and so far 66,233 tonnes of naptha and 1,00,103 tonnes of fuel oil have been handled in the temporary oil mooring berth.

As stated above, the first two alongside berths have baen completed and the first ship "CHENNAI OOKKAM" with a cargo of 18,500 tonnes of foodgrains was berthed in the alongside berth on the 20th September, 1975. This is the first milestone achieved by the port.

1.21. The expenditure (upto end of August 1975) is Rs. 3082.47 lakhs including suspense and Rs. 2,355.08 lakhs excluding suspense. Revised Project Estimates for Rs. 4,630.00 lakhs including several additional items, such as construction of coal berths, procurement of additional tug etc. have been submitted to Government for approval.

1.22. It is expected that the completion of the harbour would bring about alround industrialisation of the hinterland of Tuticorin. It was etimated by an official committee on 15th September, 1975, that traffic of 22 lakh tonnes in 1978-79 and 37 lakh tonnes by 1980-81 should pass through the Port of New Tuticorin.

1.23. The Joint team, consisting of a senior officer of the Planning Commission and a senior officer of the State Government, which assessed in September, 1967, the traffic estimate for the new port of Tuticorin at 22.35 lakh tonnes in 1971-72 and 35.10 lakh tonnes in 1975-76 (*vide* para 1.12 above), also observed that the existing Port was expected to continue limited operations in the type of traffic which could best be handled by the country craft. It was added that it might be necessary for the purpose of an economic allocation of traffic between the two ports, to have common management of operations at both the Ports and detailed arrangements in this regard would need to be considered in consultation with the Government of Madras (now Tamil Nadu).

1.24. An Official Committee, constituted by the Ministry of Shipping & Transport in July, 1970, has been reviewing periodically the projections of traffic estimated to materialise at the Tuticorin Port. At the 4th Meeting of the said Official Committee held on the 7th September, 1974, the Chairman referred to the question of merger of the minor and major ports at Tuticorin in the following terms:—

> "The intention of the Government is to merge the Minor & Major Ports. Details of the merger have to be worked out by the Chief Engineer & Administrator in consultation with his counterpart of the Minor Port and a decision has to be taken at the highest level in the State & Central Governments."

1.25. During evidence, the Committee were informed that the total traffic handled at the minor port was as follows:

Year	Traffic handled (In tonnes)
1969-70	8,27,922
1970-71	6,04,597
1971-72	10,22,729
1972-73	10,26,853
1973-74	9,70,607
1974-75	9,60,176

Asked about the amount of foreign exchange earned by the existing minor Port, the representative of the Ministry stated—

"As far as the minor port is concerned, it is not in a position to earn any foreign exchange.*** About the minor port what is happening is that traffic will naturally get shifted to major port."

In regard to analysing the figures of traffic at the minor Port, the witness added—

"In analysing these figures, the question is, when the minor port gets merged into the major port, different kinds of conditions get created. There are greater facilities for loading, greater attractions for the ships to come and all that. All these factors will come in. At present, about 4 to 9 Kms away from the shore, the things have to be handled. We have to estimate it on the basis of that. We have to get the break-up of these figures for a variety of commodities and see the sources, the distances and the direction and also see how they can really be brought into the future projections. It is not only to carry over the figures and keep them together. That is the difficulty I have."

1.26. During their visit to Tuticorin Harbour Project in October, 1975, a Study Group of the Committee were informed by the Chief

Engineer & Administrator that the question of merger of the minor Port with the new Major Port was under consideration of the State and Central Governments. The need for merger had been recognised and the papers from the minor port regarding the absorption of the personnel etc. had been sent to the Ministry of Shipping & Transport who were considering the issue in the interest of both the Ports.

1.27. Only a few sites in the country can match Tuticorin with its long and eventful history. While ancient maritime cities like Bhrigukachchha (Broach) and Tamralipti (Tamluk) are now a mere memory, Tuticorin has survived to play its role in India today. The Committee are happy that the long-deferred hope of our people, especially in the deep south, that Tuticorin would be resuscitated, is nearing fulfilment. The Committee wish that the sense of urgency with which the scheme was first seriously sponsored after independence is sustained effectively.

1.28. The Committee regret the delay in completing construction of the South Breakwater and the North-breakwater, which were scheduled to have been completed in February, 1973 and May, 1973 respectively. As on the 1st February, 1976, the South Breakwater is stated to be 'almost completed', the wharf wall completed only to the extent of 63 per cent, and the North Breakwater to the extent of 73 per cent. Such delays not only result in avoidable escalation of costs as compared to the original estimates but also imply the continued loss of valuable shipping days.

The Committee urge that at least the present expectation of completing all the marine works by December, 1976, will be fulfilled without any further hindrance.

1.29. While the Committee are unhappy over the delay in the execution of the Port project, they feel equally concerned that the generation of additional traffic, particularly for coal, salt and cement, may take much longer to materialise than originally envisaged. There is therefore need for very close coordination and understanding between the Ministry of Shipping & Transport, the Port authorities, the State Government, the State Undertakings and the various industries which are in the process of coming up in and around Tuticorin, so that traffic is generated and attracted to the Port on a long-term basis to sustain its economic working. The Committee have dealt with these aspects in greater detail in subsequent chapters of the Report.

1.30. The Committee welcome the idea that the new port and the existing minor port, the latter looked after by the State Government, will eventually be merged. At present both the Ports are functioning side by side. This perhaps has to be so, because the construction of the new port has not yet been completed. However, there should be harmonious coordination between the functioning of the existing Intermediate Port and the new Major Port at Tuticorin, so that all the available facilities are put to optimum use in the best interests of the country.

CHAPTER II

DEVELOPMENT OF TRAFFIC AND ECONOMIC VIABILITY OF THE PORT

*Audit Paragraph**

2.1 According to the report of a joint team of officers of the Planning Commission and the State Government (Tamil Nadu) submitted in 1967, the port was expected to handle 22.35 lakh tonnes of cargo (coal 6 lakh tonnes, salt 5.50 lakh tonnes, cement 4.50 lakh tonnes, fertiliser products 2 lakh tonnes and general cargo 4.35 lakh tonnes) in 1971-72 when the development project was expected to be completed. By 1975-76, the port was expected to handle 35.10 lakh tonnes of cargo (coal 6 lakh tonnes, salt 8 lakh tonnes, cement 6 lakh tonnes, raw materials for fertilisers 8 lakh tonnes and general cargo 7.10 lakh tonnes). In estimating the traffic for the year 1975-76 the study team had assumed that Tamil Nadu Government would set up, at Tuticorin, a fertiliser plant and a soda ash plant by that year and would also take steps to increase production of export quality salt in cooperation with the Salt Commissioner and the State Trading Corporation. The traffic was estimated as 44.2 lakh tonnes in 1980-81. The foreign exchange earnings from the export of salt, ilmenite, fishery products etc. was expected to be Rs. 7 to 8 crores in 1971-72 and over Rs. 10 crores by 1975-76. According to this study the port was expected to have a net surplus of Rs. 63.17 lakhs in 1975-76, i.e., the fifth year of its working on account, principally, of import of 8 lakh tonnes of raw materials for the fertiliser plant proposed to be set up by the State Government.

2.2 In June 1968 administrative approval for construction of the deep sea harbour (30 ft. draft) at Tuticorin with six alongside berths (one each for coal, salt, cement and fertiliser and two for general cargo) and one mooring berth for naptha was accorded at a cost of Rs. 24.40 crores. In July 1969 sanction was accorded for the deep sea harbour with four berths (one each for coal, salt, cement and general cargo) at a cost of Rs. 21.76 crores.

[Paragraph 37 of the Report of the C. & A. G. of India for the year 1973-74—Union Government (Civil)]

*The Audit Paragraph in full has been reproduced in Appendix I.

2727 LS—2.

2.3 The working of a major port has a vital role in the economic development of the country. Social objectives have to be combined with the commercial concepts of adequate rate of return on the capital employed. It has an obligation to earn a proper return which will cover statutory reserves like depreciation, current costs of replacement of assets, amortization of loans, payment of interest and contingencies etc. Such a soundness in the financial objectives is possible only when the hinterland of the Port is adequately developed to ensure regular, smooth and adequate flow of traffic and the handling of the cargo at the Port is done at a faster rate on a systematic method.

Keeping in view the existence of the transport facilities in the region (around Tuticorin) and also the major Ports of Madras and Cochin, the hinterland of the Tuticorin Port would consist of Kanyakumari, Tirunelveli, Ramanathapuram and Madurai districts and the Southern talukas of Tiruchirapalli in Tamil Nadu State, and also the Trivandrum district and part of Quilon district in Kerala state.

2.4. Several traffic studies have been undertaken in connection with the development of the major Port at Tuticorin, the principal among which (before 1970) were those carried out by the National Council of Applied Research in 1959 and the Report of the Intermediate Ports Development Committee in 1960. The traffic estimates were reviewed in detail after a comprehensive study of the potential industrial development of the hinterland done in collaboration with the concerned Departments of the Tamil Nadu (then Madras) Government. As a result of the review, the traffic potential for 1971-72 was put at 22.35 lakh tonnes and that for 1975-76 at 35.10 lakh tonnes.

2.5 The above mentioned projections of anticipated traffic formed the basis of the proposals for development of the major port of Tuticorin. At a meeting between the Union Minister of Transport and Shipping and the Chief Minister of Madras on the 19th September, 1967, the two Ministers went through the traffic estimates item by item and were satisfied that those represented reasonable projections. The Chief Minister gave an assurance that the Tamil Nadu (then Madras) Government would take all necessary measures to develop the hinterland on the lines indicated in the report of a joint Study Team consisting of a senior officer of the Planning Commission and a senior officer of the State Government, in particular in regard to the commissioning by 1975-76 of the fertilizer and soda ash plants. He also stated that he was considering the question of forming a Corporation for organising the manufacture and export of salt from Tuticorin. The Chief Minister further indicated that the State Government would agree to meet by means of loan to the port half the deficits that would accrue to the port, in the initial years, the loans being repaid from the net surpluses generated in subsequent years to the extent of 50 per cent of the net surpluses or the quantum of the loan, whichever was lower.

In this context, approval of the Cabinet was solicited to the following proposals:—

(a) The Tuticorin Port Project at an estimated cost of Rs. 24.40 crores be approved; and

(b) necessary funds including the foreign exchange be provided to enable completion of the project, the precise provision to be made in 1968-69 and in the Fourth Plan being considered from year to year.

2.6 The Cabinet considered the proposal and accorded sanction to the construction of a deep sea harbour at Tuticorin. The administrative approval to the Project (at an estimated cost of Rs. 24.40 crores) was issued on the 3rd June, 1968, vide the Ministry of Transport & Shipping (Transport Wing) letter No. 24-P DII (26)/67, dated the 3rd June, 1968. As stated in the Audit Paragraph, the Project consisted of a deep sea harbour (30 ft. draft) with six alongside berths (one each for coal, salt, cement and fertiliser and two for general cargo and one mooring berth for naptha. In July 1969, sanction was accorded for the deep sea harbour with four berths (one each for coal, salt, cement and general cargo) at a cost of Rs. 21.76 crores.

2.7 The Committee desired to know the actual amount of traffic handled at the Port as compared to the above mentioned projections, during the years 1970—75, and the reply furnished byb the Ministry is reproduced below:—

"The port of New Tuticorin which was opened for partial traffic was declared a major Port on the 11th July, 1974, and it handled a liquid cargo of 75,000 tonnes (approx.) during the year 1974-75."

As regards the traffic (both imports and exports) handled by the minor Port at Tuticorin, the Committee have been informed during evidence that in 1970-71 it was 6,04,597 tonnes, in 1971-72 it was 10,22,729 tonnes; in 1972-73 it was 10,26,853 tonnes; in 1973-74 it was 9,70,607 tonnes and in 1974-75, it was 9,60,176 tonnes.

2.8. A study Group of the Committee, during their visit to Tuticorin in October, 1975, were informed that as against the original projection of 5 lakh tonnes of salt, only 2.5 lakh tonnes were being exported at present. So far as POL was concerned, the Port had handled only 75,000 tonnes in 1974-75. Export of cement was only 1.5 lakh tonnes against 6.00 lakh tonnes.

Projections for the future

2.9 The principal commodities handled at the port of Tuticorin are salt, coal, cement, fertilizers, cotton products, other cargo etc.

The following are the four major industries now being set up around Tuticorin area:—

(1) Naptha based Fertilizer Plant under M/s. Southern Petrochemicals Industries Corporation Ltd. (SPIC).

(2) Soda Ash Plant under M/s. Tuticorin Alkali Chemicals Ltd., (in collaboration with M/s. SPIC).

(3) Heavy Water Project (Department of Atomic Energy).

(4) Thermal Power Station (Tamil Nadu Electricity Board).

In addition to the above, the Tamil Nadu Government has also set up a Salt Corporation to assist the small producers of salt in the area.

2.10 The Working Group for the Fifth Five Year Plan for Ports estimated in 1973 the traffic at the Port by the end of the Fifth Plan period (1979-80) to be of the order of 44 lakh tonnes as per details given below:—

	(In lakh tonnes)
Salt	4·70
Coal	18·00
Steel & Machinery	0·50
Fertilizers	7·70
Other Cargo	12·60
TOTAL	43·50

2.11 The Committee called for the Report of the Working Group. The following extracts from the Report are pertinent:—

"4.1 The Working Group———has ascertained the estimates of traffic expected to be handled by major ports by the end of the Fifth Plan period (1978-79) in consultation with the Port authorities and the various user-Ministries.

4.2 POL & iron ore account for nearly two-thirds of the present traffic in our ports. Bulk commodities like POL, iron ore, coal, fertilizers etc. require specialised facilities for handling. Meetings were held with Ministries concerned to determine the likely traffic in these commodities looking to various development schemes under execution or proposed for Fifth Plan, the likely markets for exports, our requirements of imports and such factors. The estimates thus prepared cannot be taken as final until the respective plans of the user-Ministries are finalised and approved by the Planning Commission.

4.3 In regard to coal, the working group could get only partial information from the User Ministries and in respect of salt also the Industrial Development Ministry could give certain information only in respect of Kandla and Tuticorin and minor Ports.

* * *

4.6 * * *

In working out the traffic projections for the fifth Plan period, the Working Group had taken into account mainly the traffic pattern and its volume during the Fourth Plan period. In the Fourth Plan, it was anticipated that the traffic handled by major Ports would increase from about 55 million tonnes in 1968-69 to 75 million tonnes in 1973-74. *** *** A major part of the increase in traffic was expected to come from specific bulk commodities including POL (5 million tonnes) iron ore (10 million tonnes) fertilizers and fertilizer raw materials (3 million tonnes) and from general cargo to the extent of 6 million tonnes. *** ** The traffic has not, however, increased according to the anticipations during the first three years of the Plan. The traffic handled was about 55 million tonnes in 1969-70 and about 56 million tonnes in 1970-71; in 1971-72, it was about 60 million tonnes *** *** In the last year of the Fourth Plan, the ports anticipate a traffic of about 66 million tonnes which falls short of the Fourth Plan target of 77 million tonnes by about 11 million tonnes."

Dealing in detail with specific commodities handled at the Tuticorin Port, the Working Group observed in their Report:—

Coal

4.33. At present, coal traffic is predominantly coastal. In the past, Indian coal was also one of the commodities of exports to Burma and Ceylon, but now the export programme has stopped.

4.34. At present, coal resources are at Ranigunga|Jharia Coalfields in the immediate hinterland of the Calcutta Port. Traditionally, coal requirements in the south and in the West Coast have been met by coastal shipment of coal from Calcutta. What was despatched from Calcutta Port was received mainly at Madras and Cochin Ports. The figures of traffic handled at Calcutta Port from 1960-61 are given below:—

Year	Coal Traffic (In lakhs of tonnes)
1960-61	14·15
* *	*
1962-63	21·48
* *	*
1966-67	11·21
* *	*
1970-71	6·60
1971-72	7·86

4.35. The reasons for the decline of coastal traffic from Calcutta Port are manifold, namely:

(1) Coastal traffic is entirely restricted to Indian bottoms. The freight rate on coal is low. The sea freight is now being subsidised by Government to bring it at par with railway freight to same destination.

* * * *

(2) The telescopic railway freight on coal movements encouraged railway transportation of coal to distant areas. This caused unnatural competition with coastal shipping. The national exchequer suffered due to the built-in subsidy in the telescopic freight rate. The Railways were the biggest consumers of coal in the south and in the west.

Dieselisation of locomotives reduced railways' coal requirements in these areas. With the doubling of railway track to southern zones, Railways had decided in 1963 to carry most of their coal requirements in the south by all-rail route. This was an essentially uneconomic operation of railway wagons.

(3) The industries in the south and the west, which were depending on steam, also progressively switched over to fuel oil. * * *

(4) ** the deterioration of draught in the river ** often compelled collieries to leave the (Calcutta) port with less than full load.

(5) The economics of coastal coal movement was more vitally affected by inadequate and inefficient unloading facilities at destination ports.**

* * *

4.41. Assuming that the entire coal requirements of Tuticorin Thermal Plant (1.2 to 1.8 million tonnes) would move from Calcutta Port to Tuticorin Port and that the entire requirements of the Tamil Nadu State Electricity Board (about 5 lakh tonnes) would move from Calcutta to Madras Port xxx xxx xxx, the coastal movement of coal traffic projections through major ports by 1978-79 may be tentatively pitched at 39.20 lakh tonnes. Apart from this, the possibility of foreign export of coal shipments to Bangladesh is also bright. The break-up is as under:—

	In lakh tonnes
Calcutta/Haldia	18·70
Madras	4·00
Cochin	1·00
Mormugao	0·50
Tuticorin	15·00
	39·00

* * *

4.43. With the commissioning of the new coal loading plant at Haldia, which has a fast loading capacity of 2,000 tonnes per hour, the Calcutta Port Trust apprehend that there would be bottlenecks in the fast unloading of the colliers at destination ports like Madras and Tuticorin in the south and Gujarat port in the west, presumably at minor ports at Gujarat.

Salt

* * *

4.45. * * *

Two major Ports namely, Kandla and Tuticorin would load salt for coastal movement to other Ports. The traffic as estimated by the Ministry of Industrial Development for coastal loading of salt through these ports by 1978-79 is about 4 lakh tonnes—0.27 lakh tonnes from Kandla and 3.7 lakh tonnes from Tuticorin. * * *

* * *

4.47. The table given below shows the export of salt by India to various countries since 1958:—

Year	Japan	Other Eastern Countries	African & Middle East Countries	Total
1958	2.73	..	·008	2·74
* * *				
1964	3·07	0·37	..	3·45
* * *				
1968	5·11	0·23	·252	5·69
1969	3·25	2·53	·136	5·92
1970	2·07	2·35	·042	4·46
1971	..	2·73	·103	2·83

The export to Japan has completely stopped because the Japanese want a higher loading rate and facilities for loading in bigger ships.

4.48. The anticipated export of salt by the end of the Fifth Plan was assessed to be only 3.5 lakh tonnes (2.5 lakh tonnes from Kandla and 1 lakh tonnes from Tuticorin).

* * *

4.50. * * *

The Group has pitched the export of salt by 1978-79 at 4 lakh tonnes (3 lakh tonnes from Kandla and 1 lakh tonnes from Tuticorin)."

2.12. In regard to the development of the industries mentioned in para 2.9 above, the Committee were informed during evidence in June, 1975, by Secretary (Transport) that:

"Fertilizer complex has come up. Soda Ash Plant is at an advanced stage. As regards salt, certain steps have been taken by the Madras Government. There is a proposal for sanctioning a thermal station. I believe, the Planning Commission has already cleared it. Cement factories in the South are seeking to get their coal through this port."

The representative of the Department of Fertilizers stated during evidence—

"The ammonia and Urea plants are mechanically complete and trial runs are going on. They are expected to go into production next month. The NPK plants are expected to be commissioned later this year. The plants are expected to reach the optimum level of production in 18—24 months from the time of commissioning at the full licensed capacity. The import traffic for supply of raw materials will be of the order of 7.5 lakh tonnes which corresponds to what has been taken into account for this port. This is the position with regard to fertilizer plant.

In the case of soda ash plant, the effect on the port will be small, because the raw material, i.e. salt, of which they will be using about one lakh tonnes, is available to them from the fertilizer plant. They will need coal; total requirement is about 13,000 tonnes much of which may come by coastal movement, but some may come by rail also. The soda ash plant is expected to be completed by the year 1978-79."

About the Heavy Water Project of the Atomic Energy Commission, the Committee were informed, after evidence, by the Deptt. of Atomic Energy that the plant, scheduled to be completed by early 1975, was at the stage of erection of equipment and piping. Due to abnormal delays on the part of indigenous suppliers in maintaining delivery schedule and paucity of certain specialised services the progress of work was being impeded and assuming availability of indigenous equipment and materials by November, 1975 (scheduled

March, 1974) the plant is expected to go into commercial operation by Mid 1976.

2.13. In the light of the latest position in regard to the setting up of the above mentioned industries, the future traffic projections were reassessed, by an Official Committee, having on it representatives of various users' interests in the hinterland including representatives of the State Government, at their 5th meeting held on the 15th September, 1975. The following table shows the position as assessed by the said Official Committee *vis-a-vis* the earlier assessment of 1967 in the context of which the plans for the Tuticorin Port Project were drawn up and administrative sanction issued in 1968. The statement also shows the broad position about setting up of the industries in the area:—

Commodity	Luthra-Thirumalai Committee's assessment of 1967 for traffic in the 4th year after commissioning of Project	Official Committee's assessment made in September, 1975 — For traffic in 1978-79	Official Committee's assessment made in September, 1975 — For traffic in 1980-81	Position of industries to be set up
(1)	(2)	(3)	(4)	(5)
		(In lakh tonnes)		
Coal	6·00	3·50	18·50	The increase is due to decision of Tamil Nadu State Govt. to set up a Thermal Power Station at Tuticorin. Two Units of 210 MW each requiring 12 lakh tonnes per annum have already been sanctioned. Delay in materialisation of coal traffic is however due to some slippages in the construction of Thermal Power Station for which two 210 MW units have so far been sanctioned.
Salt	8·00	5·00	5·00	Tamil Nadu Salt Corporation has been set up. Lowering of traffic according to TN Govt. is due to certain adverse market conditions.
Cement .	6·00	1·50	1·50	Due to establishment of additional cement manufacturing capacity in eastern and western region due to which they are now fairly self-sufficient and lesser surplus in South.

(1)	(2)	(3)	(4)	(5)
Fertilizer Products	8·00	3·40	3·40	Initially the total traffic estimated for dry and wet raw materials and products for fertilisers plant was estimated at 8·00 lakh tonnes. It is now estimated to total 8·90 lakh tonnes for fertiliser and soda ash plant with a break up of 3·40 lakh tonnes of dry cargo (Rock-phosphates, sulphur & muriate of potash) and 5·50 lakh tonnes of wet cargo like Naptha fuel oil etc.
Raw Materials				
P.O.L.		5·50	5·50	
				The fertiliser complex of M/s, Southern Petro-Chemicals has gone into production in the last week of June 1975. Heavy water plant of Deptt. of Atomic Energy is expected to go into production by mid '76. Tuticorin Alkalies being set up to produce soda Ash and ammonium chloride is expected to go into production in 1977-78.
Other Cargo .	7·10	3·00	3·00	Covers traffic of illeminite sand bunker traffic, raw cashew, dry fish, good grains, fertilisers etc
	35·10	21·90 or say 22·00	36·90 or say 37·00	

2.14. The meeting of 15th September, 1975, was held under the Chairmanship of the Joint Secretary, Ministry of Shipping and Transport, and was attended by representatives of the Government of Tamil Nadu, Ministry of Industrial Development, Port of New Tuticorin, Department of Salt, Tamil Nadu Electricity Board, Southern Railway, Indian Oil Corporation, State Trading Corporation, SPIC, the Salt Industry and the Cement Industry.

The Committee find from the minutes of the said meeting that the Chairman informed the members *inter alia* that the Central Government had written recently to the Tamil Nadu Government suggesting the formation of a Greater Tuticorin Development Authority to plan and co-ordinate the development of the neighbourhood of Tuticorin industrially, now that a modern port outlet had been provided and that this could also improve the economics of the Port functioning.

The discussions and decisions in respect of commodity-wise prospects of traffic were recorded in the minutes in the following terms:—

1. *Salt*:

2.1. The Dy. Salt Commissioner stated that projection of a traffic of 5 lakh tonnes of salt in the last meeting was on the high side. Calcutta buyers were not lifting from Tuticorin as expected and STC could not find foreign export market. According to him, 4 lakh tonnes would be the maximum shipment by 1978-79. Shri M. M. Subramanyam agreed with the assessment made by the Dy. Salt Commissioner. He felt that the shortfall would be not on account of fall in production, but on account of adverse conditions of the market and shipment. Shri Subramanyam cited (i) the recent increase in shipping freight which resulted in the expenses rising to Rs. 10/- per bag of salt by sea as against Rs. 8/- by rail, (ii) the discrimination in sea freight in favour of Saurashtra Ports—Rs. 93.60 per tonne for a distance of 2400 nautical miles from Saurashtra ports to Calcutta as against the freight of Rs. 85.25 for 1383 nautical miles from Tuticorin to Calcutta and (iii) paucity of ships to lift salt. He made reference to the poor share of the Tuticorin salt in the foreign export—only 14.000 tonnes out of 4 lakh tonnes. The Chairman said that the present difficulties in unloading salt at Calcutta would cease with the commissioning of the Haldia port by March/June, 1976, and the induction of 18.000 DWT Rumanian carriers for the coastal movement of coal. He added that Government had appointed consultants to go into the question of handling salt through Indian ports in an efficient way and suitable action would be taken based on their report. He suggested that the salt interests could have discussions with the Chairman, Calcutta Port with regard to the specific requirement in unloading salt at Calcutta/Haldia. The Chairman endorsed the suggestion of Shri Subramanyam that STC should explore the possibility of exporting more salt from Tuticorin especially to Korea, Taiwan, Philippines and Singapore where there is good market. The Chairman wanted the STC to furnish the export projection of salt for 1978-79.

2.2. Explaining the set up of the Tamil Nadu Salt Corporation, the Dy. Secretary (Salt) stated that the Corporation started functioning from January 1975 and had developed 500 acres out of 5500 acres proposed in Ramanathapuram District; 2.4 lakh tonnes could be harvested after 4 years when the entire area was developed; of this, 1.5 lakh tonnes would be consumed by salt-based industries in the area; it was expected that by next year, 15,000 to 20,000 tonnes of industrial grade salt would be produced and supplied to the salt-based industry in Tamil Nadu. Explaining the possibility of exporting 1 lakh tonnes from the Ramanathapuram area when the full production was on, the Dy. Secy. (Salt) stated that on account of the lead of 65 KM by road and 45 KM by sea to Tuticorin, the Salt Board had requested the State Port Officer to study the feasibility of developing minor port at Vallinokkam. The Chairman wanted to know the action taken by the Salt Corporation to develop the areas around Tuticorin Port for salt activities. The Dy. Secretary replied that most of the suitable areas had already been developed and no further suitable areas could be located; at the most an increase of 20 per cent alone could be achieved. Chief Engineer and Administrator, PNT enquired about the possibility of development of the sand quarry area of 1047 acres of PNT for salt cultivation after the sand was removed. Shri Subramanyam intervened to say that this area was not suitable for salt cultivation. Concurring, the Dy. Secy. added that SPIC required about 600 acres of the sand quarry area for their effluent disposal.

2.3. The proposal to develop the Veppalodai port about 22 KM from Port of New Tuticorin also came up for discussion. The Chairman observed that development of Minor Ports in a close proximity of the Major Port would adversely affect the traffic through the Major Port and negate the economic justification for its development. In making the study of developing the minor ports, he wished it to be noted that the rate of loading at the major port would be 5 times more than that in midstream in any minor port. The Chairman added that a port for exporting salt may answer to local needs, but it would not be in the larger interests of the country as a whole, as any investment should have legitimate return also and in this particular case, neither the minor port nor the major port could function profitably. If more salt is produced in the area, the surplus for export should be located from the salt produced near the Major Port of Tuticorin, so that (1) the requirements of export *via* Tuticorin are met and (2) avoidable investment in a minor port nearby is avoided.

2.4. It was concluded that 5 lakh tonnes—4 lakh tonnes coastal and 1 lakh tonnes export—would be available for traffic through Tuticorin by 1978-79.

2. *Coal:*

3.1. At the last meeting of Official Committee, the coal traffic was projected as 16.8 lakh tonnes. The Chairman quoted from various reports to show that he had been getting varied figures regarding coal movement by 1978-79. He requested the numbers/invitees to give a correct assessment of the coal movement.

3.2. The Chief Engineer/Projects and Constn., TNEB informed the Committee that work on the Thermal Station at Tuticorin was getting delayed on account of certain financial constraints. The gestation period was normally 3½ years from the date of approval December 1973, i.e. the first unit would be due for commissioning in mid-1977 and the second unit in mid-1978. But, on account of the financial constraint and delay, the estimated cost had escalated and the original schedule could not be adhered to. He gave the revised time schedule as, first unit by December, 1978 and the second unit latest by December, 1979. Because of the slippages in the original time schedule the import projection had also undergone revision as stated below:—

1978-79	1·5 lakh tonnes
1979-80	7·5 lakh tonnes
1980-81	13·5 lakh tonnes
1981-82	18·0 lakh tonnes (with the commissioning of the 3rd unit which is yet to get sanction)

The Chief Engineer/TNEB added that the proposed coal handling plant would cater to the needs of other consumers also to the extent of 6 lakh tonnes per annum. He made it clear that the provision of 6 lakh tonnes in the design of equipment did not take into account the requirements of SPIC. The year-wise requirement of coal for other consumers was projected as below:—

1978-79	2·5 lakh tonnes
1979-80	3·2 lakh tonnes
1980-81	5·0 lakh tonnes
1981-82	6·0 lakh tonnes

To a query from the Chairman the representative of SPIC informed that no decision could be taken as yet with regard to their requirements of coal since there was some rethinking on the issue of conversion of their boilers to coal-burnt ones and the advice of the Central Government on this subject was awaited. The Chairman requested SPIC to pursue the matter and expedite the same and furnish firm figures to TNEB before 31st October, 1975, the date set by TNEB to finalise the design of the coal handling equipment and place orders on their suppliers.

3.3. The representative of TNEB informed that their consultants *i.e.* Tata Consulting Engineers have sought the advice of M/s. Swan Houston Engg. Co., Canada and they had themselves contacted M/s. Clarke Chapmen Ltd., U.K. through M/s. Jessops who would be the suppliers of the coal handling equipment. Since the Ministry of Shipping and Transport had also taken up an integrated system-study for the movement of coal from coal mines to the consumers' point, he wanted the Ministry of Shipping and Transport to expedite the studies so that the handling arrangements could be finalised and orders placed early. The Chairman advised the TNEB to write to him giving full details of the consultancy arrangements which the TNEB had undertaken. The representative of the TNEB wanted a final decision on the quantum of coal to be handled in PNT before 31st October, 1975.

3.4. In reply to a representation from the representative of TNEB the Chairman observed that no land inside the port premises would be given on outright sale since that was a policy decision of Government and there was no precedent in that regard. He added however that he would consider giving clearance to enable TNEB to take loan on the land leased out.

3.5. As regard the coal requirement for Southern Railway, the Dy. Chief Mechanical Engineer (Fuel) informed that it was around 30,000 tonnes per month. He indicated that it might come down after 1978 by about 5 to 7 per cent per annum due to the proposed dieselisation of locomotives. This was considered negligible not warranting an alteration of the assessment already made.

3.6. The representative of the India Cements indicated that their requirement would be in the order of 1.2 lakh tonnes per annum. He said that they were moving for the present, all the quantity by rail and if all-sea rate would be economical with the reduction in freight, which the higher rate of loading/unloading promises, they would consider moving the entire quantity by sea through Tuticorin Port.

3. *Cement*:

4.1. In the 4th Official Committee meeting, the traffic of cement export was estimated at 6 lakh tonnes per annum. The Chief Cement Officer, Ministry of Industrial Development expressed that the above figure was very much on the high side. On account of the establishment of number of cement factories in the eastern region as well as western region these regions had attained certain amount of self-sufficiency. With the increase in the consumption in the southern region, surplus therein was also getting reduced. Drawing attention to the downward trend in the international market, he pointed out that as against the target of 60,000 tonnes of foreign export upto November 1975, the actual shipment was only 25,800 tonnes. The buyers had not opened Letters of Credit, so much so, even for the latter half of the year the shipments might not be as originally programmed. He, however, felt that it could reasonably be assumed that the export possibility by 1978-79 would be 1.5 lakh tonnes.

4. *Fertilisers*:

4.2. As regards fertilisers, the representative of SPIC said that the projection made by the Official Committee in the 4th meeting would hold good and there was little prospect of any increase. The CE&A, PNT enquired about the prospects of the Industrial Refinery. It was clarified by the representative of SPIC that the Japanese had not pursued the interest shown at that time on account of the hike in prices of petroleum products. In response to a query from the Chairman, SPIC's representative said that there was no possibility of movement of their products through coastal ships in view of the element of freight being pegged at Rs. 40/- irrespective of the destination, in the price fixation by Government. If the sea-freight structure would be made comparable with the railway freight, there would be a possibility of 50,000 tonnes of finished fertilizers being moved per annum to Andhra, Maharashtra etc. through the Port.

4.3. The representative of SPIC added that they were adversely affected by the decision in not nominating the Tuticorin Port as a Pricing Point for P.O.L. products. The Chairman said that he would look into the report of the Oil Pricing Committee which had recommended Pricing Points only at ports where refineries are located.

4.4. Regarding the disparity in port charges raised by the IOC, the Chairman explained that the Port of New Tuticorin, as any other port, had fixed the charges on the basis of settled principles of return on capital. He agreed to look into the matter if there were wide disparities.

4.5. The representative of IOC said that the projection of Naphtha import might be firm at 3 lakh tonnes per annum, whereas the prospect of furnace oil might vary depending upon the conversion of the plant of SPIC from oil burning to coal burning and the requirement of furnace oil for secondary burning at the Thermal Plant in addition to coal. However, between the two together the total traffic through Port of New Tuticorin might be taken as 2.5 lakh tonnes of fuel oil. The representative of TNEB said that for secondary burning, the requirement of furnace oil could be around 60,000 tonnes per annum.

5. *Other Cargo:*

5.1. On the proposed paper plant referred to in the last meeting, there was no further news. The State Port Officer said that though the beneficiated ilmenite shipment was affected during 1974 on account of the power cut, prospective traffic could be taken as 25,000 tonnes per annum. The IOC representative said that the bunker traffic would be around 1,000 tonnes per month. The representative of STC indicated the import of raw cashew as 15,000 tonnes per annum and export of dry fish as 3,000 tonnes per annum.

5.2. The Port Officer indicated that there was a traffic of 2 lakh tonnes per annum in foodgrains and fertiliser through the Minor Port. It was felt that this traffic might continue at the same level in view of the necessity of ships to lighten before their visit to other ports. It was agreed that the general cargo traffic through the Minor Ports to the extent of about 66,000 tonnes per annum might not show any appreciable rise. On the whole the other cargo traffic was expected to continue at the level of 3 lakh tonnes per annum.

5.3. Discussing the impact of conversion of rail track from metre gauge to broad gauge, the Addl. Chief Operating Supdt. said that the construction of the Trivandrum-Tirunelveli line *via* Nagercoil would be completed only by October 1978, while the Ernakulam-Quilon line would be ready by November 1975 and the Quilon-Trivandrum line by March 1976. He added that the survey report for linking up Tuticorin on broad-gauge lines from Karur *via* Dindigul-Madurai-Maniyachi had been submitted to Government.

6.5. The position of traffic estimate was summed up as follows:—

Sl. No.	Commodity	Year 1978-79	Year 1980-81
1	2	3	4
		(in lakh tonnes)	
1	Salt	5·00	5·00
2	Coal	3·50	18·50
3	Cement	1·50	1·50
4	Fertilisers :		
	Dry:		
	Rock Phosphate	2·00	2·00

1	2	3	4
	Sulphur	0·80	0·80
	Muriate of Potash	0·60	0·60
	Liquid:		
	Naphtha	3·00	3·00
	Fuel Oil	2·50	2·50
5	Other Cargo	3·00	3·00
	TOTAL	21·90 or 22·00	36·90 or 37·00

2.15. It would be seen from the statement in para 2.13 above that the traffic projections for 1978-79 have been scaled down in respect of coal, salt, cement and other cargo. It is only in respect of coal that the traffic is expected to increase considerably in 1980-81 (18.50 lakh tonnes as compared to 3.50 lakh tonnes expected during 1978-79). Also the total traffic in 1978-79 has been assessed as only 22 lakh tonnes as against the earlier (1967) assessment of 35.10 lakh tonnes at the end of the Fourth Plan. In 1980-81, the traffic is expected to go up to 37 lakh tonnes due to anticipated increase in import of coal.

Capital investment and rate of return

2.16. As already mentioned in Chapter-I, the latest estimates of capital expenditure on the Tuticorin Project (including additional items like coal berths, additional tug etc.) have been put at Rs. 46.30 crores. Out of this amount, the expenditure upto and including 1976-77 has been put at Rs. 41.80 crores. The capital expenditure during the next three years is estimated to be Rs. 1.50 crores in 1977-78, Rs. 2 croroes in 1978-79 and Rs. 1 crore in 1979-80.

2.17. In addition to the above mentioned capital expenditure, it has been presumed that at the end of 20 years from 1976-77, floating craft and handling equipments will need to be completely replaced as their useful life is assumed to be 20 years. The total capital expenditure involved in this replacement has been assessed to be

Rs. 10 crores spread over a period of four years as follows:

Year	Expenditure
1992-93	2 crores
1993-94	3 crores
1994-95	3·5 crores
1995-96	1·5 crores

It has been stated that the Project cost has gone up due to taking up of certain new items of work like coal jetty, permanent oil jetty, procurement of additional tug, construction of shipway and additional buildings costing approximately Rs. 624.54 lakhs necessary for the latest traffic projections.

On the revenue side, the Ministry have assessed the expected income keeping in view the rates of Port charges now prevailing at the adjacent major Ports of Madras and Cochin, with an increase contemplated from 1978-79 onwards when all the facilities and infrastructure for handling traffic, including mechanical loading plant for salt are expected to be ready.

Economic Appraisal

2.18. Based on the above mentioned data of capital expenses, projections of anticipated traffic and rates of port charges, the revised estimates of operating expenditure, and providing for an interest rate of 5.75 per cent per annum* on the capital employed on the basis of the rate of Government lending to Ports prevailing at the time of sanction of the Project, the Ministry have worked out the cash flow position in respect of the Port by two different methods, namely:—

(1) If no portion of the Capital expenditure is treated as grant; and

(2) If 20 per cent of the initial capital expenditure on civil works is treated as an outright grant as per recommendations of the Major Ports Commission, 1970, for this Port.

*The rate of interest will have to be fixed by Govt. under Section 31 of the Major Ports Act, 1963, after the management of the Port is handed over to a Port Trust Board under the said Act.

According to the method at (1) above, based on the net present worth method of appraisal, an internal rate of return of 7.57 per cent can be expected and the Port will have a cumulative surplus of Rs. 2127.87 lakhs at the end of 30 years after commissioning.

By the method at (2) above, an internal rate of return of 9.1 per cent can be expected and the Port will have a cumulative surplus of Rs. 2914.53 lakhs at the end of 30 years.

The detailed note on the Economic feasibility of the Project furnished by the Ministry*, along with the various statements forming basis of the figures indicated in the Note, is appended at Appendix II.

2.19. The Committee note that the traffic estimates at the time of consideration and approval of the Tuticorin Project by the Union Government in 1967 were 35.10 lakh tonnes in 1975-76 (viz. **in the Fourth year after commissioning of the Port originally expected in 1971-72). The traffic projections for the Tuticorin project have been undergoing changes from time to time, the latest being those given in the report of the Working Group on Ports, 1973 and the minutes of the meeting of the Official Committee held at Madras in September, 1975. The Committee note with concern that while the port would be completed this year, traffic in 1978-79 is now expected to be no more than 22 lakh tonnes and it is only by 1980-81 that the traffic is expected to reach 37 lakh tonnes. This slow rate of growth of traffic is bound to affect adversely the economics of the Tuticorin port.**

2.20. Broadly speaking, the traffic projections for 1980-81 indicate that nearly 50 per cent of it would be contributed by coal. It is pertinent to recall that while the original estimate for coal at the time of sanction of the Project in 1967 was six lakh tonnes, according to the latest projections, it would be 18 lakh tonnes by 1980-81, a threefold increase.

In this connection, the Committee would like to recall the observations made by the representative of the Ministry of Shipping and Transport at the meeting of the Official Committee in September, 1975 that varied figures regarding coal movement were being given by the concerned authorities. It is also noted that the bulk of this coal traffic relates to two thermal units of 210 MW each which are to come up at Tuticorin. There has been admittedly delay in adhering to the schedule for installation of these thermal units, prin-

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*Not vetted by Audit.

cipally because of financial constraints and according to the Official Committee, the latest projections of coal traffic are as follows:—

1978-79	1 lakh tonnes
1979-80	7·5 lakh tonnes
1980-81	13·5 lakh tonnes
1981-82	18 lakh tonnes (with the commissining of the third thermal Power unit which has yet to be sanctioned).

It is being assumed by the authorities that there would be import of coal to the extent of 6 lakh tonnes in 1981-82 for other general consumers (excluding fertiliser and POL industries) as per projections given below:—

1978-79	2·5 lakh tonnes
1979-80	3·2 lakh tonnes
1980-81	5 lakh tonnes
1981-82	6 lakh tonnes

It is understood that the Ministry of Shipping and Transport are undertaking an integrated study for the movement of coal from the coal mines to the consumer points, while independent consultants had been appointed by the Tamil Nadu Electricity Board about the quantum and manner of handling of coal for the thermal stations.

The Committee need hardly point out that there should have been the closest coordination between the Ministry of Shipping and Transport, Tuticorin Port and the State authorities so that an integrated scheme for handling of coal for the thermal stations was devised and implemented. The Committee urge that this lacuna should be rectified without further delay so that the designs for the coal berths and other handling equipment at Tuticorin port serve best the requirements of the thermal units and make for efficient and economic handling of coal at the port. The Committee would also like Government to keep a close watch on the actual progress made in setting up of the Thermal units. In particular, special watch has to be kept about the proposed third Thermal Unit as it would entail import of an additional 5 lakh tonnes of coal.

2.21. The Committee also note that the cement factories in the area are moving coal to the extent of 1.2 lakh tonnes per annum through the all-rail route. The coal traffic for cement factories could be attracted if the sea freight rate was made more competitive. The Committee stress that the requirements for other consumers, particularly the cement factories and the fertiliser factories, should be gone into in detail and a firm decision taken about the quantum and manner of handling of coal for these users so that facilities could accordingly be built into the berths which are under construction.

2.22. The Committee cannot too strongly stress the need for taking concerted measures to see that the projected coal traffic at Tuticorin port does materialise, for this constitutes as much as 50 per cent of total projected traffic for 1980-81.

2.23. As for salt traffic, the Committee note that according to the original projections as much as 8 lakh tonnes were expected to be exported from Tuticorin port. However, according to assessment made in 1973 by the Working Group for the Fifth Plan, the export of salt from Tuticorin would be no more than one lakh tonnes. The detailed review carried out by the official Committee at the meeting held in September, 1975 brought out that there has been a variable change in the foreign export market of salt and the maximum that could be expected to be shipped in 1978-79 through Tuticorin would be 4 lakh tonnes. It was also brought out that apart from paucity of ships to lift salt, there was a discrimination in sea freight rate in favour of Saurashtra ports, while the all rail freight was cheaper by Rs. 2 per bag as compared to the all sea route. The Central Government was understood to have appointed recently a Consultant to go into the question of handling of salt from Indian ports in an efficient manner.

The Committee are greatly concerned to note that the Tamil Nadu Salt Corporation are seriously urging the development of minor ports at Vallinokkam and Veppalodi, which are within a distance of a few kelometres from Tuticorin port, for the export of salt. They agree with the Chairman of the Official Committee that "the development of minor ports in such a close proximity of the major port would adversely affect the traffic through the major port and negate the economic justification for its development". The Committee strongly stress the need for maintaining the closest coordination with the State authorities and the Tamil Nadu Salt Corporation so as to see that all desired facilities as are provided at Tuticorin port to handle salt traffic and that there is no question of developing alternative minor ports nearby for handling salt traffic as this would very gravely affect the economics of the port and in fact negate the justification for its development. The Committee attach much importance to this matter and would like to be informed within three months of the concrete action taken by Government in pursuance of this recommendation.

2.24. As regards Fertiliser traffic, the Committee note that the anticipated traffic at the time of giving administrative approval to the Tuticorin Project was 8 lakh tonnes in 1975-76 (viz. 4th year after the commissioning of the Port then expected in 1971-72). As against this projection, the Official Committee in their meeting held in September, 1975, have placed reliance on a total traffic at 8.90 lakh tonnes in 1978-79 for Fertiliser and Soda Ash Plant, consisting of 3.40 lakh tonnes of dry cargo (Rock-phosphate, sulphur and muriate of potash) and 5.50 lakh tonnes of wet cargo like Naptha fuel oil etc. It is understood that the fertiliser complex of M/s. Southern Petrochemicals has already gone into production in June, 1975. The Heavy Water Plant of Department of Atomic Energy is expected to go into production by the middle of 1976, and the Tuticorin Alkalies, being set up to produce Soda Ash and ammonium chloride is expected to be in the picture in 1977-78. The Committee hope that these industries will actually come up as per schedule, and the traffic projections now relied upon will materialise.

2.25. The Committee, however, find that at the Official Committee's meeting held in September 1975, it was brought out by the representatives of the SPIC (Fertiliser Group) that there was no possibility of movement of the finished fertiliser products through Tuticorin port as Government had decided that the element of freight would be pegged to Rs. 40 per tonne irrespective of the destination and the mode of transport. However, if the sea-freight structure was made comparable with the railway freight, there could be a possibility of despatching 50,000 tonnes of finished fertilisers to Andhra Pradesh, Maharashtra, etc. through the port. The Committee would like this matter to be examined by Government at depth, in the interest of utilising adequately the up-to-date facilities for handling of fertiliser etc. which are being developed at Tuticorin.

2.26. Another point requiring urgent attention is about the nomination of the Tuticorin port as a pricing point for POL products. A firm decision also needs to be taken about the fuel which is to be used in the boilers of the fertiliser plant.

The Committee feel that as fertilisers (including raw materials and POL) would constitute the second largest bulk commodity to be handled at Tuticorin port, there is a need for close co-ordination with the representatives of this industry so as to offset all likely difficulties. Apart from administrative decisions regarding the nomination of Tuticorin port as a pricing point for POL products or rationalisation of the sea-freight structure for movement of fertilisers, it is essential that the facilities provided in the port are such as would make for the most economic and efficient handling of the commodity involved.

2.27. It is understood that the Central Government approached the State Government in the latter half of 1975 with a suggestion to form a Greater Tuticorin Development Authority to plan and coordinante the development of the environs of Tuticorin industrially, now that a modern port outlet was being provided. While the Committee welcome this belated but essential move, they need hardly point out that the initiative in this behalf should have been taken either along with the sanction for the Tuticorin Port project or very soon thereafter. Meanwhile, valuable time has been lost. Government should always remember that a stitch in time saves nine.

The Committee feel that the State being now under the President's rule, it should be easier to effect a closer co-ordination between different authorities involved in the tasks of Greater Tuticorin Development. It must not be forgotten that rapid development of the hinterland and the resultant capacity to generate and absorb traffic are indispensable to the economic viability of Tuticorin port.

2.28. The Committee would like to draw attention of Government to the state of rail transport facilities in the area, as these have a distinct bearing on the traffic projections by sea for Tuticorin port. At the moment, there is a perceptible improvement, since the emergency, in the capacity of the Railways to carry goods and the Railways have also reduced the time for transit and improved reliability. There is also a scheme under implementation for conversion of a portion of metre-gauge to broad-gauge on the Southern Railway and a beginning has already been made in this behalf with the construction of Trivandrum-Tirunelveli line *via* Nagarcoil The extent of traffic which would move to or from Tuticorin by rail particularly in bulk commodities like coal, fertiliser and salt has a close bearing on the traffic to be handled at Tuticorin port and therefore should be closely studied for taking correct investment decisions about facilities to be provided at the Port. The Committee would like the closest co-ordination to be maintained between the Ministry of Shipping and Transport and the Railway Authorities so that the investment in the development of national infra-structure for transport through Tuticorin is regulated in the best overall interest.

2.29. As pointed out earlier, the traffic projections for the Tuticorin Port have been undergoing marked changes from time to time and, according to the information at present available, the traffic of the order envisaged may take a long time to be realised. The Committee would like Government to make, in due course, a critical study of the Tuticorin Project in order to see how far the projections of traffic assumed at the time of sanction of the Project had been actually realised, so that it could provide valuable guidelines while scrutinising similar schemes in the future. The Committee cannot too strongly stress the need for observing priorities in undertaking developmental schemes because of the limited resources available in the country and the competing demands from various sectors, so that the existing resources are put to best use for generating developmental returns for further growth.

2.30. The Committee have no doubt that Government must have kept a careful note of the offer made by the Chief Minister of Madras (now Tamil Nadu) State Government in September, 1967, that the State Government would be prepared to meet by means of loan to the Port of Tuticorin half the deficits that would accrue to the Port to the initial years, so that this undertaking could be invoked as required.

CHAPTER III

AWARD OF CONTRACTS

Audit Paragraph

3.1. In August, 1969 the Chief Engineer and Administrator of the project called for tenders for the major marine civil engineering Works *i.e.* (i) South breakwater including one pier head, the wharf, dredging and reclamation of wharf area; and (ii) North breakwater including two pier heads, called hereafter as South breakwater and North breakwater respectively.

The lowest three offers (there were various conditions attached to each of these offers) were as follows:—

South breakwater		North breakwater	
	(Crores of rupees)		
Firm 'A'	6·81	Firm 'C'	3·94
Firm 'B'	7·16	Firm 'B'	4·15
Firm 'C'	7·98	Firm 'D'	4·28

Taking into consideration the various special conditions stipulated by the tenders their offers were evaluated by the Chief Engineer and Administrator of the project as follows:—

South Breakwater		North breakwater	
	(Crores of rupees)		
Firm 'A'	6·82	Firm 'B'	4·15
Firm 'B'	7·33	Firm 'D'	4·29
Firm 'C'	8·30	Firm 'C'	4·36

The offer of firm 'A' (Rs. 6.81 crores) was for reclamation from land source only and did not inclue cost of dredging. This offer was not recommended by the Chief Engineer and Administrator of the project. He recommended (January 1970) award of the contract for South breakwater to firm 'B'. Although firm 'B' was the lowest tenderer for the North breakwater, according to the evaluation of the Chief Engineer and Administrator, he recommended award of the contract for this to firm 'D', the second lowest tenderer, as in his opinion firm 'B' did not have the capacity to execute both the works simultaneously.

In February 1970, Government set up a Tender Committee consisting of Development Adviser, Ministry of Shipping & Transport, Chief Engineer and Administrator of the project and Financial Adviser and Chief Accounts Officer, Madras Port Trust, to examine the tenders. The recommendations of this committee were as follows:—

South breakwater

The Tender Committee evaluated the offer of firm 'A' as Rs. 8.74 crores after adding cost of dredging. The offer of firm 'C' was evaluated as Rs. 8.30 crores. The offer of firm 'B' was evaluated as Rs. 7.84 crores, and being the lowest was recommended for acceptance.

North breakwater

The Tender Committee evaluated the following two offers mentioned earlier as below:—

Firm 'D'	Rs. 4·02 crores
Firm 'B'	Rs. 4·10 crores

After discussions with the representative of firm 'D' the lowest tenderer according to the above evaluation, the Tender Committee concluded that his ideas about the work were not sufficiently clear. Besides, the Committee also mentioned that firm 'D' had not taken contracts for a number of years. The Tender Committee, therefore, recommended acceptance of the offer of firm 'B' for the North breakwater also. The Tender Committee observed that although firm 'B' had no experience of carrying out marine works, they had reasonable resources and would organise equipments to carry out the work. Firm 'D' had no experience in marine works, but after discussions with the Tender Committee it informed Government in April 1970 that it would obtain the services of an eminent civil engineer for this work and mentioned that its managing partner was also the managing partner of some other firms and sent a list of works (value between Rs. 20 lakhs and Rs. 4 crores) costing Rs. 19.60 crores executed by these firms in the past. Firm 'B' had done works for Rs. 4.17 crores only till the time of submitting tender for these works.

In April 1970 the Ministry of Shipping and Transport accepted the recommendation of the Tender Committee and decided to allot both the works to firm 'B'. On 22nd June, 1970 the Ministry of Finance agreed to the acceptance of the offer of firm 'B' for the South breakwater. It, however, advised that the North breakwater works should be put to re-tender, mainly on the following consideration:—

(i) The tender recommended for acceptance namely that of M/s.................. (firm 'B') was not actually the lowest and in the absence of a more detailed study of the financial standing capacity experience etc. of the lowest tenderer, it may not be advisable to reject his tender; and

(ii) It was not absolutely certain that M/s............ (firm 'B') would be able, having regard to their capacity and the works they have already on hand, to take on and complete both the Northern and Southern Breakwaters satisfactorily and on time."

The Ministry of Finance further advised that pending finalisation of a contract after re-tendering, the work on the North breakwater should continue departmentally as hitherto, to the extent necessary, so that there was no stoppage of work. Before the above opinion was given by the Ministry of Finance, the Chief Engineer and Administrator of the project had informed the Ministry of Shipping and Transport on 8th June, 1970 that the rates quoted by firm 'B' for North breakwater was very competitive as compared to the rates allowed for similar items in 1969-70 and that if there was a proposal to call for re-tender then it was quite possible "that the tender rate might be higher than what has been quoted now."

The Ministry of Shipping and Transport informed the Ministry of Finance in July 1970 that by re-tendering the work considerable time would be lost with the possibility of tender rates going up, and the South breakwater would progress faster than the North breakwater, while the idea was to get both the works done simultaneously. The Ministry of Finance then stated (July 1970) that it was for the Ministry of Shipping and Transport to satisfy itself whether it would be advisable to reject the offer of firm 'D' without more detailed study of its financial standing, capacity, experience etc. and whether firm 'B' had the capacity to complete both the works in time and satisfactorily, and if the Ministry of Shipping and Transport was satisfied that its recommendation was based on justifiable grounds, the contract for the North breakwater might be awarded to firm 'B'. The Ministry of Finance also suggested that before awarding the work negotiations should be held and firm 'B' prevailed upon to bring down its tendered rate to the rate offered by the lowest tenderer (firm 'D').

The Ministry of Shipping and Transport thereafter informed (July 1970) the Chief Engineer and Administrator that it had been decided in principle to award both the works to firm 'B' provided he was fully satisfied that it had requisite capacity to undertake the work and to complete the North and South breakwaters satisfactorily and in time. In reply the Chief Engineer and Administrator of the project stated (August 1970) that while forwarding the tender he had made his recommendations (that the tender of firm 'D' for the North breakwater should be accepted) and pointed out that as the Tender Committee had recommended, after examining all aspects, acceptance of the offer of firm 'B' for both the works, further review of the position at that stage separately by him who was one of the three members of the Committee did not seem to arise. No further enquiry seems to have been made about financial standing, capacity, experience etc. of firm 'D'.

The contract for South breakwater was allotted to firm 'B' in July 1970 at a cost of Rs. 7.66 crores with escalation for increase in cost of labour payable upto a maximum of Rs. 0.18 crore. Firm 'B' reduced its offer for North breakwater to Rs. 4.07 crores and this was accepted in October 1970. Escalation for increase in cost of labour upto a maximum of Rs. 0.10 crore was payable for this breakwater. Thus, the total value of the works allotted to firm 'B' was Rs. 11.73 crores, with escalation upto a maximum of Rs. 0.28 crore.

When the decisions were taken to allot both the works costing about Rs. 12.01 crores (with maximum escalation) to firm 'B', it was known that the firm had experience of completing works for Rs. 4.17 crores only. Besides, out of other works for Rs. 5.59 crores on hand it was still to complete works for Rs. 3.80 crores. It was also known that it had no experience of marine works.

[Paragraph 37 of the Report of the Comptroller & Auditor General of India for the year 1973-74, Union Government (Civil)]

South Breakwater

3.2. As already stated in the Audit paragraph, firm 'B' was recommended by the Chief Engineer and Administrator for construction of South Breakwater, their tender being the lowest for that Breakwater. Their offer was accepted by the Tender Committee after evaluation of all other offers. The Ministry of Shipping & Transport accepted the recommendation of the Tender Committee and it was also agreed to by the Ministry of Finance.

North Breakwater

3.3. As regards the North Breakwater seven tenders were received in reply to the tender notice issued as under:

	Amount	Foreign Exchange
	Rs.	
1. M/s...................... (to be called firm 'C')	3.94.08,643	Rs. 50 lakhs if island method was adopted and fore dredging both the breakwaters.
		Rs. 10 lakhs for and on method and reclamation by land for both breakwaters.
2. M/s...................... (to be called Firm 'B')	4.14.71.818	Nil
3. M/s...................... (to be called firm 'D')	4.28.48.102	Rs. 25,000* if possible.
4. M/s......................	5.79.28.242	Nil
5. M/s......................	6,04.38.766	Nil
6. M/s......................	6.19.15.520	Rs. 24 lakhs
7. M/s......................	9.31.09.710	Nil

The last four tenders (Sl. Nos. 4—7) were bypassed as they were far higher and also contained many conditions effecting the tender position to their disadvantage still further.

*For getting submarine delayed detonators.

3.4. The Chief Engineer evaluated (*vide* Appendix III) the first three lowest offers in the light of various special conditions stipulated by the fenderers and came to the following conclusion:

	Figures quoted by tenderer	As evaluated by Chief Engineer
	Rs.	Rs.
Firm 'B'	4,14,71,818	4·15 crores
Firm 'D'	4,28,48,102	4·29 crores
Firm 'C'	3,94,08,643	4·36 crores

Before making his recommendation for acceptance of any one of the above three offers, the Chief Engineer and Administrator discuss in detail each tender in his letter dated 18th January, 1970.

3.5. The evaluated tender of Firm 'B' was the lowest for this work, the tender amount being Rs. 4,14,71,818.00. They had however given the following conditions:

(a) Retention money should be allowed to be replaced from time to time by acceptable schedule bank guarantees for like amounts.

(b) Royalty/Seignierage charges will be paid only for core and armour stones and broken stone as specified in Schedule G page 55 of Volume I and not for any other material.

(c) Sales tax on various materials obtained from Government quarries or on the turn over if payable on the contract shall be paid extra by the department.

(d) Suitable jetties shall be provided to handle the concrete units and ample land space made available near the jetties for the manufacture of steel caissens, stacking of materials and casting blocks and cellular units.

(e) Any increase or decrease due to revision of minimum wages of workmen or prices of controlled commodities by statutory enactments or orders will be to the account of the department.

(f) Rates for additional items of work shall be fixed by mutual agreement only.

(g) Portions of work may be taken over by the department as and when they are completed and maintenance period for such portions will commence from the date of taking over.

(h) Steel required for work should be supplied at departmental stores and cost recovered from bills at cost price including sales tax and storage charges.

(i) For any variation in the quantity of steel in each pier head or in R.C.C. works due to change in drawings or in adoption of different sections of steel, the rates should be adjusted.

The Chief Engineer called the tenderers Firm 'B' to his office for clarification on their 'suggestions'. They had stated that all the suggestions contained in their original tender were retained and no condition could be withdrawn as the rates quoted by them were very competitive.

3.6. After the opening of tenders on 30th December, 1969, the next higher tenderer Firm 'D' had sent a letter on 1st January, 1970 giving their views on the comparative study of their tender with that of Firm 'B', who was the lowest. According to them (firm 'D'), certain amounts would need to be added to the tender of firm 'B' to reflect truly the effect of the conditions stipulated by the latter. The conditions of 'B', touched upon by the firm 'D', and their calculated financial implication (according to 'D') were as follows:—

Conditions of 'B' touched upon by the firm 'D'

(a) No seigneorage charges will be paid by them on materials other than core and armour stones and broken stones.

(b) Sales tax if any payable on the various materials obtained from Government quarries or on the turn over will be to the account of the department.

(c) Any increase or decrease due to revision of minimum wages by statutory enactments will be to the account of the department. Similarly, rates have to be modified according to the formula $V = \frac{25}{100} \times \frac{I-I_0}{I_0} \times R$ in the event of increase or decrease in labour index. The variation is applicable to the work carried out 12 months after the award of the work.

(d) All steel required for the fabrication of pier heads should be supplied by the department at its stores and cost recovered from bills as per departmental rules in force.

(e) Advance of Rs. 15.00 lakhs may be given immediately after the work is awarded. This will carry interest at 7 per cent on outstanding balances and will be covered by a bank guarantee.

Financial implication of conditions of 'B' as calculated by 'D':

	Rs. in lakhs.
(i) Seigneedage charges for stone and jelly— 21,17,100 M.T. 0·12 M.T.	2·540
(ii) Cement and steel to be supplied by department at the rate on the date of tender	2·000
(iii) Sales tax on contract value and	8·694
(iv) Escalation clause (price variation)	25·800
TOTAL	39·034

3.7. The above mentioned additions would have the effect of increasing the amount of the tender of 'B' to Rs. 4.54 crores which, the firm 'D' contended, should form the basis for comparison of tenders.

As against the above, firm 'D' contended that the only amount to be added to their own tender was Rs. 46,667/- being the interest on the advance of Rs. 10 lakhs required originally by them free of interest (against Rs. 15 lakhs demanded by firm 'B' at 7 per cent interest). With this addition, the total amount of the tender of firm 'D' would come to Rs. 4.30 crores.

3.8. Firm 'D' who had quoted Rs. 4,28,43,102.00 had stipulated certain conditions, which were subsequently modified by them. The conditions, as modified, were as follows:—

"(a) Against performance guarantee for 5 per cent of contract value + deduction of 2½ per cent of contract value as security deposit from bills, they offer a bank guarantee of Rs. 25,000/- and agree for a total retention of 3 per cent of contract value by deduction from bills at the rate of 10 per cent from each bill.

(b) Insurance of contract work, third party insurance and insurance for workman compensation will be done from any general insurance company and not LIC.

(c) Advance of Rs. 10.00 lakhs may be given on bank guarantee on signing the agreement. This will carry interest at 7 per cent. Recovery of advance may be made at Rs. 1.00 lakh per month from the 4th month and the interest on balances which works out to Rs. 46,667/- may be deducted along with the last instalment of recovery of advance *i.e.* recovery in 18th month will be Rs. 1,46,667.

(d) Advance may be given on equipments such as tippers, cranes, shovels, compressors etc., brought to site after taking hypothecation agreement."

3.9. In order to study in more detail the above conditions given by the firm 'D' and also the evaluation of workings detailed by them, the tenderer 'D' was asked by the Chief Engineer to attend his office for clarification. The Managing Partner of the Firm 'D' called on the Chief Engineer in his office on 15th January, 1970.

3.10. In addition to their conditions, firm 'D' had placed their requirements of foreign exchange at Rs. 25,000/- for getting submarine delayed detonators and an exploder required for underwater blasting. They had stated that if this was not possible, they would manage with the indigenous materials and equipment. During discussion with the Chief Engineer, the representative of the firm 'D' also explained that the figures given in his letter dated 1st January, 1970 were only his estimated value of the conditions given by M/s.......... (Firm 'B').

3.11. It was not possible to evaluate all conditions indicated by the tenderers even approximately. However, a rough comparison of the two tenders for the work *viz* those of Firm 'B' and Firm 'D', was made by the Chief Engineer with reference to the conditions attached to each, as follows:—

"(i) *Firm 'B'* The tender amount is Rs. 4,14,71,818. The liabilities of the department to be added to the tender amount are—

(a) seineorage charge on materials other than core, armour and broken stones;

(b) Sales tax on materials and or turn over; and

(c) Increase due to revision of minimum wages by statutory enactments and also increase in labour index."

The estimated amount of liability on the above three items according to Firm 'D' was Rs. 2.540 lakhs, Rs. 8.694 lakhs and Rs. 25.800 lakhs respectively. The Chief Engineer pointed out that the addition of Rs. 2.00 lakhs by Firm 'D' towards departmental supply of cement and steel at the rates on the date of tender was to be ignored as Firm 'B' had not given any condition for departmental supply of cement and with regard to steel they had agreed to pay as per the departmental rules inforce. Also the addition of Rs. 2.540 lakhs suggested by Firm 'D' toward seigneorage charges could not be made in full as the other firm had only said that they would not pay seigneorage charges for any material other than core, armour and broken stone. Liability towards sales tax could not be evaluated and it could not be said that it would come to Rs. 8.694 lakhs as assessed by Firm 'D'. As in the tenders for South breakwater, the liability was assumed as not appreciable to affect vitally the tender position. However, the fact remained that a correct tender comparison was not possible due to these conditions which could not be evaluated. The items which thus remained were the liability towards variation in minimum wages and in labour index. Firm (D)'s estimate of increase on account of these items was Rs. 25.80 lakhs as below:

"Total value of work quoted by Firm 'B' . . . . Rs. 4·14 crores

This will be done in 2½ years as below:

First 12 months	Rs. 1·50 crores
Next 12 months	Rs. 1·80 crores
Last 6 months	Rs. 0·84 crores
	Rs. 4·14 crores

Rise in rate is assumed as 4% each year, average rise for 1st year being 2% only.

Increase in first 12 months 2% of Rs. 1·50 crores	Rs. 3·00 lakhs
Increase in next 12 months 8% of Rs. 1·80 crores	Rs. 14·40 lakhs
Increase in last 6 months 10% of Rs. 0·84 crores	Rs. 8·40 lakhs
	Rs. 25·80 lakhs"

The above evaluation could not be accepted by the Chief Engineer as Firm 'B' had referred to only 'any increase in minimum wages and labour index' and not on materials or contract value. Hence only the labour portion was taken as the basis, which was determined as 25 per cent. Also, the liability for this was assumed only for the work done after the first 12 months. Adopting the rate of increase and turn over assumed by Firm 'D' the liability, according to the Chief Engineer, worked out to Rs. 5,70,000 as below:

First 12 months		Nil
Next 12 months 8% on 25% of Rs. 1·80 crores	$\frac{1{,}80{,}00{,}000 \times 25 \times 8}{100 \quad 100}$	Rs. 3,60,000
Last 12 months 10% on 25% of Rs. 0·84 crores	$\frac{84{,}00{,}000 \times 25 \times 10}{100 \quad 100}$	Rs. 2,20,000
	Total	Rs. 5,70,000

3.12. The above workings were based on presumptions and hence a correct or even approximate comparison of tenders with these conditions was not possible. However, it was argued by the Chief Engineer that if the above data were taken provisionally, the position would be as below:

(i) M/s....................Firm 'B'	Rs. 4,14,71,818 + Rs. 5,70,000 Rs. 4,20,41,818 + Sales tax if payable + seigneorage for other materials, if any.
(ii) M/s................Firm 'D'	Rs. 4,28,48,102

3.13. The Chief Engineer and Administrator of the project in his letter dated 18th January, 1970, to the Secretary, Ministry of Shipping and Transport recommended the acceptance of the tender of Firm 'D' as follows:—

"Apparently therefore, the tenders of M/s............ (Firm 'B'), continue to be lowest even after taking into account the conditions attached to the tenders. But this position will be known only after actual execution of the work. The construction of South Breakwater including the Eastern arm is itself a very major work and M/s. .... (Firm 'B'), being the lowest and having sufficient experience and capacity may safely be entrusted with the same as recommended above. But it has to be considered whether they will be in a position to execute both the major works simultaneously. The Ministry is aware that all the works should be completed in all respects before October 1972 and I feel that it will be advisable to entrust the two major works (groups V A and VI A*) to two separate major contractors to ensure strict adherence to the time schedule. According to their own statement M/s........ (Firm 'B'). have executed so far works to the extent of Rs. 4.17 crores (*vide* their tender) and out of works to the extent of Rs. 5.59 crores on hand their progress so far is for Rs. 1.79 crores leaving a balance of work to be done for Rs. 3.80 crores. Hence, it will be in the interest of the department to entrust one major work alone to them and choose another agency for the other. Thus, the whole work of South Breakwater including the Eastern Arm can be given to M/s............(Firm 'B').

The choice for the award of North Breakwater will then fall on the next higher tenderer *viz.*, M/s. .... (Firm 'D'). Even though his tender is higher as explained in the previous paras, I am of opinion that the progress of works can be kept up on each work and the target of completion achieved only if the agency of execution for each major work is different. The capacity of either of the two tenderers under discussion may not be such as to take over both the works simultaneously. On the other hand, the target date of completion of the Harbour is most important as any delay may result in loss of revenue to the Government. As already stated above, the rates have not been negotiated with any of the tenderers and this matter is left to the Ministry for further action. Under the circumstances, I feel that the work of North Breakwater may be given to Firm 'D', after negotiations with them if felt so by the Ministry, to bring down the tender amount to the level of the present lowest and at the same time without sacrifice of the time schedule."

Thus, the Chief Engineer recommended the award of the work to M/s. .... (Firm 'D') even though he considered the offer of firm 'B' as the lowest, for the reasons that the execution of both the works (South Breakwater and North Breakwater) within the time schedule, which was important, would be beyond the capacity of Firm 'B'.

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*South Breakwater and North Breakwater.

3.14. A Tender Committee under the Chairmanship of the Development Adviser in the Ministry of Shipping and Transport, and the Chief Engineer and Administrator, Tuticorin Harbour Project, and the Financial Adviser and Chief Accounts Officer, Madras Port Trust, as members, was then constituted by the Ministry of Shipping and Transport in February 1970 for examining the various tenders and recommending a suitable offer.

The Tender Committee re-evaluated the offers of the first two lowest firms *viz.* M/s........... (Firm 'B') and M/s......... (Firm 'D') as under:

Firm 'D'	Rs. 4·02 crores
Firm 'B'	Rs. 4·10 crores

For the sake of comparison, the final outcome of the two evaluations done, first by the Chief Engineer and then by the Tender Committee, is given below:

Name of Tenderer	Original Offer (in crores of Rupees)	Evaluation done by Chief Engineer	Evaluation done by Tender Committee
Firm 'B'	4·15	4·15	4·10
Firm 'D'	4·28	4·29	4·02
Firm 'C'	3·94	4·36	Not evaluated

3.15. At their meetings held on the 17th to 19th March 1970, the Tender Committee called the representatives of these firms and discussed with them the clarification given by them. After taking into consideration the recommendations made by the Chief Engineer and the discussions held with the representatives of the firms, the Tender Committee analysed the offers for the North Breakwater as under:

"From the statement, it is seen that lowest two offers for the entire work of the northern breakwater are, one from M/s. .... (Firm 'D') and other from M/s. .... (Firm 'B'). Their tenders have been evaluated in the statements enclosed (Appendix IV).

If the escalation on labour cost is borne by the Project authorities, the evaluated offer of M/s. 'D' works out to Rs. 402,13,935 and of M/s. 'B' to Rs. 409,53,420. In case the escalation on labour cost is borne by the contractor, the evaluated offer of M/s. 'D' works out to Rs. 4,15,03,935 and in case of M/s. 'B' to Rs. 4,18,86,536.

M/s. 'B' have further clarified that in case they withdraw the clause regarding escalation charges on labour, they would claim 2-1|4 per cent extra on their tender rates. The Committee considered this aspect and feel that it would be better to pay escalation charges for labour on the basis of formula given by the contractor. For the first 12 months from the date of the acceptance of the tender, any escalation on labour is to be borne by the contractor and the balance period will be about 1½ years in which the escalation charges are to be paid to the contractor. Therefore, the Committee recommends acceptance of the clause regarding escalation as is embodied in the letter submitted by the contractor along with his tender.

During discussions with Firm 'D' about the technical features of the scheme and the method proposed by him for the execution of work, it was observed that his ideas were not sufficiently clear. It was also rought out during discussions that he had not taken contracts for a number of years due to certain personal reasons. The Income Tax Returns show that the value of the contracts taken recently amounted to Rs. 2 lakh in 1967-68. M/s. 'B' who are the other contractors for the northern breakwater have experience of the construction of a large number of bridges and the returns submitted by them also indicate that they are executing a major work costing Rs. 2.72 crores. They however do not have the experience of carrying out marine works, but on the basis of the information given and the discussions, the Committee came to the conclusion that they do have the reasonable resources and will get equipment to carry out the work.

As regards Firm 'C', who have more experience than M/s 'B', they have stipulated a large number of conditions in their tender. They do not undertake any responsibility for making up any settlement, sinkage or washing away due to wave action or due to any reason whatsoever, whereas

M|s. 'B' will be responsible for the work subject to permissible tolerance till it is handed over in complete shape and agreed to the maintenance upto 12 months."

3.16. During evidence, the Committee desired to know whether before awarding works worth crores of rupees, it was made certain that the firm to which the same were being allotted had the experience of executing works of that description. The representative of the Ministry stated in reply:—

"The Tender Committee Report says that none of the tenderers had any experience of marine work. Therefore, they had to go into the account of other works they had done and evaluate them."

"3.17. According to Audit Para, Firm 'D' had no experience in marine works, but after discussions with the Tender Committee it informed Government in April 1970 that it would obtain the services of an eminent civil engineer for this work and mentioned that its managing partner was also the managing partner of some other firms and sent list of works (value between Rs. 20 lakhs and Rs. 4 crores) costing Rs. 19.00 crores executed by these firms in the past. Firm 'B' had done works for Rs. 4.17 crores only till the time of submitting tender for these works.

3.18. The Committee called for the letter of Firm 'D' of April 1970 and the relevant portion therefrom is reproduced below:—

"Not executing much work in the name of 'D'. From the list of works enclosed, our Managing Partner, was the Managing Partner of so many other firms. The works were taken in different names. During last 4 years, we were trying to do works in the name of "M/s. Ch. Subba Rao & Co." only. We have tendered for 8 to 9 crores of rupees of works in the name of M/s. "Ch. Subba Rao & Co." with the Railways and other agencies. Since we were not lowest, we did not get works except about Rs. 50 lakhs of work "Reach No. XIII—Hassan-Mangalore Railway Project—Metre Guage—Ghat Section—formation of roads, construction of viaducts, bridges and tunnels." In the history of every construction company there will be dull periods and busy periods. No doubt we have the technical know-how, and experience for handling any big difficult, Civil Engineering works. We are enclosing few recent certificates taken from eminent

Civil Engineers. Now for this work, we are getting the services of Sri A. R. Venkataraman, one of the eminent Civil Engineer of India."

3.19. After examining the tenders in detail and holding discussions with, and seeking clarifications from the tenderers, the Tender Committee made the following recommendation in this regard, for acceptance of the Ministry of Shipping & Transport:

"On the basis of the analysis as stated above, the Committee have come to the conclusion that the offer of M/s. 'B' for both south and north breakwaters and the wharf wall is the most suitable offer and is recommended for acceptance. The total value of the offer for both works No. V-A and VI-A will be Rs. 11.93,40.420 with foreign exchange component of Rs. 7.5 lakhs."

3.20. The Ministry of Shipping and Transport considered the recommendation of the Chief Engineer and the Tender Committee and recorded the following note:

"1. * * * *

(2) So far as South Breakwater is concerned, M s. 'B' are the lowest. The net tender is of M/s. 'C' which is higher by about Rs. 50 lakhs and involves very high foreign exchange content.

On the other hand, the tender of M s. 'B' for North Breakwater is not the lowest. It is higher by about 7.40 lakhs than the lowest tenderer viz., M/s. 'D'. The tender of 'C' has been evaluated at Rs. 4,33,88,168 if departmental specifications are adhered to and Rs. 4,37,48,168 otherwise, against Rs. 4,02,13,935 of 'D' and Rs. 4,09,53,420 of 'B'.

* * * *

(3) In the place of Performance Guarantee the firm M/s. 'B' has agreed to allow deductions at 5 per cent of the Bill. It seems to be preferable to have a performance guarantee.

2. The Tender Committee has expressed the view that the ideas of Firm 'D' about the work were not sufficiently clear. They have also stated that the value of the contracts taken recently by him amounted to Rs. 2 lakhs in 1967-68.

3. On the other hand, the Committee is of the view that M/s. 'B' have experience of construction of a large number of bridges and have the reasonable resources and will be in a position to execute the work. They have also suggested that the offer of Firm 'B' with the provision for escalation charges on labour would be more advantageous than the alternative of payment of 2½ per cent extra on their tender rates. They have recommended the acceptance of the tender of M/s. 'B' for this work. The recommended tender of M/s. 'B' works out to Rs. 4,09,53,420."

The notings in the Ministry of Shipping and Transport were concluded with a Note recorded by the Secretary (Transport) on 23-4-1970 and approved by the Dy. Minister and the Minister as follows:—

"I have discussed the details with Development Adviser who was Chairman of the Tender Committee. The work is very large and one has to be reasonably sure of the Contractor's ability to undertake and complete the work. Unfortunately none of our constructing firms have experience of large marine works as such. The......(Firm 'B') has undertaken large bridge building contracts and according to particulars furnished (not put up) has a large organisation and number of Engineers. Their financial standing seems also is good. Therefore, as recommended the contract may be awarded to ... (Firm 'B').

Sd/-S. K. Datta,
23-4-70

Sd/-Iqbal Singh,
27-4-70

Sd/-K. Raghuramaiah."

3.21. The Committee desired to know the relevant factors, and the extent of importance of each factor, that are taken into account for selection of tendering firms for the award of contract for execution of a breakwater project. The Ministry of Shipping and Transport, in a written note furnished to the Committee, have stated:

"The relevant factors that are taken into account for award of a contract are:

(a) Technical competence of the tender.

(b) Financial standing of the tenderer.

(c) Technical suitability of the offers.

(d) Evaluation of the offers on a common datum.

On the basis of works carried out in the past an assessment whether a firm has the technical competence or not to execute the job in question is made.

The value of the works done in the past or in hand is considered for assessing whether a firm is financially sound or not.

The technical suitability of an offer mainly arises when a contractor offers an alternative design or method of construction to the proposal set out by the Department in the tender documents. If the alternative offer is broadly acceptable and is in conformity with the requirements set out, but requires minor modifications to make it conform fully to the requirements, clarifications are obtained from the tenderer.

On the basis of the conditions stipulated by the tenderers and/ or clarification obtained the offers are evaluated to a common datum and the lowest technically acceptable offer is recommended for acceptance. Offers which are very high and obviously not competitive, are not considered for detailed evaluation if a number of technically suitable competitive offers are available."

3.22. During evidence, the Committee desired to know as to what extent the above factors were taken into account in accepting tenders for the breakwaters and whether the Tender Committee had made it a condition, in addition to being the lowest quotation, that the tenderer would have to satisfy them of his capability of undertaking the work. The representative of the Ministry stated in reply:

"A perusal of the Tender Committee Report would show that they have taken into account factors like technical competence, financial standing, technical suitability of the offer and the evaluation of the offers on a common basis. Having done so, they have held discussions with the two lowest tenderers in either case, and in each case a perusal of the report will show that they have satisfied themselves that the tenderers have the technical competence and the financial standing and that they would be able to carry out the work. You would also notice that they did not accept the tender as given to them, but they had really adjusted the tender for providing for the financial implications of the conditions which they had made and then arrived at the figures. So, you would see from this that the Committee took into account these factors also in addition to the rates being the lowest."

Regarding experience of the tenderers in execution of works of that magnitude, the witness added:

"The Tender Committee Report says that none of the tenderers had any experience of marine work. Therefore, they had to go into the account of other works they had done and evaluate them. In fact in some place they have mentioned that one particular tenderer had only given the information that he had paid Rs. 2 lakhs by way of income tax. Some other person showed that he had executed works costing Rs. 2.72 crores. From this it appears that the Tender Committee did go into the question of technical competence as well as financial standing in doing at least works of a large nature."

The representative of the Ministry also stated:

"The main consideration on the basis of which firm 'D' has not been considered eventually was that the Tender Committee felt that it did not have necessary competence. Firstly, they thought it does not seem to have clear ideas as to how the work is to be done: secondly, they found the experience as reflected in the income-tax return was inadequate. These are the two considerations on which the Tender Committee rejected the lowest tender and then gave it to this party."

3.23. On the matter being referred to the Ministry of Finance, that Ministry, after detailed examination of the proposal, in their Note dated the 22nd June, 1970, recommended re-tender of the work of North Breakwater, as follows:—

> "For the Northern Breakwaters, Firm 'D', though the lowest tenderer, has not been recommended by the Tender Committee and the MOT for the reasons explained in this file. We would suggest that in this case, the work may be put to re-tender. In the meanwhile, the Chief Engineer and Administrator may be directed to continue the work on the Northern Breakwaters departmentally, as hitherto, to the extent necessary so that there may be no stoppage of work."

3.24. As stated in the Audit Paragraph, even before the above mentioned opinion of the Ministry of Finance was given by that Ministry, the Chief Engineer and Administrator of the Project had informed the Ministry of Shipping and Transport on 8th June, 1970, that the rates quoted by firm 'B' for North Breakwater were very competitive as compared to the rates allowed for similar items in 1969-70 and that if there was a proposal to call for re-tender then it was quite possible 'that the tender rate might be higher than what has been quoted now'.

3.25. The relevant portion from the Notes recorded in the Ministry of Shipping and Transport on the suggestion of the Ministry of Finance (for retender of work of North Breakwater) are reproduced below:

> "2. While considering the major tenders, this Ministry had recommended the acceptance of the tender of this firm ('B') for the work on North Breakwater as well * * * * *. This recommendation was made on the basis of the recommendations of the Tender Committee and after careful consideration. The tender of M/s. 'B' was the lowest acceptable tender. The Tender Committee had expressed doubts about the capacity of M/s. 'D' to undertake and execute successfully a work of this magnitude. The estimated cost according to the offers of M/s. 'D' and M/s. 'B' for the construction of North Breakwater is Rs. 4.02 crores and Rs. 4.09 crores respectively. It may be seen that the difference when compared to the magnitude of the work involved is not large.

3. By postponing the award of work on North Breakwater by reissuing the tender, considerable time is likely to be lost. In the Tuticorin Harbour Project we have got only a limited number of construction equipment, such as crane, etc. and it is contemplated that the contractor will supplement the same with his equipments. This aspect has been mentioned in the tender documents of the major tender. So far, the work has been done by smaller contractors and they were entirely depending on the departmental crane and the work was proceeding not fast enough to complete the Harbour within the target date.

4. One of the purposes for calling for major tender is to expedite the work by supplementing the departmental crane with the contractor's crane etc. The available departmental equipments will be distributed between North and South Breakwater as stipulated in the tender.

5. If now the South Breakwater is given to the major tenderer and the execution of the north breakwater is to be proceeded with by engaging smaller contractors till the retender of the North Breakwater is issued and settled, then the number of cranes that will be working for the North Breakwater for this interim period will be much less than the number of cranes that will be working for the South Breakwater. In other words, the South Breakwater will advance faster than the North Breakwater.

6. It is understood from the Chief Engineer and Administrator, Tuticorin Harbour Project that technically it is desirable that the rate of progress of both North and South Breakwaters is the same, if at all it is desirable to have greater progress in the North Breakwater than the South. At the end of the South Breakwater, there is the eastern arm where it is proposed to place large concrete blocks for the wharf wall. These concrete blocks will be protected on the southern and the eastern side by the South Breakwater whereas it will not be protected at all on the northern side if the work in North Breakwater also does not proceed fast enough which may result in these blocks getting disturbed during the north-east monsoon. It will not only delay the construction of the harbour but also will involve additional expenditure in retrieving the block and putting them back in position."

The notings in the Ministry of Transport and Shipping were concluded with the following Note recorded by Secretary (Transport) on the 2nd July, 1970:—

"I agree. Retendering may also result in higher rates being quoted. Finance may reconsider and agree to our proposal. * * * * *".

3.26. The Ministry of Finance finally agreed to the award of the contract for North Breakwater also to the firm 'B' on the 17th July, 1970, on the conditions given below:—

"We would agree with Secretary, Ministry of Shipping and Transport that in adopting the course of retendering which we had advised for the Northern Breakwater, the possibility of the tendered rates going up, cannot be entirely ruled out. Our advice was, however, based on the considerations that:

(i) The tender recommended for acceptance namely that of M/s. 'B' was not actually the lowest and in the absence of a more detailed study of the financial standing, capacity, experience, etc. of the lowest tenderer, it may not be advisable to reject his tender; and

(ii) It was not absolutely certain that M/s. 'B' would be able, having regard to their capacity and the works they have already on hand, to take on and complete both the Northern and Southern Breakwaters satisfactorily and on time.

We are, however, of the view that on both these points, it is for the Ministry of Shipping and Transport to satisfy themselves that their recommendation is based on justifiable grounds and if they are so satisfied, we shall have no particular objection. In the circumstances, we would agree to the proposal of MOT in this case subject to the following:—

(i) The MOT are fully satisfied that on both the grounds mentioned above, they are satisfied that the acceptance of the tender of M/s. 'B' would be fully justified and in order.

(ii) Before awarding the work, negotiations should be held with M/s. 'B' and the party prevailed upon to bring down their tendered rate to the rate offered by the lowest tenderer, namely, 'D'.

(iii) The other terms and conditions mentioned by us in our note at pp. ...... *ante*, would apply in this case also *mutatis mutandis*."

3.27. When the views of the Ministry of Finance were brought to the notice of the Chief Engineer and Administrator, he stated *inter-alia* in his reply dated the 5th August, 1970, as follow:—

"Regarding the capacity of M/s. .... (Firm 'B') to do both the works of north and south breakwater including Pier heads etc. I have made my recommendations while forwarding the various tenders for all the works on 18th January, 1970 for the approval of the Ministry. The Tender Committee constituted by the Ministry to scrutinise the tenders and give recommendations, have examined all the aspects including the capacity of all the various tenderers and came to the conclusion that both the works may be awarded to M/s. .... (Firm 'B'). Further review of the position at this stage separately by one of the three members of the Tender Committee *viz*., the Chief Engineer and Administrator, Tuticorin Harbour Project, does not seem to arise."

As regards the suggestion of the Ministry of Finance that before awarding the work of North Breakwater to firm 'B', negotiations should be held with that firm and the party prevailed upon to bring down their tendered rate to the rate offered by the lowest tenderer, firm 'D', the same was taken up by the Chief Engineer with the firm. The firm 'B' in their letter dated the 4th August, 1970, agreed to the reduction of their offer from Rs. 4.10 crores to Rs. 4.07 crores, in the following terms:—

"The department will kindly recall that we had repeatedly expressed our unwillingness either to modify any of our original tender conditions or to reduce our quoted rates. However, during the final negotiations held at Delhi on the 17th and 18th March, 1970, it was considered desirable to entrust all the works to one agency in order to avoid friction that may ensue otherwise and thereby ensure timely and satisfactory completion of the Project. We had then agreed to modify some of the conditions to synchronise them with the corresponding conditions of South Breakwater, and conveyed to the committee our unwillingness to reduce our rates. The Department will appreciate that the rates quoted for North Breakwater are already considerably lower than the corresponding rates of South Breakwater. As any further reduction in these rates would render them unworkable, it is our submission that the Department is not justified in asking us for any such reduction. However, if only as a token response, we hereby agree to reduce our quoted rates by 3/8 per cent, which can be effected in every bill on its gross value (three eighths)."

3.28. The tender of firm 'B' for North Breakwater (as reduced by them to Rs. 4.07 crores) was then accepted in October, 1970, with an escalation for increase in the cost of labour upto a maximum of Rs. 0.10 crores. (with this award of contract to firm 'B', the total work allotted to them—for both South and North Breakwaters—thus amounted to Rs. 11.73 crores plus escalation upto a maximum of Rs. 0.28 crores that is Rs. 12.01 crores in all).

3.29. During evidence, the Committee desired to know the financial position, experience in the particular type of work for which tenders were invited in 1969 and the value of jobs executed by each of the four firms 'A', 'B', 'C' and 'D' whose tenders for the two works, being the lowest, were considered for awarding the work at the new port of Tuticorin. The information, furnished by the Ministry*, is tabulated below:

(*Firms*)

	A	B	C	D
	(In crores of Rs.)			
Year of establishment	1968	1955	Not given	1966
Capital	0·50	0·05		0·01
Value of works executed	4·48	4·17	60·30	19·60
Value of works under execution	4·82	5·59*	253·69	Not given

*Works for Rs. 178.52 lakhs had already been executed and the value of balance works as on 30-6-1969 was Rs. 380·16 lakhs.

3.30. During evidence, the Committee referred to the remarks made in the Audit para that before the Finance Ministry had suggested retender, 'The Chief Engineer and Administrator of the Pro-

* Not vetted by Audit

ject had informed the Ministry of Shipping and Transport on 8th June, 1970 that the rates quoted by firm 'B' for North breakwater were very competitive as compared to the rates allowed for similar items in 1960—70 and that if there was a proposal to call for retender, then it was quite possible that the tender rate might be higher than what has been quoted now', and desired to know the basis for thinking by the Chief Engineer that retender would mean higher rates and delay.

The representative of the Ministry stated in reply:—

"Immediately the suggestion was made, in June of the same year the Chief Engineer sent us a letter from Tuticorin giving his assessment saying:

'I have analysed the rates paid for different items of works for different regions done in 1969-70 and compared the same with the rates quoted by the lowest tenderer for the major works which are under the consideration of the Ministry. A statement showing them is attached. From the statement, it can be seen that the rate quoted by the lowest tenderer for north breakwater is very competitive. If the tender happens to be rejected and if there is a proposal to call for re-tender, it is quite possible that the tender rate might be higher than what has been quoted now. I am bringing this to your notice for necessary action.'

This was his assessment based upon the rates prevailing in that area."

Asked as to whether the statement by the Chief Engineer that while forwarding the tender he had made his recommendations (that the tender of firm 'D' for the north breakwater should be accepted) and pointed out that as the Tender Committee had recommended, after examining all aspects, acceptance of the offer of firm 'B' for the works, further review of the position at that stage separately by him who was one of the three members of the Committee did not arise, tantamounted to difference of opinion in the Tender Committee on this issue, the Secretary, Ministry of Shipping and Transport deposed:

"In the beginning when the tenders were scrutinised by the Chief Engineer and sent to the Ministry, he had taken the view that it would be preferable to have separate contractors for the two breakwaters. When the Tender Committee of which he is also a Member, considered this matter, they came to the conclusion that it was advisable to give both the works to one contractor and they pointed out certain considerations why it was advantageous financially and otherwise. This is the sequence of events that have taken place. Evidently the Chief Engineer who took the view first got himself persuaded in the Tender Committee when he discussed with the other colleagues."

The witness added:

"The Chief Engineer is the first hand Officer. He gave a certain opinion. He was also a Member of the Tender Committee. As a result of discussion he was convinced and there was no dissenting opinion on that."

The witness further stated in this connection:

"The meaning of it is, if you kindly see. that before the tender committee was formed, he did take the view that the two works should be given to two different parties. Then the Tender Committee sat and discussed all these things and evidently some new factors came into play during the Tender Committee's discussions. Then the Tender Committee of which the Chief Engineer was a Member gave its unanimous recommendation in March 1970. I would read the recommendation which is at the end of the committee's report:

'On the basis of the analysis as stated above, the committee has come to the conclusion that the offer of firm 'B' for south and north break-waters is the most suitable offer and recommended it for acceptance'.

So, this is categorical. Having said this, some new considerations seem to have come in. There is a statement attached to the recommendation of the Tender Committee which says that if both the works should be given to one party, there are certain advantages. They have listed certain items where there is likelihood of certain financial gains. Secondly, even from the administrative point of view also, it was felt that both the works should proceed together for the optimum utilisation of equipment and machinery. These are some considerations which seem to have been brought out by the Tender Committee which, evidently, the Chief Engineer accepted. Later, when the

Finance Ministry raised this question, the Shipping Ministry did ask the Chief Engineer who said, 'As a member of the Committee I have already given my opinion and I have no further comments to make' and, therefore, no further question does arise. This is what he said. This has reference to the opinion to which he has subscribed as a Member of the Tender Committee."

Dwelling further on the Chief Engineer's letter of 5th August, 1970, the witness stated:

"My only submission is: reading paragraph 3 of the Chief Engineer's letter of 6th August, there seems to be a difference of opinion on this. My submission is, that the Chief Engineer has not categorically said that Firm 'B' does not have the capacity. On the other hand, he has simply said and referred to the Tender Committee's recommendation of which he was a member saying that no further opinion does arise. Thereafter, the Ministry did not seek to go in for retendering and they took the view of the Committee as right and proceeded accordingly."

Assuring the Committee that the procedure followed in giving tenders for the two works was the usual procedure, the witness added:

"I can only say on the basis of the records available that the procedure followed is the usual procedure. That is, the Chief Engineer invited the tenders and having summarised the tenders, made his recommendation to the Ministry. The Ministry, before accepting and taking a final view on the recommendation of the Chief Engineer, appointed a Tender Committee of which the Chief Engineer was also a member and it went into all the aspects of the matter and also discussed with some of the tenderers and made unanimous recommendations. Once a unanimous recommendation has been made, the Ministry sought the concurrence of the Finance Ministry. The Finance Ministry took the view saying, 'In one case you have given it to the lowest tenderer and in the other case also you may consider the lowest tenderer after finding out his financial standing'. When this question was raised, the Chief Engineer was again asked who again said that the matter was already looked into by him as a member of the Tender Committee and 'I have no further comments to make'.

That is only fair. He did not want to make any other statement. Therefore, no further question arose and the Ministry performed its role as was expected of it and issued the sanction in the matter."

3.31. The Chief Engineer, who must be presumed to be a competent technical, man had recommended Firm 'D' for the construction of North Breakwater. The Tender Committee and the Ministry of Shipping and Transport did not agree and decided differently. Subsequently, when the Ministry of Finance expressed their reservations, the matter was referred back to Chief Engineer without any directive by the former. The Committee desired to know whether the role played by the Ministry of Transport was not like that of a mere post office between the Chief Engineer and the Ministry of Finance and also enquired as to why the Chief Engineer was not made responsible for the finalisation of the tenders and how the Ministry satisfied itself before coming to a different decision. The Secretary of the Ministry stated in reply:

"Chief Engineer is the officer in charge of execution of the project. He is a technical man. He is the man on the spot. When it comes to the law itself, tenders of a certain order, have got to be sanctioned, approved by the Government and in that sense the Ministry do come into the picture. When the approval of tender comes involving financial sanction, they come into the picture. There was the Development Adviser in the Committee who was an experienced engineer. Chief Engineer was a member. Financial Adviser of Madras port was there and this committee thoroughly scrutinised the thing. They unanimously recommended this Ministry processed it as per rules of procedure and issued it. At that stage Finance Ministry pointed this out. And this was again referred to persons concerned. This question of other works done by them was gone into, and the Ministry did take responsibility of approving sanction on the advice of tender committee. It is for you, Sir, to conclude who is answerable, who is accountable on this question."

3.32. The witness also stated in evidence:

"The Tender Committee made it clear at the time when the contract was given. Every possible precaution was taken to scrutinise the estimate and consultation was made with the various authorities and Government and so on and finally orders were given at the proper level. If retrospectively certain things have come to notice and some unhappiness has been expressed by the Ministry themselves, it shows that they were not vigilant about this matter.

As far as accountability is concerned it is a collective responsibility. Everybody has participated in the matter. We have to take it in the proper perspective—certain aspects that have come to notice and the developments that have taken place since then. which were sometimes beyond the control of the contractor."

3.33. During evidence, the Committee also discussed the basic issue whether in large scale works it was not better that the works be divided and given to different contractors as in that case there would be more resources and better competition available. On this, the Secretary, Ministry of Shipping & Transport stated:

"I would not like to comment on this. One can always have hind wisdom. That is what happened at that time. What consideration went into it, I have already replied, but you would pardon me if I do not comment on what happened."

3.34. **For a clear appreciation of the protracted process followed by the Chief Engineer and Administrator, Tuticorin Port, the Tender Committee, and the Ministry of Shipping and Transport in the matter of the grant of contract for construction of North Breakwater of the Tuticorin Project to the same contractor (Firm 'B') to whom contract for the South Breakwater had been awarded on the basis of lowest tender, the Committee have quoted from the various connected documents including those of the Ministries of Shipping and Transport and Finance. The Committee find that initially, the Chief Engineer and Administrator of the Port had made a specific recommendation that the contract should be awarded to a different firm (Firm 'D') though, according to his own evaluation of the tenders received, the tender of the said Firm 'D' was only the second lowest, the lowest being that of Firm 'B'. This recommendation of the Chief Engineer and Administrator was based on three main factors, first that the capacity of both the tenderers might not be such as to take over both the works simultaneously, secondly that the progress of work could be kept up on each work (North and South Breakwaters) and the target of completion achieved only if the agency of execution for each major work was different, and thirdly that the works executed till then by the Firm 'B' were to the extent of Rs. 4.17 crores only and the firm had other** works (elsewhere) in hand to the extent of Rs. 5.59 crores out of which works worth Rs. 3.80 crores had yet to be completed. The Committee find no evidence of the fact that these weighty arguments of the Chief Engineer and Administrator were given genuinely serious thought or properly analysed in an objective manner by the Ministry of Shipping and Transport.

3.35. Thereafter, the Tender Committee, consisting of Development Adviser, Ministry of Shipping and Transport, the Chief Engineer and Administrator, Tuticorin Harbour Project, and the F.A. & C.A.O., Madras Port Trust, re-evaluated the tenders for the North Breakwater and according to that re-evaluation, which turned out to be different from the evaluation made earlier by the Chief Engineer and Administrator, the tender of Firm 'D' was considered to be the lowest, the next higher tender being that of Firm 'B'. The Tender Committee considered the ideas of the Firm 'D' in regard to technical features of the scheme and the methods proposed by them for the execution of the work as 'not sufficiently clear', but at the same time they also found that Firm 'B' too did not have the experience of carrying out marine works. In spite of this finding, the Tender Committee came to the conclusion that Firm 'B' had reasonable resources and also the equipment to carry out the work. The soundness of the arguments of the Chief Engineer and Administrator that the Firm 'B' had other works in hand and that the progress of work could be kept up only if the agency of execution for each major work was different does not seem to have been examined either by the Tender Committee, of which the said Chief Engineer and Administrator was himself a member, or by the Ministry of Shipping and Transport.

3.36. At a later stage when the Ministry of Finance acquiesce, in the award of contract for the North Breakwater also to Firm 'B', they stipulated a condition that this should be done only after the Ministry of Shipping and Transport had fully satisfied themselves that Firm 'B' would be able, in view of their intrinsic capacity and the other works they had already on hand, to take on and complete both the assignments, and that it was fully advisable, in the absence of a more detailed study of the financial-standing, capacity and experience etc., of Firm 'D', to reject his tender which was the lowest. The Committee again find no evidence of the Ministry of Shipping and Transport having paid serious attention to this suggestion of the Ministry of Finance as they did not carry out any investigation of the capacity of Firms 'B' and 'D', but merely communicated the views of the Ministry of Finance to the Chief Engineer and Administrator. By that time the said Chief Engineer appeared to have lost interest, as is evident from his reply of 5th August, 1970 to the effect that while forwarding the tender he had made his recommendation (that the tender of Firm 'D' for the North Breakwater should be accepted) and pointed out that as the Tender Committee of which he had been a member had come to a different conclusion, namely, acceptance of the offer of Firm 'B' for both the works, further review of the position at that stage separately by himself, did not arise. In the opinion of the Committee this cryptic reply of the Chief Engineer and Administrator was another pointer to the Ministry of Shipping and Transport that it was for the Ministry to have a careful look at the recommendations of the Tender Committee in the light, especially of the observations of the Ministry of Finance. This the Ministry of Transport do not seem to have done. The Committee therefore, are of the view that since works of such importance, involving heavy expenditure and competent expertise should be given to firms of proven standing and creditable performance in their particular field, the best course in the case should have been to go in for retendering. The Committee also consider that the allotment of work on both the Breakwaters to the same contractor, who had neither the adequate ability nor experience, led to delay and dereliction in the completion of the project and consequential escalations in cost.

The Committee recommend that the whole procedure of examination of technical proposals relating to big national Projects in the Ministries should be adequately reviewed and guidelines laid down to ensure that all important and relevant factors are seriously and thoroughly weighed by the Ministries before final decisions are taken.

As regards this particular case, the Committee desire that the circumstances leading to the award of both the works to the same contractor whose performance was not above reproach should be investigated and the outcome reported to the Committee.

CHAPTER IV

CONCESSIONS TO CONTRACTOR

Audit Paragraph

4.1. The South breakwater was to be completed in 30 months by February 1973. The North breakwater was also to be completed in 30 months by May 1973. By about June 1971 it was noticed that progress of the works was not satisfactory. The contractor requested Government for various concessions. For expediting the works the following concessions were granted to the contractor in January 1972 and May 1972:—

	South break-water	North break-water
January 1972	(Lakhs of rupees)	
(i) Refund of hire charges of machinery levied according to the contract	0·76	0·24
(ii) Refund of demurrage charges	0·99*	0·97
May 1972		
(iii) Refund of hire charges of machinery	1·67	1·34
	3·42	2·55

*Excluding Rs. 1·96 lakhs waived by he Railways for both the breakwaters.

4.2. There was no improvement. The work of North breakwater came to a stand-still from the beginning of November 1972, although firm 'B' had appointed two sub-contractors, one without the approval of Government, as required under the contract. The main plea of firm 'B' was that it was not in a position to produce the desired results because of unworkable rates and financial difficulties. It requested Government for various further concession. While considering the request the Ministry of Shipping and Transport observed (March 1973) that "the contractor has shown little business acumen. He seems to have agreed to things which were obviously uneconomic. Our ex-Project Officer seems to have taken such an un-realistic attitude as to endanger the timely completion of the project. We are in a Jam. In whatever way we can, we should get the project completed. " The following concessions were granted to firm 'B' in July 1973 for keeping the contracts going as "cancellation of the contract and re-tendering of the works and appointment of another contractor was considered to be fraught with serious consequences involving legal complications, delay in completion of work and heavy extra expenditure":—

	South breakwater	North breakwater
	(Lakhs of rupees)	
Increase in the limit of escalation charges	20·00	10·00
Extra amount payable for core stones obtained from quarries other than Thattaparai (with retrospective effect	11·04	18·35
Extra amount payable for armour stones obtained from Marar-koil instead of Ambasamudram (with retrospective effect	2·53	..
Probable relief due to levy of hire charges on hourly basis with minimum of 8 hours working (with retrospective effect	4·62	5·18
Waiver of centage charges on materials issued to the contractor by the project	2·34	4·10
	40·53	37·63

4.3 With the above concessions, the value of the two contracts (with maximum escalation) is now about Rs. 12.86 crores (South breakwater: Rs. 8.28 crores, North breakwater: Rs. 4.58 crores) as against about Rs. 12.01 crores at which the contracts were allotted. The value of the contract of firm 'B' for North breakwater (Rs. 4.58 crores) as mentioned above is Rs. 0.56 crores more than that of firm 'D' (Rs. 4.02 crores) as computed by the Tender Committee.

4.4. In its tenders for the above works firm 'C' had quoted rates for carriage of armour stones from Thattaparai quarry instead of Ambasamudram quarry, which was selected for quarrying armour stones on the basis of detailed study by geological experts. After evaluation by the Tender Committee, its offers for the above works were for Rs. 12.66 crores (South breakwater: Rs. 8.30 crores, North breakwater: Rs. 4.36 crores), including Rs. 0.74 crore added by the Tender Committee as additional cost for carriage of armour stones from Ambasamudram quarry. In making this evaluation escalation charges for increase in cost of labour demanded by firm 'C' were not taken into account. Assuming that the same maximum escalation charges which were initially agreed to be paid to firm 'B' for completion of the works in 30 months (South breakwater: Rs. 17.29 lakhs, North breakwater: Rs. 9.33 lakhs) would also have been payable to firm 'C', the total value of its offers for both the works would have been Rs. 12.93 crores. As against this, Rs. 12.86 crores have already been agreed to in the case of firm 'B'. In addition Government spent Rs. 10.55 lakhs for constructing a finger jetty demanded by firm 'B' as mentioned subsequently in this paragraph.

4.5. Rupees 95.35 lakhs were paid to firm 'B' between July 1970 and September 1974 as interest-free advance, being 80 per cent of the cost of construction equipment hypothecated to the project. Recovery of the advance was to commence as soon as the gross value of the work done was 50 per cent of the value of the contracts. In other words, recovery should have commenced latest by October 1971 (for South breakwater) and February 1972 (for North breakwater), *i.e.* after 15 months from the dates of award of the contracts, and completed by the time work done was 87.5 per cent of the value of the contract, *i.e.*, well before February 1973 and May 1973 respectively, when the works were scheduled to be completed. However, due to slow progress of work, recovery of Rs. 6.02 lakhs was made on *ad hoc* basis upto September 1974. Thus due to delay in completing the works, the interest free advance remained with firm 'B' for much longer than contemplated (interest for other advances was 7 per cent). The Ministry stated that "as per the terms of the contract, the recovery of the machinery advance should commence after 50 per cent of the contract value of the work is over. It does not have any co-relation in respect of time in linear proportion."

Progress of work

4.6. When the concessions mentioned above were granted to firm 'B', it agreed to complete both the works by 31st March 1975, *i.e.*, 25 months and 22 months after the due dates of completion of South breakwater and North breakwater respectively according to the contracts. In August 1974, however, it applied for extension up to December 1975; extension has been granted (November 1974) up to May, 1975 and July, 1975 for the South breakwater and the North breakwater respectively.

Expenditure on the project up to April 1974 was Rs. 28.44 crores.

Construction of finger jetty

4.7. Breakwaters are constructed either by 'island method' or 'end on method'. Under 'end on method' the breakwater is constructed progressively from the shore and by using road vehicles. Under the 'island method' stones are carried by barages and dumped in the sea along breakwater alingnment working backwards to the shore.

Finger jetty is required for berthing floating cranes and crafts for construction of breakwater by 'island method'. The schedule attached to the notice inviting tenders for the above works contained the following clause for doing the work by 'island method':—

> "The provision of a jetty by the department at 5.65m of South Break Water will be considered by the department only with reference to the floating crafts likely to be brought in and used by the tenderers. However, if the department decides that the volume of flating craft and equipments does not justify the provision of a jetty at -5.65m or even if a jetty is provided, if there is a delay in such construction of the jetty, or the jetty if provided is inadequate to handle full quantity of stones to be used on the works, the tenderer should execute the work by unloading the stones at the crane track and using the existing jetty at -2m of the South Break Water and at -3m at North Break water at no extra cost."

Tenders were invited in August 1969 for construction of the breakwater by 'island method' in deeper reaches and by 'end on method' in shallow reaches. In an amendment to the notice inviting tenders issued in November, 1969 the tenderers were given option to do the work by 'any method'.

The tenders received in December 1969 indicated that the cost of the works would be less by about Rs. 2.28 crores if 'end on method' das adopted. The Chief Engineer and Administrator informed Government in January 1970 that the entire work would be got done by 'end on method' and that the contractors were agreeable to execute the work by 'any methor'. Contracts for the works executed in July 1970 and October 1970 were for construction of the breakwater by 'any method' and the project authority had the discretion not to provide finger jetty.

Construction of the finger jetty (estimated cost: Rs. 11.42 lakhs) was started in July 1970 and completed in September 1971 (expenditure booked upto November 1974: Rs. 10.52 lakhs). Firm 'B' has been doing the work under 'end on method' for which no finger jetty was contemplated in the notice inviting tender.

4.8. The Ministry stated (December 1974) that "the firm required jetty, one at -2m and the second at -5.6m depth to handle the concrete units etc. This has been accepted by the Government. Thus the provision of the jetty became a contractual obligation and accordingly the jetty at -5.6m depth was constructed in addition to the one at -2m depth. This jetty is also proving useful for berthing of harbour crafts during bad weather.

[Audit Paragraph 37 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil)]

Payment of Extra Amounts for Core Stones and Armour Stones

4.9. Based on the recommendations of the Tender Committee, sanction was issued in June 1970 for the award of South breakwater contract to M/s. Andhra Civil Construction Co., (Firm 'B') for Rs. 7,83,87,000/-. The sanction for the award of North breakwater contract also to Firm 'B' was accorded in October, 1970 for Rs. 4,16,97,461. Thus the total value of the works awarded to Firm 'B' was Rs. 12.01 crores (approx.) (including Rs. 0.28 crores towards maximum escalation for increase in cost of labour payable to the contractor—Rs. 0.18 crores in respect of South breakwater and Rs. 0.10 crores in respect of North breakwater).

4.10. The works relating to the South breakwater commenced in August, 1970 and those of North breakwater in October, 1970. The stipulated period of completion for both the works was 30 months and the target dates of completion were thus fixed as under:

South breakwater works	15-2-1973
North breakwater works	10-5-1973

4.11. While agreeing to take up the works relating to the two Breakwaters, one of the conditions accepted by the firm 'B' related to Quarries. The firm had stated in this regard:

"We accept the reallocation of the quarries as follows: Thattaparai—5, 7, 10, 11, 12, 13 and 20; Ambasamudram—A & D. We are also agreeable for any readjustment of quarries during execution of the work."

The Chief Engineer and Administrator, while forwarding the above acceptance of Firm 'B' had attached a statement, the relevant portion from which is reproduced below:—

"Conditions stipulated by the tenderer	Conditions as accepted by the Ministry for South breakwater	Further comments of the tenderer
* *	* *	*
2. *Quarries—para* 35, *page* 75 *Vol.* I :		
The quarries at Thattapparai and Ambasamudram may be re-allocated to ensure contiguity and smooth operation. The department's reallocation shall be final and binding on us.	Accepted. The following quarries are allotted for he works : Thattapparai plot Nos. : 5, 7, 10, 11, 12, 13, and 20. Ambasamudram Plot Nos. : A & D. The Department however reserves the right to reallot the quarries as and when found necessary during actual execution of work."	Accepted

4.12. From the notes in the files of the Ministry of Shipping & Transport, the Committee find a statement to the effect that the selection of quarries at Thattaparai and Ambasamudram was made at the inception of the project evidently on a detailed study on the quality of rocks at different places in and around the areas by geological experts. The following extracts from the project report submitted in 1963 by the then Development Adviser, Ministry of Transport & Communications, is pertinent:

> "This project particularly involves the collection and transport of very large quantities of rubble stone for the breakwaters and therefore a detailed examination has been made of the various items going into the cost of this work. The heavy armour stones of 6 or 7 tons and all other stones of over 1 ton have to be obtained from Ambasamudram quarries which are at a distance over 60 miles from the port. For smaller size stones, nearer quarries at Thattaparai at a distance of 22 miles are available. The quality of stones in the Thattaparai quarry is unsuited for cutting large blocks."

The Committee also learn that the Ministry of Shipping and Transport intimated Audit (in December 1973) that "it would not have been possible to explore the entire area to determine the depth of overburden available and normally only a few sample borings are taken which did not reflect the true picture of the rocky strata."

4.13. By about June, 1971, it was found that the progress of the works was not satisfactory. The contractor made representation to Government in June, 1971 regarding alleged difficulties faced by him. One of such difficulties related to quarries. The gist of the representation made by the contractor in this regard is indicated below:—

"*Quarries.*

(a) *Thattaparai Quarry*:—The Thattaparai quarries allotted by the Department revealed over-burden of 10 to 15 ft. thick as against 5 to 6 fit. thick earlier visualised by the contractors. Further there was heavy seepage. Hence they could produce only 2000 tonnes of stones per day as against the stipulated 3920 tonnes per day and so they desired to develop fresh quarries at further places like Vallanad, Seethakulam, Alagapure, Swamynathan etc. involving an extra lead of 16 kms.

(b) *Ambasamudaram Quarries*:—The contractors' total requirement was 14 lakh tonnes of which about 8 lakh tonnes was to be removed by rail and the balance of 6 lakh tonnes by road. The contractors had to face labour problems from the job workers and crane operators at the rail quarries resulting in heavy financial losses to them. So the contractors requested either to evacuate the job workers at these quarries or alternatively reduce the quantity of armour stones to be moved by rail to 4 or 5 lakhs tonnes. They were prepared to remove the remaining three or four lakh tonnes from other quarries nearer like Vallanad (lead 25 miles) Singapalam (lead 52 miles). They would be prepared to give proportionate rebate in their rates by road conveyance on account of lesser leads.

The contractors also pointed out that quarries earmarked for South Breakwater were getting exhausted and they were unable to get proper proportion of these stones. They therefore sought permission to operate Singapalam quarry to supplement Ambasamudram quarries for production of armour stones to be moved by road."

4.14. The "difficulties" pointed out by the contractor were examined jointly by the then Deputy Development Adviser, Ministry of Shipping and Transport and the Chief Engineer and Administrator of the Tuticorin Harbour project after an on-the-spot inspection of the work-sites and personal discussion with the contractor. They gave a joint report to the Government on 29th July, 1971. This report was further considered in the Ministry of Shipping and Transport on 19th August, 1971. Pursuant to the discussions, the Chief Engineer and Administrator worked out and recommended the cost of extra lead payable to the contract as Rs. 2.80 per tonne as per details given below:

Conveyance charges for different Quarries as per the schedule of rates for the year 1969-70 which was adopted for the relevant estimates (South Breakwater)

Distance in KM	Thattaparai 27 KM	Vallarad 41 KM.	Rate for quarries at Seethakulam 40 KM	Alagapuri 39 KM	Swaminathan 28 KM
	Rs.	Rs.	Rs.	Rs.	Rs.
Upto 10 KM (Excluding loading and unloading) .	16·03/ 100 ft.	16·03/ 100 ft.	16·03/ 100 cft.	16·03/ 100 cft.	16.03/ 100 cft.
Add extra for every 1 km. or part thereof over 10 KM and upto 16 KM @ 1·20 per KM	7·20/ 100 cft.	7·20/ 100 cft.	7·20 100 cft.	7·20 100 cft.	7·20 100 cft.
Over 16 KM and upto 24 KM at 1·10 per KM	8·80/ 100 cft.	8·80/ 100 cft.	8·80 100 cft.	8·80 100 cft.	8·80 100 cft.
Over 24 KM and upto 32 KM at 1·00 per KM	3·00/ 100 cft.	8·00/ 100 cft.	8·00 100 cft.	8·00 100 cft.	4·00/ 100 cft.
Over 32 KM and upto 48 KM at 0·95 KM	. .	8·55/ 100 cft.	7·60/ 100 cft.	6·65 100 cft.	. .
Total :	35·03/ 100 cft.	48·58/ 100 cft.	47·63/ 100 cft.	46·68/ 100 cft.	36·03/ 100 cft.
Therefore rate per tonne	$\frac{35·03}{4·5}$	$\frac{48·58}{4·5}$	$\frac{47·63}{4·5}$	$\frac{46·68}{4·5}$	$\frac{36·03}{4·5}$
	=7·78/ tonne	=10·79/ tonne	=10·58 tonne	=10·37 tonne	=8·00 tonne
Extra cost for quarries other than Thattaparai/	. .	3·01 tonne	2·80 tonne	2·59 tonne	0·22 tonne

Average extra cost for the three quarries =Rs. 2·80 per tonne

4.15. The claims of the contractor relating to quarries were considered in the Ministry of Shipping and Transport and the following decision was communicated to the Chief Engineer and Administrator in January, 1972:

"An extra rate of Rs. 2.80 per tonne may be paid for stones brought from quarries other than Thattaparai, for the quantity of stones over 2500 tonnes per day subject to achieving 4000 tonnes per day."

4.16. As the progress of the works continued still to be slow and unsatisfactory, a meeting was held in the Ministry of Shipping and Transport in March, 1972 to analyse the reasons for bad performance and also to examine the representations made by the contractors. The issue of quarries raised by the contractor and the decision arrived thereon are given below:

Issue raised by the contractor	Decisions taken during the meeting in March 1972
Extra payments for stones brought from quarries other than Thattaparai.	(i) From the date when the contractor started bringing stones from quarries other than Thattaparai and upto 20-2-72, if in any calendar month the contractor had brought more than 31,250 tonnes of Core stone to either breakwater (Av. 2500 T/day) then the contractor would become eligible for an extra rate of Rs. 2.80 per tonne on the quantity in excess of 31,250 tonnes brought from quarry other than Thattaparai.
	(ii) From 1-3-72 onwards, the figure of 31,250 tonnes has been reduced to 25,000 tonnes and all the other things remain the same.

4.17. The further relief thus provided to the contractor in respect of quarries (along with relief on some other accounts, as demanded by him from time to time) also did not produce the desired results, and the progress of the work continued to be unsatisfactory* despite repeated warning to the contractor. The contractor's main plea was that they were not in a position to deliver the goods on account of unworkable rates allegedly resulting in poor cash flow and heavy losses.

4.18. On the 28th October, 1972 the representatives of the firm 'B' were given a hearing in the Ministry of Shipping and Transport. They were asked to spell out clearly in writing their minimum demands which, in their view, would enable them to ensure timely completion of the Project. In response the contractors submitted their demands in a letter dated 30th October, 1972. The demands

*The work of the North breakwater came to a standstill from the beginning of November, 1972.

were broadly examined at a meeting held by Joint Secretary, Ministry of Shipping & Transport on the 25th November, 1972. Subsequently, the contractors met the Transport Secretary and represented that unless still further concessions were given, they would not be able to continue the works.

The additional demand included the following further concessions in respect of transport of stones from quarries:—

"(a) For carrying from Vallanad Seethkulam, they should be paid for extra lead at the rate of Rs. 4.50 per tonne without any requirement of a minimum output from Thattaparai, *i.e.* for the entire quantity quarried from these two places;

(b) They should also be reimbursed for their consequential losses due to poor availability of stones at Thattaparai."

4.19. In a note dated 28th November, 1972, Ministry of Shipping and Transport apprised the Ministry of Finance of the position in regard to the contractors' difficulties and stressed that only two courses were open to them *viz.* either a way should be found to mitigate the financial difficulties of the contractors to enable them to go ahead with the works or the contract should be terminated and the work got done through other agencies.

The various claims of the contractor were discussed at a meeting held by the Secretary, Ministry of Shipping and Transport on 15th December, 1972, when the Joint Secretary, Ministry of Finance, was also present. Considering various facts of the matter, it was agreed that the balance of advantage perhaps lay in making the present contract a workable proposition. It was recognised that one of the reasons for the contractor's slow progress was the low yield of Thattaparai quarries as compared to the quantities assessed earlier by the Department and as envisaged in the agreement. It appears that the quarries were underground quarries with heavy over-burden, erratic rock formation, heavy seepage etc.

Further, it was conceded that the rates quoted by the contractor, especially for North breakwater, were somewhat low as compared to the estimate of the Department itself (by about 10 per cent).

4.20. A point was raised whether the low rates quoted by the contractor represented a deliberate design on his part to secure the contract or whether it was due to his technical incompetence. The consensus was that this aspect could be separately looked into, if necessary, and should not, in the meantime, prejudice the consideration of the present problem.

4.21. With this background the various claims of the contractor were examined and the position in regard to the claim for extra payments for stones brought from quarries other than Thattaparai was recorded as follows:—

"Payment for extra lead in the case of stones brought from quarries other than Thattaparai.

At present an extra rate of Rs. 2.80 per tonne is being paid to the contractor for the quantities of stone brought from quarries other than Thattaparai over and above the assessed yield of the quarries at Thattaparai from time to time. The contractor has represented that he must be paid Rs. 4.50 per tonne for the entire quantities of core stones conveyed from quarries other than Thattaparai with retrospective effect. The contractor's main plea is that Thattaparai quarry is not yielding the quantity as has been assessed from time to time due to various field limitations. The actual experience has shown that the Thattaparai quarries are not yielding requisite quantities of stone as envisaged in the agreement. This fact was duly recognised during the course of discussion held on this point and it was felt that the contractor's request could be considered favourably with retrospective effect. As regards the rates the contractor has pleaded that the extra rates of Rs. 2.80 per tonne does not cover the expenditure involved in developing new quarries formation and maintenance of roads, lighting and water supply to labour, duplicate organization for supervision etc., but this was not agreed to. But it was agreed that the percentage of tender excess would be added to the basic rate of Rs. 2.80/M.T. and accordingly the extra rates may be fixed at Rs. 2.55 per M.T. for North Breakwater and Rs. 3.42 per M.T. for South Breakwater respectively. The financial effect of this would be as follows:

1. South Breakwater	. Rs.	13·88 lakhs
2. North Breakwater	. Rs.	13·48 lakhs

The contractors have also represented that they require payment for the extra lead involved in getting armour stones from Mannarkoil quarry involving an additional lead of 8 kms. The contractors had earlier represented that as the road quarry for South Breakwater at Ambasamudram could not yield bigger size (6 to 8 T) stones they may be permitted to bring the stones from a nearby quarry Mannarkoil. Their request had been conceded and they have been getting stones from the new quarry from October, 1971 onwards. On the same analogy as that of Thattaparai their request for extra lead for Mannarkoil quarry can also be considered. The extra amount payable to them on this account would work out to Rs. 2.05 lakhs at the rate of Rs. 1.76 per M.T."

4.22. The various claims of the contractor had also been discussed with the Managing Partner of the Firm in a meeting taken by the Secretary, Ministry of Shipping and Transport on the 15th December, 1972. It was felt that suitable safeguards should be ensured to protect the interests of the Government, as well as to see that the contractor did not fail in his performance after obtaining all these concessions. Accordingly, the following safeguards were stipulated.

"The contractor should strictly adhere to the revised targets of the progress and dates of completion of the works as fixed by the Chief Engineer and Administrator, Tuticorin Harbour Project. The contractor should give an undertaking that in case the contractor fails, Government shall be at liberty to take any action it deems fit to cancel/close the contracts and he would abide by the Government's decisions and he would not also take recourse to such steps as legal action etc.

The contractors should sign a supplemental agreement covering all the above undertakings."

The contractor agreed to give all the above undertakings in his letter dated the 16th December, 1972.

4.23. The financial effect of the proposed concessions in respect of quarries discussed above was as follows:—

Item	(Rs. in lakhs) North breakwater	South breakwater
(a) Extra amount payable for all the core stones obtained from quarries other than Thattaparai at the rate of Rs.3·42/T. for South Breakwater and Rs. 2·55/T for North Breakwater contract (with retrospective effect).	13·48	13·88
(b) Extra amount payable for the armour stones obtained from Mannarkoil (with retrospective effect).	..	2·05
Total .	13·48	15·93

4.24. The question of granting the above mentioned concession in regard to quarries (including other issues) was considered in the Ministry of Finance in January 1973 and the following note was recorded by the Joint Secretary in this Ministry:

"* * * At the meeting taken by the Secretary, Transport, on 15th December, 1972, a question was raised whether the low rates quoted by the contractor in 1969 were the result of a deliberate action on his part to secure the contract or a result of his technical incompetence. It was also raised whether at the time of awarding the contract to the contractor, his technical and financial ability to undertake the work had been examined. It was stated that this aspect would be looked into separately and should not prejudice the consideration of the present case.

* * * * *

At that time, I had expressed doubts about the technical competence and financial resources of the firm to execute the work in as much as even at the time of the award of the contract—(i) he had no experience of Marin Works; (ii) he had to sub-let the construction to M/s .... both because contractor's finances and resources made it unrealistic for him to carry out all the work by himself and a sub-contractor with sufficient financial resources and technical competence was considered necessary. Again he had, without the approval of the Govt., appointed * * * as another sub-contractor. and (iii) on the average the contractor had executed the works worth Rs. 6.7 crores at the time of award of the contract. He had at that time on hand already works of Rs. 3 1/2 crores. The value of the works allotted to him under these contracts was Rs. 12 crores.

The first question to be considered, therefore, is whether the contractor has the technical competence and financial resources to do the job. The Chief Engineer and Administrator of the Tuticorin Port maintained that the problems of the contractor are primarily financial and if the financial assistance was given to him, he had no doubt that he would be in a position to execute both the contracts in accordance with the revised time schedule. In other words, he had no doubt regarding his technical competence.

It was, therefore, agreed to examine the claims on merits, accept those where the claims were fair and equitable and recommend the acceptance of ex-gratia payments as a price for getting the work completed in time and to avoid litigation which would only delay the work and mean more loss to Govt. than the ex-gratia financial assistance we might give him. In other words, on grounds of expediency it was agreed in principle to consider the ex-gratia payments to make the present contract workable.

* * * * *

The nature and justification of the claims made by the contractor and proposed to be admitted were discussed by me with the concerned Joint Secretary in the Ministry of Transport and the Development Adviser (Ports) on the 27th January, 1973. The points which emerged from the discussion are stated below:—

(a) *Payment for extra lead for the core stones*

The extra amount for the core stones other than from Thattaparai quarries is proposed to be Rs. 3.42 per tonne for South Breakwater works and Rs. 2.55 per tonne for North Breakwater works. To ascertain whether the proposed amount would be in the nature of an ex-gratia payment or on merits, the following information should be furnished:—

As per the agreement, the contractor was to inspect and examine the quarries and to satisfy himself regarding the nature of the ground and the sub-soil, the form and the nature of the work and the materials necessary for the completion of the work and the facilities available and to face all risks arising out of the contract. Consequently, the contractor's plea regarding the poor availability of the stones because of the heavy over-burden in the quarries, the erratic nature of the rocks and the watering of the quarries could not be deemed to be good and sufficient cause for making good to him the extra expenditure incurred by him in exploiting other quarries involving longer lead.

After discussion, it was decided to ascertain whether any incorrect bore-hole or other data was furnished by the project authorities to the contractor which led him to over-assess the economic availability of the core stone and ignore the handicaps in extraction arising from over-burden and the erratic nature of the rocks.

Again, as per the Joint Report of the Deputy Development Adviser and the Chief Engineer and the Administrator of the Tuticorin Port after taking into account these difficulties. 1500 tonnes of core stones could be extracted per day and only the balance 1500 tonnes were to be brought from other quarries. The payment for extra lead for quantities in excess of 1500 tonnes per day needed to be justified. If subsequent assessments regarding the availability of core stone from Thattaparai have undergone a change, it has to be considered as to how far they have to be relied upon *vis-a-vis* the joint assessment of the Deputy Development Adviser and the Chief Engineer & Administrator of the Tuticorin Port.

Again in February/March. 1972, the contractor had himself made the assessment that, after February, 1972 he could extract 2500 tonnes of core stone per day from Thattaparai. Can his own assessment be ignored, as it will be natural to presume that this had been made after a careful examination of the quarries?

It was agreed that a comparison should be made between the rates for the carriage of the stones from Thattapa-

rai and Ambasamudaram of all the tenderers including firm 'B' with the estimated rates. This comparison was desirable to ascertain the excess in the tendered rates over the estimated rates.

(b) *Armour stone from Ambasamudaram*

Here again, as per the joint report of the Deputy Development Adviser and the Chief Engineer & Administrator, the quarry could yield the required quantity of stone with properly organised blasting. The inability of the contractor to raise the stone of the required size and quantity was because of labour trouble due to irregular and erratic payment by him. On this basis, the payment proposed to be made to him can only be deemed to be ex-gratia. It was agreed to re-examine the matter.'

4.25. The points raised by the Ministry of Finance were then considered in the Ministry of Transport in February, 1973 and relevant portions from the notes on the subject, approved by the Joint Secretary of the said Ministry on 26th February, 1973 are reproduced below:—

"The various points raised are discussed below:

1. Data on quarries furnished by the Department to the tenderers.

* * * * *

In the Tender drawings relating to quarries no borehole data has been given.

The contractor's first representation regarding the yield of quarries and the reply of Chief Engineer and Administrator thereto may please be seen. * * *

It can be seen from the above refereneces that no incorrect bore hole or other data was given to the contractor which would have misled him to over assess the yield of quarries.

2. *The Departmental assessment of quarries from time to time.*

Thattaparai Quarry

(1) The Joint report of July, 1971 by the Deputy Development Adviser and the Chief Engineer & Administrator,

Tuticorin Harbour Project estimated the economic daily production as 2500 tonnes for both the breakwaters. Although the total requirement of stones was available at Thattaparai quarries, the economic production could be 2500 tonnes per day because of deeper overburden, erratic rock formation susceptibility of the ground quarries flooding, during rain etc.

During the subsequent meeting held in August 1971, the Contractor himself brought out that he could not quarry more than 2500 tonnes of stones per day. The Chief Engineer also agreed that 2500 tonnes per day would be the correct assessment of the economic capacity of those quarries.

Based on the above discussions, the payment of extra rate of Rs. 2.80 per tonne was subsequently agreed to.

(ii) *March, 1972 meeting.*

During the above meeting, the contractor expressed the yield of quarries as 2000 tonnes per day which was accepted by the Chief Engineer and Administrator.

(iii) *Subsequent assessment.*

During the meeting taken by Joint Secretary (P) on the 11th July, 1972, the contractor represented that the yield had gone down further and the Chief Engineer & Administrator was advised to make a fresh reassessment of the quarries and to take appropriate action under the term of contract. Accordingly, the Chief Engineer & Administrator made a fresh assessment by making bore holes, trial blastings etc. and informed that the possible yield of Thattaparai quarries would be 800 tonnes per day for South Breakwater and 700 tonnes per day for North Breakwater and that the revised ceilings were being given effect to from 1st July, 1972.

(iv) It has been stated in the note of Joint Secretary (Finance) that "Again in February March, 1972, the contractor had himself made the assessment that after February, 1972, they could extract 2500 tonnes of core stones per day from Thattaparai."

It may be pointed out that during the March meeting, the contractor expressed that the quarries were yielding hardly 1000 tonnes per day per breakwater. It is not clear where the contractor has stated the yield as 2500 tonnes per day.

3. * * * * *

4. *Armour stones from Ambasamudram*

The contractor's claim for the extra lead involved in conveying from Mannarkoli is in respect of South Breakwater road quarries.

The joint report of Deputy Development Adviser and Chief Engineer & Administrator mentions that with proper organised blasting, the Ambasamudram rail quarries can yield enough quantity of armour stones. Under 'Ambasamudram road quarries', no mention has been made regarding the yield of those quarries.

This has been discussed subsequently during the meeting held on the 19th August, 1971 and it was agreed to approve other quarries provided the contractor would not claim for the extra lead and the contractor also agreed for the same.

The subject was again discussed during March meeting and the contractor's contention regarding the failure of road quarries to south breakwater was found to be untenable.

During the meeting taken by Transport Secretary on the 15th December, 1972, it was felt that the contractor's claim for the extra lead in respect of Mannarkoil quarries could be considered on the same analogy as that of Thattaparai as such conveyance from a longer distance entailed extra expenditure to the contractor. Accordingly, the extra rate and total amount payable were worked out.

"* * * * *

4.26. On the above, the Joint Secretary, Ministry of Finance, recorded as follows on the 28th February, 1973:—

* * * * *

The position that emerges from the note above is as under:—

Payment for the extra lead for the core stones

1. Under the terms and conditions of the contract, the contractor was wholly responsible for inspecting and examining the quarries to satisfy himself about the availability of the core stones. The Department had not furnished any data to the contractor regarding the quarries which could have misled him to over-assess the yield from the

quarries. Consequently, any payment now made for extra lead for the core stones would have to be in the nature of *ex-gratia* payment.

2. While the joint report of July 1971 of the Deputy Development Adviser and the Chief Engineer & Administrator, Tuticorin Harbour Project, was not qualified inasmuch as it did not indicate that the yield from the quarries would go down subsequently, it may be accepted that there would have been a decline in the yield from the quarries as the quarrying progressed. The *ex-gratia* payment would have, therefore, to be limited to the external lead on the quantities of stones in excess of that which should have been extracted from the Thattaparai Quarry from time to time and not with reference to the quantities of core stones actually extracted. Thus from July 1971 onwards the extra lead payable ex-gratia is for 1500 tonnes, from March 1972 for 2000 tonnes and july 1972 for 2500 tonnes.

3. Keeping in view that the rates tendered by firm 'B' were lowest or nearabout lowest for core and armour stones, the proposal for payment of extra lead may be deemed to be reasonable.

The same remarks vide 1 above would apply to the payment of extra lead for carriage of armour stone from Mannarkoil Quarry.

* * * * *

4.27. On the position being further examined in the Ministry of Shipping and Transport, the following note recorded by the Deputy Secretary on 1st March, 1973 was approved by the Joint Secretary:

"In regard to the payment for extra lead for the core stones, Joint Secretary (Finance) has suggested that payment should be limited to the extra lead on the quantities of stones in excess of that which should have been extracted from the Thattaparai Quarry from time to time and not with reference to the quantities of core stones actually extracted from other quarries. In view of the fact that payment has already been made at the rate of Rs. 2.80 for the quantity as suggested by Joint Secretary (Finance), there will hardly be any benefit to the contractor with such a procedure. It is a point for consideration whether on the basis that the contractor would not go to a quarry farther away unless he could not get that yield from the nearer one, we should press the Ministry of Finance for payment on the basis recommended by us earlier. The fact remains that the rates are extremely low and that the contractor is in financial difficulty. There is also the point that quarrying from a more distant quarry will not be resorted to without compulsion of scarcity."

4.28. On the papers being submitted to Secretary, Transport, he recorded the following note on the 2nd March, 1973:—

"Frankly I find it difficult to say who is responsible for the present state of affairs. The contractors has shown little business acumen. He seems to have agreed to things, which were obviously uneconomic. Our ex-Project Officer seems to have taken such an unrealistic attitude as to endanger the timely completion of the project. We are in a jam. In whatever way we can, we should get the project completed. Looking to the whole case, we can make reasonable payments on merit. I am inclined to agree with D.S. However, if they have to be ex-gratia, I shall feel forced to agree."

4.29. The final proposals were then sent to the Ministry of Finance for their concurrence. After discusison between Secretary (Finance), and Secretary (Transport) and after notings in the two Ministries, the Ministry of Finance agreed on the 11th July, 1973, with the Minister's approval to the grant of some of the concessions including the one in regard to the quarries, as under:

"The proposals made by the Ministry of Shipping and Transport in the preceding notes have been considered in this Ministry. * * * We agree to the relief proposed under items (1), (3) and (4) totalling in all Rs. 69.21 lakhs*, * *. The reason *d'etre* for giving these reliefs to the contractor is to resume work on the harbour project which has come to a stand still. The other alternatives of inviting fresh tenders or doing the work departmentally have serious inherent disadvantages. It is noted that the relief suggested can be justified only on the ground that the project has to be completed as quick-

*This included concessions (till than) of the order of Rs. 29·41 lakhs in respect of quarries a sisted in para 4·23 above.

ly as possible in accordance with the revised construction schedule. Our agreement to the above reliefs is subject to the Ministry of Shipping and Transport satisfying itself of the contractor's technical competence and his resources to complete the work."

4.30. With the grant of the above concessions, which afforded substantial financial relief to the contractor, the contractor assured the Government that he would complete the various works as per the following time schedule:

South Breakwater

Item of work	Date of completion
1. Core and Armour	31-5-1974
2. Pierhead	30-6-1974
3. Completion of three operational berths	31-12-1974
4. Dredging	31-12-1974
5. Completion of Wharfwall	31-3-1975
6. Reclamation.	31-3-1975
North Breakwater	
1. Core and Armour	31-3-1975
2. Two Pierheads	31-3-1975

Letter conveying the sanction was accordingly issued by the Ministry of Shipping and Transport on 30th July, 1973.

4.31. During evidence, the Committee desired to know whether the Tender Committee had investigated into the question of abandoning the nearest quarries (both Thattaparai and Ambasamudram) and allowing the contractor to convey stones from private quarries. In reply, the representative of the Ministry stated:—

"At the time of the tender notice we had given the details of the quarries. From Thattaparai quarry, they could get smaller stones. After geological investigations the Department originally found that there will be adequate stones which could be obtained from this quarry and on that assumption we had issued the tender. The tender conditions also stipulate that the contractors are supposed to inspect the quarries and assesss the quantity that would be available. Now, they had to bring a large quantity of stones and the contractors had to go deeper and deeper, at some places they had gone 50 to 60 ft. deeper. As they go down deeper the area of the quarry becomes smaller and overburden is also there. Then they have to expand it by taking the overburden which is about 7 to 8 ft., sometimes it went up to 12 ft. and they found it uneconomical and it was not possible also to get the entire quantity of stones. So, the Chief Engineer allowed them to bring stones from other quarries also from extra distance of about 16 km. in the case of Thattaparai. Similarly from Ambasamudram, that is, about 60 miles from harbour, they got one stone weighing about 6 to 8 tonnes. While they were exploiting the quarry they found that the quarry had got a lot of horizontal fissures. Moreover they were not able to get the required size of stones. Therefore they had to go 5 miles away from Ambasamudram to get the required size of stones. The contractor asked for extra payment and it was considered by the Ministry and was granted."

In reply to a further question, the witness stated:

"The Department considered that the armour stones from Ambasamudram and core stones from Thattaparai could be obtained but the contractors after examination of the quarries said that it would not be possible to get them. Then the Chief Engineer suggested to get the stones from other quarries."

4.32. On the general question of Government conceding the demands, put forward by contractors after obtaining contracts, on the ground that the contractors could indefinitely hold up the construction works, the Secretary of the Ministry stated during evidence:—

"I have already submitted that whenever a contractor runs into difficulty, the matter is reviewed and it is seen whether it is possible for us to fore-close the contract and take up the work at the expense of the first contractor or is it advisable in the public interest to continue with the contract and take into account such factors that have been beyond the control of the contractor and in that case, such claims could be admitted. In this case also, though we were not happy at the way the work was going on, some difficulties have arisen, sometimes beyond the control of the contractor. We are fully aware of the situation, and the ceiling and escalation that had been put down in 1970. The escalations during the last two years, I submit were beyond anybody's control. Accordingly the Government thought that it was not in the public interest to stop the work and take up the work themselves. But it is unfortunate that even after this attempt was made and certain claims had been admitted and reliefs were given, he went to arbitration and certain award was given in his favour."

4.33. Asked about the nature of the claims on which the contractor went to arbitration, the representative of the Ministry stated:—

"There were 24 claims out of which 15 claims related to North Breakwater. Subsequently, the contractor withdrew 8 claims in respect of South Breakwater and 2 claims in respect of North Breakwater.

* * * * *

The major claims related to the dispute over prices of concrete blocks. Another major claim is in regard to increasing the limit of escalation and non-levying of liquidated damages."

In regard to the arbitration awards that went against the Government, and the amount thereof, the Committee were informed during evidence by the Secretary (Transport):

"In regard to 7 claims, awards have gone against us; and we have decided to contest them. * * * The amount thus involved is Rs. 88.6 lakhs.

Asked about the composition of the Arbitrator, the witness stated:

"It was a three-Member Board and this Arbitration Board had given certain awards in his (contractor's) favour. We have not accepted this award and we have filed a civil suit in the court contesting it and in the meantime, we have asked the contractor to continue irrespective of the fate of the case."

4.34. As already mentioned, with the grant of concessions discussed above, the contractor agreed to complete both the works by 31st March, 1975. In August, 1974, however, the contractor applied for extension upto December, 1975 for both the Breakwaters and extension was granted upto May 1975 (for South Breakwater) and upto July 1975 (or North Breakwater).

As per information furnished to the Committee in February, 1976, the position (as on 1-2-1976) regarding completion of works was as follows:—

South Breakwater	Almost completed
North Breakwater	73% completed
Wharf Wall	63% completed

The Project authorities expect that all the marine works would be completed by December, 1976.

Interest free advance

4.35. As mentioned in the Audit paragraph, as a result of delay in the completion of work the interest free advance remained with the contractor for a longer time. An amount of Rs. 95.35 lakhs was paid to the firm between July 1970 and September 1974 as interest free advance, being eighty per cent of the cost of contsruction equipment hypotheticated to the project. According to the conditions of recovery of this advance, the recovery was to commence as soon as the gross value of the work done was fifty per cent of the value of the contracts.

Had the original schedule of completion of work of South Breakwater by Feburary 1973 and of North Breakwater by May 1973 been adhered to, recovery of the advance would have commenced by October 1971 for South Breakwater and February 1972 for North Breakwater, and completed well before the scheduled dates of completion. However, due to slow progress of work, recovery of only Rs. 6.02 lakhs was made on *ad hoc* basis upto September, 1974. Thus, the interest free advance had to remain with the firm 'B' for a much longer period than contemplated. As stated in the Audit paragraph, the interest for other advances was 7 per cent.

Appointment of Sub-Contractors

4.36. The Audit paragraph mentions about the appointment by the Firm 'B' of two sub-contractors one of whom was without the approval of Government, as required under the contract.

During evidence, the Committee desired to know what action was taken for this violation of the contract by the Firm 'B'. The representative of the Ministry stated in reply:

> "When we came to know that he is having a sub-contractor without the approval of Government, we took action to stop him from doing the work. We had issued notice that he should stop the sub-contractor......There was no stipulation in the agreement for imposing penalty for this."

In a further clarification furnished to the Committee in February, 1976, the Ministry have stated:

> "(a) Firm 'B' was asked to terminate the power of attorney of the sub-contractor (to whom the sub-contract was given without the approval of the Government) and to ensure that no legal or other problems arise on this account so far as that contract was concerned. Accordingly, the sub-concract was terminated by the main contractor.
>
> (b) The work is still in progress and the main contractor is carrying out the works."

4.37. The Committee find that the main reason for awarding the work on both the South Breakwater and the North Breakwater to the same contractor (Firm 'B') was said to be that the two works would proceed simultaneously and be completed by February, 1973 and May, 1973, respectively. This objective has not been fulfilled as the contractor 'B' slipped heavily in the completion of the project. The South Breakwater, which was scheduled to be completed by February, 1973 is still (in February 1976) stated to be "almost completed". The wharf wall has been completed to the extent of only 63 per cent. The North Breakwater, which was originally scheduled to be in commission by May, 1973, was only partially completed, the progress made being of the order of 73 per cent. This clearly shows

that the principal justification offered for not agreeing to the suggestion of the Ministry of Finance to retender the work of North Breakwater was not based on sound judgement.

4.38. The non-adherence by the contractor 'B' to the time-schedule for completion of the works took place in spite of the fact that concessions costing Government no less than a sum of Rs. 5.97 lakhs were given to the contractor in January and May, 1972, and even further concessions involving as much as Rs. 78.16 lakhs were granted in July, 1973. As stated in the Audit Paragraph, these concessions consisted mainly of refund of hire charges of machinery, refund of demurrage charges, extra amounts for obtaining core stones and armour stones from quarries involving longer leads, relief due to levy of hire charges on hourly basis and waiver of centage charges on materials issued by the Project authorities.

The Committee have examined in detail the concessions granted to the contractor for obtaining core stones and armour stones from quarries other than those contemplated in the contract. They are not at all happy about the position. There was a clear stipulation in the tender notice and agreement that the contractor was to inspect and examine the quarries and satisfy himself regarding the nature of the ground and the sub-soil, the form and nature of work and the materials necessary for the completion of the work and the facilities available. He had agreed, that is to say, to face all risks arising out of the contract. Even so, his pleas regarding allegedly poor availability of stones from quarries contemplated in the contract were met by granting ex gratia payment for bringing stones from quarries involving longer leads. It is pertinent to recall that the firm had accepted in August, 1970 the specific allocation of the quarries at Thattaparai and Ambasamundaram and had also in unambiguous terms agreed to any readjustment of quarries during execution of the work. In spite of these clear stipulations, he was paid an extra rate of Rs. 2.80 per tonne for stones brought from quarries other than Thattaparai on quantities in excess of 31,250 tonnes in any calendar month upto the 29th February, 1972. From the 1st March, 1972 onwards even this stipulation was reduced to 25,000 tonnes in a calendar month. No improvement in performance, however, was brought about by this concession, granted along with many others, and ultimately the contractor got his demand conceded in July, 1973 for payment, with retrospective effect, of extra amounts for carrying all core stones obtained from quarries other than Thattaparai at a rate of Rs. 3.42 per tonne for South Breakwater and Rs. 2.55 per tonne for North Breakwater. This was done primarily on the anticipation that there would be no further set back in the schedule prescribed for completion of the work, but again all expectations were belied. In this context it is significant to note certain observations of the Secretary (Transport) in March, 1973, namely, that he found it difficult to say who was responsible for that state of affairs, that the contractor had shown little business acumen by agreeing to things which were obviously uneconomic, that the Project Officer at Tuticorin seemed to have taken such an unrealistic attitude as to endanger the timely completion of the project, and that "the Ministry were in a jam". When the decision was taken to allot both the works (of South Breakwater and North Breakwater) costing about Rs. 12.01 crores (including maximum escalation as calculated at that time) to firm 'B', it was known, as the Audit paragraph states that the firm had experience of completing works for Rs. 4.17 crores only. Besides, out of other works for Rs. 5.59 crores awaiting execution by that firm, it was still to complete works for Rs. 3.80 crores. It was also known that the firm had no experience of marine construction. In spite of all this, the firm came to be allotted this important assignment. It seems obvious that the Ministry of Shipping and Transport had made an initial mistake. It should at least have tried to keep a strict watch on the progress of works and the performance of the contractor instead of repeatedly conceding to the demands of the defaulting contractor. Again, it appears to be another typical case when a private contractor deliberately quotes, to begin with, a lower rate in order to gain the contract, and after making some progress slackens the pace of work in order to extract lucrative concessions from Government. The Committee feel that if the authorities are vigilant, particularly in the matter of ascertaining the experience, performance and standing of competing contractors, they would not find themselves in a "jam" as they confessedly did in the present case. The Secretary (Transport) was constrained to note in March, 1973, that a stage had been reached where they had somehow to get the project completed. The Committee are convinced that the Ministry of Shipping and Transport must accept full responsibility for allowing such a state of affairs to come to pass. It is strange that the contractor's demands for ex-gratia payments had to be conceded without even making reasonably sure that the project would be completed without further upsetting the time schedule. The Committee would like to be informed of the precise progress made in the completion of the project and the commissioning of the Port. The Committee would also emphasise that in the circumstances of the case, the soundness of the works should be thoroughly tested on commissioning and a clean chit on performance obtained before all the amounts due, particularly the ex-gratia payments, are released to the contractor. Government must have an adequate lever to

ensure adherence to quality and soundness of the executed works.

4.39. As a result of delay in execution, the contractor has also enjoyed the benefit of interest-free advance of large amounts for a much longer period beyond January, 1972, when the refund of advance would have commenced on completion of 50 per cent of the works, if the original time schedule had been maintained by the contractor. The loss to Government on this account and the corresponding accretion to the coffers of the contractor is bound to be heavy and would to that extent escalate the total cost of the project.

4.40. It appears that the contractor had appointed two sub-contractors, and in the case of one, no approval of Government, as required under the contract, was sought or given. The Committee are of the view that if a thorough scrutiny of the experience, expertise, standing and performance of the tendering firms for the large harbour works was properly made, Government could perhaps have secured a more reliable agency for the timely and satisfactory execution of the works.

4.41. It is necessary to recall that even after enjoying the various concessions, the contractor (Firm 'B') went in for arbitration against the Project authorities in respect of his claims for increasing the limit of escalation etc. As stated during evidence by the Secretary (Transport) himself, it was "unfortunate that even after this attempt was made and certain claims had been admitted and reliefs were given, he went to arbitration and a certain award was given in his favour". The Committee find that the total amount awarded in favour of the contractor as a result of arbitration is as much as Rs. 88.6 lakhs. Government have, of course, not accepted the award and a civil suit has been filed accordingly. The Committee ask Government to take suitable action to ensure that the case is competently and forcefully fought in court and then comprehensively followed up. Government and the country have already suffered heavy losses on account of avoidable delay in the completion of works and consequential failure in commissioning the port for traffic. The Committee would like to be informed in detail of the ultimate outcome of the case and all concomitant consequences.

Provision of Finger Jetty

4.42. The intention of Government as indicated in the notice inviting tender for the breakwaters was to provide the finger jetty, if work was done by 'island method'. The contractor, however, agreed to the condition of doing the works by 'any method' and the Chief Engineer informed the Ministry of Transport and Shipping in January 1970 that the work would be got done by "end on method".

4.43. The Contractor (Firm 'B'), however, had after negotiation with the Tender Committee stipulated some conditions one of which was that suitable jetties shall be provided to handle the concrete units and ample land space made available near the jetties for the manufacture of steel caissons, stacking of materials and casting blocks and cellular units.

4.44. The Committee however note that for doing work by 'island method' it was made clear in the tender documents itself that 'the provision of a jetty by the department at—6.65 m. of South Breakwater will be considered by the department only with reference to the floating crafts likely to be brought in and used by the tenderers'.

4.45. The Committee have been informed by the Ministry of Transport that:

> "The question of provision of the jetty (at—5.65 m) was discussed in the first meeting of the Tender Committee held on the 6th and 7th March, 1970 with reference to the harbour crafts available with the major contractor who were under consideration for the work. On the basis of these discussions, the Chief Engineer and Administrator proceeded with the construction of the jetty.
>
> The contractor proposed to deploy a number of floating crafts for the execution of work and stipulated in his tender the provision of suitable jetties—one at 5.65 m. and one at—2.00 m. to handle the concrete units etc. This was accepted by the Department. Thus, it was a contractual obligation on the part of the Department to provide a jetty at—5.65 m. Hence the question of levying charges for the use of jetty does not arise."

4.46. During evidence the Committee desired to know as to why the construction of finger jetty was undertaken when it was not

needed or contemplated in the original contract. The representative of the Ministry stated:—

"In the tender itself it was stipulated that the Department will provide a finger jetty and even during the discussions with the contractor he indicated that he will require both the jetties, that is, one at—2 m. and the other at—5.65 m."

The witness added:

"Even in the original tender also, they said:—

'Suitable jetties shall be provided to handle concrete units and ample land space made available near the jetties for the manufacture of steel caissons, stacking of materials and casting blocks and cellular units'.

This company, as part of their original tender document, specified this condition also. Now, this question has been raised about doing by any method. A person may be agreeable to do by any method. Although he had said so, in the tender document, specifically he had stated 'except for provision of suitable jetties'. This figure is not separately taken into account in the valuation."

4.47. The representative of the Ministry further stated during evidence—

"When the contract was finalised and given to him this condition was there in the agreement. I shall now read the relevant portion of the contract:

'Suitable jetty will be provided at—2.0 m. and the second at —5.65 m to handle the concrete units. Ample line space near the two jetties shall be made available so as to manufacture steel caissons and store the requisite materials etc. The decision of the Department in the allocation of such space and as to the size and shape of the jetties shall be final and binding on us.'

This condition has been accepted and therefore it becomes a part of the contract."

4.48. Asked as to what has been the actual utilisation of the finger jetty (at —5.65 m), the representative of the Ministry has stated:—

"The jetty has been used for construction of the wharf wall, for conveying explosives for the foundation preparation and also for taking the blocks and placing them in under water. It will also be used for the construction of the pier heads, which are basically to be done by the island method. This jetty has to be there for conveying these blocks and the caissons to the pier heads."

4.49. The Committee are unable to find any convincing reasons for Government to construct a finger jetty at a cost of Rs. 11 lakhs (approx.) and to make its use available free of charge to the contractor when the contractor deployed 'and on method' for works on South Breakwater. It is clear from the Audit Paragraph that the stipulation about the Department considering the 'provision of a jetty at +5.65m of South Breakwater was only with reference to the floating crafts likely to be brought in and used by the tenderers' if the work was undertaken by the 'island method' only.

4.50. What appears to have happened is that the contractor demanded the provision of a jetty as one of the pre-conditions and the Department agreed to do so, thus imposing a contractual obligation on itself. The Committee are of the view that the department being under no obligation in the matter, displayed a conspicuous lack of financial prudence. It was surely open to the department, in view of stipulations in the tender notice, to take the stand that for work to be done by 'end on method' there was no question of provision of a jetty at Government cost. At any rate, the Department should at least have insisted that this ex-gratia benefit given to the contractor would be set off against his claims for carriage of stones for the breakwater from longer distances etc.

NEW DELHI;

March 23, 1976.
Chaitra 3, 1898 (*Saka*).

H. N. MUKERJEE,
Chairman,
Public Accounts Committee.

APPENDICES

APPENDIX I

Paragraph 37 of the Report of the Comptroller & Auditor General of India for the year 1973-74 Union Government (Civil)

37. *Construction of deep sea harbour at Tuticorin.*—Tuticorin, about 100 miles north of Kanyakumari, is a port without any berthing facilities. Corgo vessels in this had to be anchored in the open sea about 9 kilometres away for loading and unloading by lighters. Shipping days thus lost progressively increased from 368 days in 1957-58 to 700 days in 1960-61.

For over a half century developing Tuticorin into an all-weather port with alongside facilities for ships had been under consideration and in 1958 the Intermediate Ports Development Committee recommended development of this port as a deep sea harbour with alongside facilities at an estimated cost of Rs. 10.57 crores. In 1963 Government took a policy decision to construct a deep sea harbour at Tuticorin. The preliminary project report prepared in February 1963 estimated an outlay of Rs. 14 crores.

In June 1968 Government approved contruction of the deep sea harbour. Pending sanction of detailed project estimate, work on the harbour project, scheduled to be commissioned by 1969 according to the preliminary project report, was started by the middle of 1963 on the basis of sanctions issued from time to time for different of work. By September 1965 all shore works and certain marine works were completed at a cost of about Rs. 2.57 crores, excluding Rs. 1.26 crores spent on Railway facilities.

According to the report of a joint team of officers of the Planning Commission and the State Government (Tamil Nadu) submitted in 1967 the port was expected to handle 22.35 lakh tonnes of cargo (coal 6 lakh tonnes, salt 5.50 lakh tonnes, cement 4.50 lakh tonnes, fertiliser products 2 lakh tonnes and general cargo 4.35 lakh tonnes) in 1971-72 when the development project was expected to be completed. By 1975-76, the port was expected to handle 35.10 lakh tonnes of cargo (coal 6 lakh tonnes, salt 8 lakh tonnes, cement 6 lakh tonnes, raw materials for fertilisers 8 lakh tonnes and general cargo 7.10 lakh tonnes). In estimating the traffic for the year 1975-76 the study team had assumed that Tamil Nadu Government would set up, at Tuticorin, a fertiliser plant and a soda ash plant by that year and would also take steps to increase production of export quality salt in co-operation with the Salt Commissioner and the State Trading Corporation. The traffic was estimated as 44.2 lakh tonnes in 1980-81. The foreign exchange earnings from the export of salt, ilmenite, fishery products etc. was expected to be Rs. 7 to 8 crores in 1971-72 and over Rs. 10 crores by 1975-76. According to this study the port was expected to have a net surplus of Rs. 63.17 lakhs in 1975-76, i.e., the fifth year of its working on account, principally, of import of 8 lakh tonnes of raw materials for the fertiliser plant proposed to be set up by the State Government.

In June 1968 administrative approval for construction of the deep sea harbour (30 ft. draft) at Tuticorin with six alongside berths (one each for coal, salt, cement and fertiliser and two for general cargo) and one mooring berth for naptha was accorded at a cost of Rs. 24.40 crores. In July 1969 sanction was accorded for the deep sea harbour with four berths (one each for coal, salt, cement and general cargo) at a cost of Rs. 21.76 crores.

In August 1969 the Chief Engineer and Administrator of the project called for tenders for the major marine civil engineering works i.e., (i) South breakwater including one pier head, the wharf, dredging and reclamation of wharf area and (ii) North breakwater including two pier heads, called hereafter as South breakwater and North breakwater respectively.

The lowest three offers (there were various conditions attached to each of these offers) were as follows:—

South breakwater		North breakwater	(Crores of Rs.)
Firm 'A'	6·81	From 'C'	3·94
Firm 'B'	7·16	Firm 'B'	4·15
Firm 'C'	7·98	Firm 'D'	4·28

Taking into consideration the various special conditions stipulated by the tenderers their offers were evaluated by the Chief Engineer and Administrator of the project as follows:—

South breakwater		North breakwater	
			(Crores of rupees)
Firm 'A'	6·82	Firm 'B'	4·15
Firm 'B'	7·33	Firm 'D'	4·29
Firm 'C'	8·30	Firm 'C'	4·36

The offer of firm 'A' (Rs. 6.81 crores) was for reclamation from land source only and did not include cost of dredging. This offer was not recommended by the Chief Engineer and Administrator of the project. He recommended (January 1970) award of the contract for South breakwater to firm 'B'. Although firm 'B' was the lowest tenderer for the North breakwater, according to the evaluation of the Chief Engineer and Adminostrator, he recommended award of the contract for this to firm 'D', the second lowest tenderer, as in his opinion firm 'B' did not have the capacity to execute both the works simultaneously.

In February 1970 Government set up a Tender Committee consisting of Development Adviser, Ministry of Shipping and Transport, Chief Engineer and Administrator of the project and Financial Adviser and Chief Accounts Officer, Madras Port Trust, to examine the tenders. The recommendations of this committee were as follows:—

South Breakwater

The Tender Committee evaluated the offer of firm 'A' as Rs. 8.74 crores after adding cost of dredging. The offer of firm 'C' was evaluated as Rs. 8.30 crores. The offer of firm 'B' was evaluted as Rs. 7.84 crores, and being the lowest was recommended for acceptance.

North Breakwater

The Tender Committee evaluated the following two offers mentioned earlier as below:—

Firm 'D'	Rs 4.02 crores
Firm 'B'	Rs 4 10 crores

After discussions with the representative of firm 'D', the lowest tenderer according to the above evaluation, the Tender Committee concluded that his ideas about the work were not sufficiently clear. Besides, the Committee also mentioned that firm 'D' had not taken contracts for a number of years. The Tender Committee, therefore, recommended acceptance of the offer of firm 'B' for the North breakwater also. The Tender Committee observed that although firm 'B' had no experience of carrying out marine works, they had reasonable resources and would organise equipments to carry out the work. Firm 'D' had no experience in marine works, but after discussions with the Tender Committee it informed Government in April 1970 that it would obtain the services of an eminent civil engineer for this work and mentioned that its managing partner was also the managing partner of some other firms and sent a list of works (value between Rs. 20 lakhs and Rs. 4 crores) costing Rs. 19.60 crores executed by these firms in the past. Firm 'B' had done works for Rs. 4.17 crores only till the time of submitting tender for these works.

In April 1970 the Ministry of Shipping and Transport accepted the recommendation of the Tender Committee and decided to allot both the works to firm 'B'. On 22nd June, 1970 the Ministry of Finance agreed to the acceptance of the offer of firm 'B' for the South breakwater. It, however, advised that the North break-water works should be put to re-tender, mainly on the following considerations:—

"(i) The tender recommended for acceptance namely that of M/s. . . . . (firm 'B') was not actually the lowest and in the absence of a more detailed study of the financial standing, capacity, experience etc. of the lowest tender, it may not be advisable to reject his tender; and

(ii) It was not absolutely certain that M/s. . . . . (firm 'B') would be able, having regard to their capacity and the works they have already on hand, to take on and complete both the Northern and Southern Breakwaters satisfactorily and on time."

The Ministry of Finance further advised that pending finalisation of a contract after re-tendering, the work on the North breakwater should continue departmentally as hitherto, to the extent necessary, so that there was no stoppage of work. Before the above opinion was given by the Ministry of Finance, the Chief Engineer and Administrator of the project had informed the Ministry of Shipping and Transport on 8th June, 1970 that the rates quoted by firm 'B' for North breakwater was very competitive as compared to the rates allowed for similar items in 1969-70 and that if there was a proposal to call for re-tender then it was quite possible "that the tender rate might be higher than what has been quoted now".

The Ministry of Shipping and Transport informed the Ministry of Finance in July 1970 that by re-tendering the work considerable time would be lost with the possibility of tender rates going up, and the South breakwater would progress faster than the North breakwater, while the idea was to get both the works done simultaneously. The Ministry of Finance then stated (July 1970) that it was for the Ministry of Shipping and Transport to satisfy itself whether it would be advisable to reject the offer of firm 'D' without more detailed study of its financial standing, capacity, experience etc. and whether firm 'B' had the capacity to complete both the works in time and satisfactorily, and if the Ministry of Shipping and Transport was satisfied that its recommendation was based on justifiable grounds, the contract for the North breakwater might be awarded to firm 'B'. The Ministry of Finance also suggested that before awarding the work negotiations should be held and firm 'B' prevailed upon to bring down its tendered rate to the rate offered by the lowest tender (firm 'D').

The Ministry of Shipping and Transport thereafter informed (July 1970) the Chief Engineer and Administrator that it had been decided in principle to award both the works to firm 'B' provided he was fully satisfied that it had requisite capacity to undertake the work and to complete the North and South breakwaters satisfactorily and in time. In reply the Chief Engineer and Administrator of the project stated (August 1970) that while forwarding the tender he had made his recommendations (that the tender of firm 'D' for the North breakwater should be accepted) and pointed out that as the Tender Committee had recommended, after examining all aspects, acceptance of the offer of firm 'B' for both the works, further review of the position at that stage separately by him who was one of the three members of the Committee did not seem to arise. No further enquiry seems to have been made about financial standing, capacity, experience etc. of firm 'D'.

The contract for South breakwater was allotted to firm 'B' in July 1970 at a cost of Rs. 7.66 crores with escalation for increase in cost of labour payable upto a maximum of Rs. 0.18 crore. Firm 'B' reduced its offer for North breakwater to Rs. 4.07 crores and this was accepted in October 1970. Escalation for increase in cost of labour upto a maximum of Rs. 0.10 crore was payable for this breakwater.

Thus, the total value of the works allotted to firm 'B' was Rs. 11.73 crores, with escalation upto a maximum of Rs. 0.28 crore.

When the decisions were taken to allot both the works costing about Rs. 12.01 crores (with maximum escalation) to firm 'B', it was known that the firm had experience of completing works for Rs. 4.17 crores only. Besides, out of other works for Rs. 5.59 crores on hand it was still to complete works for Rs. 3.80 crores. It was also known that it had no experience of marine works.

The South breakwater was to be completed in 30 months by February 1973. The North breakwater was also to be completed in 30 months by May 1973. By about June 1971 it was noticed that progress of the works was not satisfactory. The contractor requested Government for various concessions. For expediting the works the following concessions were granted to the contractor in January 1972 and May 1972:—

	South break water	North break water
January 1972	(Lakhs of rupees)	
(i) Refund of hire charges of machinery levied according to the contract	0·76	0·24
(ii) Refund of demurrage charges	0·99@	0·97@
May 1972		
(iii) Refund of hire charges of machinery	1·67	1·34
	3·42	2·55

There was no improvement. The work of North breakwater came to a stand-still from the beginning of November 1972, although firm 'B' had appointed two sub-contractors, one without the approval of Government, as required under the contract. The main plea of firm 'B' was that it was not in a position to produce the desired results because of unworkable rates and financial difficulties. It requested Government for various further concessions. While considering the request the Ministry of Shipping and Transport observed (March 1973) that "the contractor has shown little business acumen. He seems to have agreed to things which were obviously uneconomic. Our ex-Project Officer seems to have taken such an un-realistic attitude as to endanger the timely completion of the project. We are in a Jam. In whatever way we can, we should get the project completed." The following concessions were granted to firm 'B' in July

@Excluding Rs. 1·96 lakhs waived by the Railways for both the breakwaters.

1978 for keeping the contracts going as "cancellation of the contract and re-tendering of the works and appointment of another contractor was considered to be fraught with serious consequences involving legal complications, delay in completion of work and heavy extra expenditure."

	South break-water	North break-water
	(Lakhs of rupees)	
Increase in the limit of escalation charges	20·00	10·00
Extra amount payable for core stones obtained from quarries other than Thattaparai (with retrospective effect)	11·04	18·35
Extra amount payable for armour stones obtained from Mannarkoil instead of Ambasamudram (with retrospective effect)	2·83	..
Probable relief due to levy of hire charges on hourly basis with minimum of 8 hours working (with retrospective effect)	4·62	5·18
Waiver of centage charges on materials issued to the contactor by the project	2·04	4·10
	40·53	37·63

With the above concessions, the value of the two contracts (with maximum escalation) is now about Rs. 12.86 crores (South breakwater: Rs. 8.28 crores, North breakwater: Rs. 4.58 crores) as against about Rs. 12.01 crores at which the contracts were allotted. The value of the contract of firm 'B' for North breakwater (Rs. 4.58 crores) as mentioned above is Rs. 0.56 crore more than that of firm 'D' (Rs. 4.02 crores) as computed by the Tender Committee.

In its tenders for the above works firm 'C' had quoted rates for carriage of armour stones from Thattaparai quarry instead of Ambasamudram quarry, which was selected for quarrying armour stones on the basis of detailed study by geological experts. After evaluation by the Tender Committee, its offers for the above works were for Rs. 12.66 crores (South breakwater: Rs. 8.30 crores, North breakwater: Rs. 4.36 crores), including Rs. 0.74 crore added by the Tender Committee as additional cost of carriage of armour stones from Ambasamudram quarry. In making this evaluation escalation charges for increase in cost of labour demanded by firm 'C' were not taken into account. Assuming that the same maximum escalation charges which were initially agreed to be paid to firm 'B' for completion of the works in 30 months (South breakwater : Rs. 17.29 lakhs, North breakwater : Rs. 9.33 lakhs) would also have been payable to firm 'C', the total value of its offers for both the works would have been Rs. 12.93 crores. As against this, Rs. 12.86 crores have already been agreed to in the case of firm 'B'. In addition Government spent Rs. 10.55 lakhs for constructing a finger jetty demanded by firm 'B' as mentioned subsequently in this paragraph.

Rupees 95.35 lakhs were paid to firm 'B' between July 1970 and September 1974 as interest-free advance, being 80 per cent of the cost of construction equipment hypothecated to the project. Recovery of the advance was to commence as soon as the gross value of the work done was 50 per cent of the value of the contracts. In other words, recovery should have commenced latest by October 1971 (for South breakwater) and February 1972 (for North breakwater),i .e., after 15 months from the dates of award of the contracts, and completed by the time work done was 87.5 per cent of the value of the contract, i.e., well before February 1973 and May 1973 respectively, when the works were scheduled to be completed. However, due to slow progress of work, recovery of Rs. 6.02 lakhs was made on ad-hoc basis upto September 1974. Thus due to delay in completing the works, the interest free advance remained with firm 'B' for much longer than contemplated (interest for other advances was 7 per cent). The Ministry stated that "as per the terms of the contract, the recovery of the machinery advance should commence after 50 per cent of the contract value of the works is over. It does not have any co-relation in respect of time in linear proportion."

Progress of work

When the concessions mentioned above were granted to firm 'B', it agreed to complete both the works by 31st March 1975 i.e., 25 months and 22 months after the due dates of completion of South breakwater and North breakwater respectively according to the contracts. In August 1974, however, it applied for extension up to December 1975; extension has been granted (November 1974) up to May 1975 and July 1975 for the South breakwater and the North breakwater respectively.

Expenditure on the project up to April 1974 was Rs. 28.44 crores.

Construction of finger jetty

Breakwaters are constructed either by 'island method' or 'end on method'. Under 'end on method' the breakwater is constructed progressively from the shore end by using road vehicles. Under the 'island method' stones are carried by barges and dumped in the sea along breakwater alignment working backwards to the shore.

Finger jetty is required for berthing floating cranes and crafts for construction of breakwater by 'island method'. The schedule attached to the notice inviting tenders for the above works contained the following clause for doing the work by 'island method' :—

"The provision of a jetty by the department at —5.65 m of South Break Water will be considered by the department only with reference to the floating crafts likely to be brought in and used by the tenderers. However, if the department decides that the volume of floating craft and equipments does not justify the provision of a jetty at —5.65 m or even if a jetty is provided, if there is a delay in such construction of the jetty, or the jetty if provided is inadequate to handle full quantity of stones to be used on the works, the tenderer should execute the work by unloading the stones at the crane track and using the existing jetty at —2m of the South Break Water and at —3m at North Break Water at no extra cost".

Tenders were invited in August 1969 for construction of the breakwaters by 'island method' in deeper reaches and by 'end on method' in shallow reaches. In an amendment to the notice inviting tenders issued in November 1969 the tenderers were given option to do the work by "any method".

The tenders received in December 1969 indicated that the cost of the works would be less by about Rs. 2.28 crores if 'end on method' was adopted. The Chief Engineer and Administrator informed Government in January 1970 that the entire work would be got done by 'end on method' and that the contractors were agreeable to execute the work by 'any method'. Contracts for the works executed in July 1970 and October 1970 were for construction of the breakwaters by 'any method' and the project authority, had the discretion not to provide finger jetty.

Construction of the finger jetty (estimated cost : Rs. 11.42 lakhs) was started in July 1970 and completed in September 1971 (expenditure booked upto November 1974: Rs. 10.52 lakhs). Firm 'B' has been doing the work under 'end on method' for which no finger jetty was contemplated in the notice inviting tender.

The Ministry stated (December 1974) that "the firm required jetty, one at —2m depth and the second at —5.6m depth to handle the concrete units etc. This has been accepted by the Government. Thus the provision of the jetty became a contractual obligation and accordingly the jetty at —5.6m depth was constructed in addition to the one at —2m depth. This jetty is also proving useful for berthing of harbour crafts during bad weather."

APPENDIX II

(*Vide* para 218 of Report)

Economic feasibility of the project of Construction of Deep Sea Harbour at Tuticorin

Tuticorin is one of the most important minor ports of this country. The port is an open roadstead, the anchorage being roughly 5 miles off-shore. The cargo is handled by lighters between ships and shore. The port is open to traffic throughout the year, and is at present handling annually 1 million tonnes of traffic consisting of coal, salt, cement and general cargo. The development of Tuticorin into an all-weather port with alongside facilities for ships has been under consideration for the past 50 years or so. The Intermediate Ports Development Committee appointed by the Govt. of India in 1958, recommended the development of this port as a deep-sea harbour with alongside facilities at an estimated cost of Rs. 10.57 crores. The Committee based its recommendations on the traffic estimates prepared by the National Council of Applied Economic Research. In the light of the recommendation of the Intermediate Ports Development Committee, the question of including this porject in the Third Five-Year Plan was taken up with the Planning Commission. The traffic estimates were examined by the Planning Commission at its meeting on the 29th November, 1960. It was felt that the traffic by the end of the Third Plan would be of the order of 1.4 to 1.5 million tons. The scheme was included in the Third Five-Year Plan in the following terms:

> "The development of an all-weather alongside port of Tuticorin is considered necessary in order to enable the port to handle the existing traffic efficiently and to provide capacity for increases in traffic. The exact scope of the project will depend upon the volume of traffic which the port is expected to handle in future. A substantial part of the present traffic consists of commodities which enter into the coastal trade and about this it will be possible to take a long run view only after the report of the Committee on Transport Policy and Coordination is available."

In 1961, the Ministry of Transport appointed a Technical Advisory Committee for the Project comprising of Technical experts representing the Ministries of Transport, Railways and the State Government to scrutinise the layout and designs for the Harbour, advise on technical matters and to watch the progress of the Project. Pending final sanction of the detailed estimates and finalisation of the scope of the Project, various works have been sanctioned from time to time and a sum of about Rs. 5.22 crores has been spent on this project till the end of 1966-67.

2. The Chief Engineer and Administrator submitted in November, 1964, a detailed report and an estimate for Rs. 23.02 crores for sanction. The proposals envisaged the construction of a harbour of 30-32 ft. draft with 6 berths in stage-I consisting of 2 coal berths, 1 salt berth, 1 general cargo berth, 1 ships repairs-cum-cargo berth, and 1 oil berth. After a scrutiny of the Project report of the Chief Engineer, the Technical Advisory Committee reduced the requirement in the first stage to 5 berths by omitting the provision of the oil berth from the scheme. The Project report was referred to the Planning Commission on 1-7-1965. On December, 1966, the Planning Commission held a meeting with the representatives of the Ministries concerned and the Govt. of Madras to consider the project report. At this meeting, it was decided that the traffic estimates prepared by the National Council of Applied Economic Research in 1959, had to be brought in conformity with the latest traffic trends and revised estimates of costs and the phasing of the Project as also the financial and the economic returns on the proposed investment should be worked out. It was generally felt at the meeting that the estimated traffic would be about 2 million tonnes, of which 0.3 million tonnes were expected to be handled by the existing intermediate port leaving a balance of 1.7 million tonnes for the proposed major port.

3. The Director of Transport Research in the Ministry of Transport was simultaneously requested to make a study indicating the economic and financial aspects of the Project. The study by the Director of Transport Research has revealed that the following traffic would be offered for the proposed port:

Coal	2,00,000 tonnes
Cement	2,00,000 tonnes
Salt	4,50,000 tonnes
General cargo	3,00,000 tonnes
	11,50,000 tonnes

The report of the Director of Transport Research was considered at an inter-Ministerial meeting held in the Ministry of Transport on the 6th April, 1967. It was decided at this meeting that the traffic estimates made by the Director of Transport Research should be re-examined.

4. At the same time further studies were considered necessary in consultation with the State Govt. to review the traffic possibilities in the light of the latest position regarding the industrial and other development in the hinterland particularly in the State Sector and to plan for the further development of the hinterland of this port in order to improve its traffic potential.

5. In the Summary circulated to Cabinet on the 11th July 1967, on the above Project, approval was sought for the following proposals:—

(i) Joint studies with the State Govt. be undertaken to review the traffic potential and State Plan for the further development of the hinterland for improvement of the viability of the Port;

(ii) while obviously the Project cannot be abandoned both in view of past commitments and the expenditure already incurred, its precise scope can be determined only after the studies mentioned in (i) above have been completed, after which the matter will be brought up before the Cabinet; and

(iii) pending the studies suggested in (i) above, the immediate minimal investment on the Project be continued on the lines suggested in the Summary and requisite funds provided for further development work on the breakwater extension.

The Cabinet considered the above proposals on 17th July, 1967 and decided that, "a further sum of Rs. 50 lakhs may be made available within the current financial year for work on the breakwater. It was also decided that a careful study should once again be made of the whole project in order to determine its final pattern."

6. A senior officer of the Planning Commission and a senior officer of the State Govt. were accordingly deputed to carry out a joint study on the traffic potential of the region. The team visited Tuticorin and had discussions with the concerned interests and

later with the representatives of the State Government. This was followed by an inter-Ministerial meeting at New Delhi when the findings of the team were considered and agreed to. The joint team submitted its report on the 14th September, 1967. The report of the joint team indicated that on the basis of the various industrial developments planned and likely to materialise in the near future, the firm traffic estimate for the port of Tuticorin for 1971-72 and 1975-76 will be as follows:—

Commodity	1971-72	1975-76
	(Lakh Tonnes)	
Coal	6·00	6·00
Salt	5·50	8·00
Cement	4·50	6·00
Fertilizer products	2·00	Nil
Raw materials for fertilisers	Nil	8·00
General cargo	4·35	7·10
	22·35	35·10

7. On the basis of the joint team's report the facilities to be provided and the economics of the Project were re-examined. It was proposed that the new all-weather port to be completed by 1971-72 will provide a 30 ft. harbour with 5 alongside berths—one each for coal, salt and cement and 2 for general cargo, the estimated cost of the facilities is Rs. 22.8 crores. To cater for an additional traffic envisaged by 1975-76, an additional alongside berth and other facilities to be provided at an estimated cost of Rs. 1.60 crores. The lay out of the harbour was designed to meet the requirements of additional berths for deep sea fishing vessels.

8. The economics of the proposed Project worked out in 1967, on the basis of an investment of Rs. 24.4 crores are briefly indicated below:—

(i) The port will be in a position to pay interest charges right from the commissioning of the port and the principal from the 6th year onwards in 30 annual instalments.

(ii) During the first 4 years of the Port's operations a deficit of about Rs. 58 lakhs will accrue after allowing for an annual payment of Rs. 131.1 lakhs as interest at 5-3/4 per cent on the capital loan.

(iii) In the 5th year, *i.e.* 1975-76, there will be a net surplus of Rs. 63.17 lakhs principally on account of an import of 8 lakhs tonnes of raw materials for a fertiliser plant. This will wipe out the deficit referred to in (ii) above.

(iv) Allowing for payment of both interest charges and capital loan instalments, a small deficit of Rs. 31.12 lakhs will accrue during the next 3 years, *i.e.* upto 1978-79. This will be wiped out in the next 3 years.

"From 1983-84 onwards, the port will, in addition to regular payment of interest charges and capital loan instalments, earn a net return of 1 per cent on the investment, progressively increasing by ½ per cent each year. In the 36th year when the interest and principal will have been repaid in full, the return on owned assets will be over 10 per cent. The project will thus be economically viable."

9. The joint report of the team and other aspects relating to the Project were discussed by the Union Minister of Transport and Shipping with the Chief Minister of Madras on the 19th September, 1967. The two Ministers went through the traffic estimates item by item and were satisfied that they represented reasonable projections. The Chief Minister gave an assurance that the Madras Government would take all necessary measures to develop the hinterland on the lines indicated in the report, in particular in regard to the commissioning by 1975-76 of the fertiliser and soda ash plants. He also stated that he was considering the question of forming a Corporation for organising the manufacture and export of salt from Tuticorin. The Chief Minister further indicated that the Govt. of Madras would agree to meet by means of a loan to the port half the deficits that will accrue to the Port, in the initial years, the loan being repaid from the net surpluses generated in subsequent years to the extent of 50 per cent of the net surpluses of the quantum of the loan, whichever is lower. In this context approval of the Cabinet was solicited to the following proposals:—

(a) The Tuticorin Port Project at an estimated cost of Rs. 24.40 crores be approved; and

(b) necessary funds including foreign exchange be provided to enable completion of the project, the precise provision to be made in 1968-69 and in the Fourth Plan being considered from year to year.

10. The Cabinet considered the proposals and accorded sanctions for the construction of a deep sea harbour at Tuticorin.

11. The gross expenditure on the project upto the end of April '75 including suspense was Rs. 35.26 crores. The latest revised estimate for the cost of the project is placed at Rs. 4630.00 lakhs, increases being mainly due to escalations in costs of work and equipment. Project cost has also gone up due to taking up of certain new items of work like coal jetty, permanent oil jetty, procurement of additional tug, construction of shipway and additional buildings costing approx. Rs. 624.54 lakhs necessary for the latest traffic projections.

12. Traffic projections for the new port have been under review by an official Committee set up by the Ministry of Shipping and Transport in July, 1970. This Committee has on it representatives of various user interests in the hinterland, including representatives of the State Government. The Committee has reviewed the position from time to time and in its last meeting in September, 1975 it has updated its projections of traffic on the basis of latest indications given by the State Government and other user interests. These projections along with the projections of Luthra-Thirumalai Committee and the brief reasons for the variations are given below:—

Commodity	Luthra Thirumalai Committee's assessment made in 1967 for traffic in the 4th Year after commissioning of project	Official Committee's assessment made in September 1975.		Position of industries to be set up.
		For Traffic in 1978-79	For Traffic in 1980-81	
1	2	3	4	5
Coal . .	6·00	3·50	18·50	The increase is due to decision of Tamil Nadu State Govt. to set up a thermal power *Station* at Tuticorin. Two units of 210 MW each requiring 12 lakh tonnes per annum have already been sanctioned. Delay in materialisation of coal traffic is however due to some slippages in the construction of thermal power station.

1	2	3	4	5
Salt . .	8.00	5·00	5.00	Tamil Nadu Salt Corporation has been set up. Lowering of traffic according to TN Govt. is due to certain adverse market conditions.
Cement	6.00	1.50	1·50	Less traffic due to establishment addl. cement manufacturing capacity in eastern and western regions Due to which they are now fairly self-sufficient and lesser surplus in South.
Fertiliser products		3·40	3·40	Initially the total traffic estimated for dry and wet raw materials and products for fertiliser plant was estimated at 8·00 lakh tonnes. It is now estimated to total 8·90 lakh tonnes for fertilizer and soda ash plant with a break up of 3·40 lakh tonnes of dry cargo (Rock-phosphate, sulphur & muriate of potash) and 5·50 lakh tonnes of wet cargo like Naptha, fuel oil etc.
Raw Materials	8·00			
P.O.L.		5·40	5·50	
Other cargo	7·10	3·00	3·00	Covers traffic of illemenite sand, bunker traffic, raw-chashew, dry fish, foodgrains fertilisers etc. .
	35·10	21·90 or say 22·00	36·90 or say 37·00	

13. Taking into account the revised cost estimates of the project and the latest available traffic projections a fresh economic appraisal of the harbour project has been made. This appraisal takes into account the revised estimates for operating expenditure and incomes. The income has been assessed, keeping in view the rates now prevailing at the adjacent major ports of Madras and Cochin. A further increase in tariffs is also contemplated in 1978-79 when all the facilities and infrastructure for handling traffic, including mechanical loading plant for salt are expected to be ready. The appraisal also takes into account the fresh investments that will be necessary for replaçement of the floating craft and mechanical handling apparatus after their normal life of 20 years. The following broad picture emerges:—

(i) Based on the net present worth method of appraisal, an internal rate of return of 7.57 per cent can be expected on the project investments, if no portion of capital expenditure is treated as grant.

(ii) Taking into account an interest rate of 5.75 per cent per annum on the capital employed on the basis of the rate of Govt. lending to ports prevailing at the time of the sanction of the project, the project starts having surplus from 3rd year of its operation and will continue to remain so there-after except in the 6th year, as per the cashflow statement. On the basis of this assessment it will have a cumulative surplus of Rs. 1665.08 lakhs at the end of 30 years, after commissioning. The rate of interest payments by port for capital investments will, however, have to be fixed by Govt. after the management of the Port is handed over to a Port Trust Board formed under Major Port Trusts Act, 1963. Such a rate will have to be fixed under Section 31 of MPT Act, 1963, keeping also in view the rate of Govt. lending to ports then in force (at the time of declaring the amount to be treated as capital provided to the port under clause (c) of sub-section 1 of Section 29).

(iii) If however 20 per cent of initial capital expenditure on civil works is treated as an outright grant as per recommendations of Major Ports Commission, 1970 for this port, an internal rate of return of 9.1 per cent can be expected.

(iv) Under the alternative (iii) above taking into account an interest rate of 5.75 per cent per annum on the Balance Capital charged to project (after deduction of 20 per cent of cost of civil works) the project start having surplus from the 3rd year of its operation and thereafter as per the cash flow statement. On the basis of the assessment, it will be left with a cumulative surplus of Rs. 2913.53 lakhs at the end of 30 years.

NEW TUTICORIN PORT

Internal Rate of Return

ENCLOSURE 'A' TO APPENDIX II

Sl. No.	Year	Cash out flow: Capital	Cash out flow: Maintenance	Cash out flow: Total	Cash in flow	Net Benefit	Discount factor at 8 %	Discounted value	Discount factor at 7%	Discounted value
1	2	3	4	5	6	7	8	9	10	11
									Rs. in lacs	
1.	1976-77 . .	4180·00	156·57	4336·57	217·44	(—)4119·13	0·926	(—)3814·31	0·935	(—)3851·39
2.	1977-78 . .	150·00	159·97	309·97	271·93	(—)38·04	0·857	(—)32·60	0·873	(—)33·21
3.	1978-79 . .	200·00	161·22	361·22	444·10	(+)82·88	0·794	(+)65·81	0·816	(+)67·63
4.	1979-80 . .	100·00	179·27	279·27	547·15	(+)267·88	0·735	(+)196·89	0·763	(+)204·39
5.	1980-81 . .	—	179·27	179·27	616·09	(+)436·82	0·681		0·713	
6.	1981-82 . .	—	179·27	179·27	616·09	(+)436·82	0·630		0·666	
7.	1982-83 . .	—	179·27	179·27	616·09	(+)436·82	0·583	5.538	0·623	
8.	1983-84 . .	—	179·27	179·27	616·09	(+)436·82	0·540	(+)2419.11	0.582	
9.	1984-85 . .	—	179·27	179·27	616·09	(+)436·82	0·500		0·544	6.059
10.	1985-86 . .	—	179·27	179·27	616·09	(+)436·82	0·463		0·508	(+)2646·69
11.	1986-87 . .	—	179·27	179·27	616·09	(+)436·82	0·429		0·475	
12.	1987-88 . .	—	179·27	179·27	616·09	(+)436·82	0·397		0·444	

1	2	3	4	5	6	7	8	9	10	11
13.	1988-89 . .	—	179·27	179·27	616·09	(+)436·82	0.368		0·415	
14.	1989-90 . .	—	179·27	179·27	616·09	(+)436·82	0·340	5.538	0·388	6.059
15.	1990-91 . .	—	179·27	179·27	616·09	(+)436·82	0·315		0·362	
16.	1991-92 . .	—	179·27	179·27	616·09	(+)426·82	0·292		0·339	
17.	1992-93 . .	200·00	179·27	379·27	616·09	(+(236·82	0·270	(+)63·94	0·317	(+)75·07
18.	1993-94 . .	300·00	179·27	479·27	616·09	(+)136·82	0·250	(+)34·21	0·296	(+)40·50
19.	1994-95 . .	350·00	179·27	529·27	616·09	(+) 86·82	0·232	(+)20·14	0·277	(+)24·05
20.	1995-96 . .	150·00	179·27	329·27	616·09	(+)286·82	0·215	(+)61·67	0·258	(+)74·00
21.	1996-97 . .	—	179·27	179·27	616·09	(+)436·82	0·199		0·242	
22.	1997-98 . .	—	179·27	179·27	616·09	(+)436·82	0·184		0·226	
23.	1998-99 . .	—	179.27	179·27	616·09	(+)436·82	0·170		0·211	
24.	1999-2000 .	—	179·27	179·27	616·09	(+)436·82	0·158		0·197	1.815
25.	2000-01 . .	—	179·27	179·27	616·09	(+)436·82	0·146	(+)628·58	0·184	(+)792·83
26.	2001-02 . .	—	179·27	179·27	616·09	(+)436·82	0·135	1.439	0·172	
27.	2002-03 . .	—	179·27	179·27	616·09	(+)436·82	0·125		0·161	
28.	2003-04 . .	—	179·27	179·27	616·09	(+)436·82	0·116		0·150	
29.	2004-05 . .	—	179·27	179·27	616·09	(+)436·82	0·107		0·141	
30.	2005-06 . .	—	179·27	179·27	616·09	(+)436·82	0·099		0·131	
			Residual value			(+)1650·00	0·099	(+)163·35	0·131	(+)216·15
	Internal Rate of Return 7·57%							(+)193·21		(+)250·71

ENCLOSURE 'B' to Appendix II

PORT OF NEW TUTICORIN

CASH FLOW

(Rs. in lakhs)

Sl. No.	Year	Capital	Revenue	Expenditure	Gross Surplus	Return of Capital	Interest @ 5·75% on declining balance	Net Surplus (+) Deficit(—) Col. (6)—(7)—(8)	Cumulative Surplus(+) Deficit(—)
1	2	3	4	5	6	7	8	9	10
1	1976-77	4180·00	217·44	156·57	60·87	..	240·35 —	179·48 —	179·48
2	1977-78	150·00	271·93	159·97	111·96	..	248·98 —	137.02 —	316·50
3	1978-79	200·00	444·10	161·22	282·88	..	260.48 +	22·40 —	294·10
4	1979-80	100·00	547·15	179·27	367·88	..	266·23 +	101·65 —	192·45
5	1980-81	..	616·09	179·27	436·82	..	266·23 +	170·59 —	21·86
6	1981-82	..	616·09	179·27	436·82	185.00	255·59 —	3·77 —	25·63
7	1982-83	..	616·09	179·27	436·82	185·00	244·95 +	6·87 —	18·76
8	1983-84	..	616·09	179·27	436·82	185·00	234·31 +	17·51 —	1·25
9	1984-85 . . .	..	616·09	179·27	436·82	185·00	223·68 +	28·14 +	26·89
10	1985-86	..	616·09	179·27	436·82	185.00	213·04 +	38·78 +	65·67
11	1986-87	..	616·09	179·27	436·82	185·00	202·40 +	49·42 +	115·09
12	1987-88	..	616·09	179·27	436·82	185·00	191·86 +	60·06 +	175·15

1	2	3	4	5	6	7	8	9	10
13	1988-89	..	616·09	179·27	436·82	185·00	181·13 +	70·69 +	254·84
14	1989-90	..	616·09	179·27	436·82	185·00	170·49 +	81·33 +	327·17
15	1990-91	..	616·09	179·27	436·82	185·00	159·85 +	91·97 +	419·14
16	1991-92	..	616·09	179·27	436·82	185·00	149·21 +	102·61 +	521·75
17	1992-93	200·00	616·09	179·27	436·82	185·00	150·08 +	101·74 +	623·49
18	1993-94	300.00	616.09	179.27	436.82	185.00	156.69 +	95.13 +	718.62
19	1994-95	350·00	616·09	179·27	436·82	185·00	166·18 +	85·64 +	804·26
20	1995-96	150·00	616·09	179·27	436·82	185·00	164·16 +	87·66 +	891·92
21	1996-97	..	617·09	179·27	436·82	218·00	151·63 +	67·19 +	959·11
22	1997-98	..	616.09	179.27	436.82	218.00	139.10 +	79.72 +	1038.83
23	1998-99	..	616·09	179·27	436·82	218·00	126·56 +	92·26 +	1131·09
24	1999-2000	..	616·09	179·27	436·82	218·00	114·03 +	104·79 +	1235·88
25	2000-2001	..	616·09	179·27	436·82	218·00	101·49 +	117·33 +	1353·21
26	2001-02	..	616·09	179·27	436·82	218·00	88·96 +	129·86 +	1483·07
27	2002-03	..	616·09	179·27	436·82	218·00	76·42 +	142·40 +	1625·47
28	2003-04	..	616·09	179·27	436·82	218·00	63·89 +	154·93 +	1780·40
29	2004-05	..	616·09	179·27	436·82	218·00	51·35 +	167·47 +	1947·87
30	2005-06	..	616·09	179·27	436·82	218·00	38·82 +	180·00 +	2127·87

ENCLOSURE 'C' TO APPENDIX II

Statement of Rvenue

(Rs. in lakhs)

Items	YEARS				
	1976—77	1977—78	1978--79	1979—80	1980—81
(1)	(2)	(3)	(4)	(5)	(6)
1. Port Charges . .	134·12	174·56	329·50	419·50	479·50
2. Berth Hire . .	2·36	2·92	3·14	3·39	3·59
3. Crane Hire Charges .	22·05	27·50	33·25	33·25	33·25
4. Port Dues . .	8·97	10·89	12·97	15·92	17·92
5. Pilotage . . .	2·94	3·56	4·24	5·19	5·83
6. Land & Buildings .	7·00	9·50	11·00	13·00	14·00
7. Port Railways .	30·00	38·00	40·00	47·00	52·00
8. Miscellaneous . .	10·00	10·00	10·00	10·00	10·00
Total : CASH IN FLOW	217·44	271·93	444·10	547·15	616·09

ENCLOSURE 'D' TO APPENDIX II

ECONOMIC APPRAISAL OF NEW TUTICORIN PORT

1. TRAFFIC ASSUMPTIONS

(Traffic Projections for 1978-79 and 1980-81 as Finalised at the Fifth Meeting of the Official Committee held on 15th September, 1975).

Commodity	1976—77	1977—78	1978—79	1979—80	1980—81
Coal	1·00	3·50	3·50	12·50	18·50
Salt	4·20	4·50	5·00	5·00	5·00
Cement	0·10	1·00	1·50	1·50	1·50
Fertilizer	3·40	3·40	3·40	3·40	3·40
POL	3·26	4·08	5·50	5·50	5·50
General Cargo . .	2·00	2·50	3·00	3·00	3·00
TOTAL .	13·96	18·98	21·90	30·90	36·90

ENCLOSURE 'E' TO APPENDIX II

Data Assumed for cash in Flow Calculation

1. PORT CHARGES.

(In Rs./tonne)

Commodities	In 1976—77 & 1977—78	From 1978—79 onwards.
1. Coal	6/-	10/-
2. Salt	8/-	13/-
3. Cement	8/-	13/-
4. Fertilizer	9/-	15/-
5. POL	12/-	18/-
6. General Cargo	12/-	20/-

2. *BERTH HIRE.*

(i) Coastal Vessels — Rs. 0·15 per NRT for Coastal vessel or Rs. 375 per day per ship.

(ii) Foreign vessels — Rs. 0.20 per NRT or Rs. 500 per ship per day.

3. *CRANE HIRE CHARGES.*
Rs. 3·50 per tonne.

4. *PORT DUES.*

(i) Coastal Vessels — Rs. 1·00 per NRT.

(ii) Foreign vessels — Rs. 1·50 per NRT.

5. *PILOTAGE CHARGES.*

(i) Coastal vessels — Rs. 0·32 per NRT.

(ii) Foreign vessels. — Rs. 0.50 per NRT.

Credit for Residual value of Civil Structures, Machinery and Equipments at the of 30 year life.

(A) *Cost of Civil Structures* :

(a) Breakwaters, quays, oil jetty . . . . . . Rs. 20·53 crores

(b) Buildings (as per Revised Estimate for Rs. 46·30 crores). . . . . Rs. 2·65 crores

(B) Floating craft, Handling equipment (the replacement cost after 20 years). Rs. 10·00 crores

Total : Rs. 33·18 crores.

Taking 50% as the residual value,
Residual Value = 0·5 × 33·18 = Rs. 16.59 crores
Say Rs. 16.50 crores.

STATEMENT OF EXPENDITURE

(Rs. in lakhs)

Year	Administration	Audit fees	Maintenance	Operation cost	Misc.	Total
1976—77 . .	25·00	1·00	76·77	45·70	8·00	156·57
1977—78 . .	26·00	1·50	76·77	45·70	10·00	159·97
1978—79 . .	27·00	1·75	76·77	45·70	10·00	161.22
1979—80 . .	28·00	2·00	81·27	56·00	12·00	179·27
1980—81 . . onwards	28·00	2·00	81·27	56·00	12·00	179·27

II. CASH OUT FLOW:

(1) CAPITAL COST:

(i) It is assumed that the port will be ready by 1976-77 as per the sanctioned scheme. The capital investment involved will be Rs. 41.80 crores. (figure as given by CE&A).

(ii) An additional investment of Rs. 4.50 crores for providing two coal berths and an additional tug will have to be made for getting the facilities ready by 1980 to handle the coal requirements of the proposed thermal plant. The expenditure will be phased out as follows:

1977—78		Rs. 150·00 lakhs
1978—79		Rs. 200·00 ,,
1979—80		Rs. 100·00 ,,
	Total :	Rs. 450·00 ,,

(iii) At the end of 20 years from 1976-77, floating craft and handling equipments will need to be completely replaced as their useful life is assumed to be 20 years. The total expenditure involved in this will be Rs. 10.00 crores as worked out below:

(a) Cost of Floating craft	Rs. 448·00 lakhs
(b) Cost of handling eqpt.	Rs. 330·00 ,,
(c) Cost of Workshop machinery	Rs. 28·80 ,,
Total :	Rs. 806·80 ,,

Say Rs. 8.00 crores.

[*N.B.* The cost figures are based on the Revised Estimates for Rs. 46.30 crores].

Total cost	Rs. 8·00 crores
Add 50% extra	Rs. 4·00 ,,
	Rs. 12·00 ,,
Deduct towards residual value of the old equipment etc. (—)	Rs. 2.00 crores
Net Cost of new items to be provided	Rs. 10.00 crores

The total expenditure of Rs. 10.00 crores will be phased out from 17th years as follows:

1992—93	Rs. 200·00 lakhs
1993—94	Rs. 300·00 ,,
1994—95	Rs. 350·00 ,,
1995—96	Rs. 150·00 ,,
	Rs. 1000·00 ,,
	i.e. 10·00 crores.

(2) *EXPENDITURE*

(i) The items of expenditure involved are—

(i) Administration.

(ii) Audit fees.

(iii) Maintenance charges.

(iv) Operating cost of machinery.

(v) Miscellaneous.

(ii) The statement of expenditure for the various years is given in the following page.

(iii) The basis for the figures of expenditure is as given below:

(a) The figures for the years 1976-77, 1977-78, 1978-79 are those given by the CE&A.

(b) *Expenditure figures for* 1980-81:

(1) Administration, Audit fees, and Miscellaneous expenditure are increased based on the trend in previous years.

(2) *Maintenance*:

Figure for 1979-80 . . .	Rs. 76·77 lakhs
Add @ 1½% of the capital cost of two new coal berths *i.e.* Rs. 300.00 lakhs	Rs. 4·50 ,,
	Rs. 81·27 ,,

(3) *Operating cost of machinery*:

Figure for 1979-80 . . .	Rs. 45·70 lakhs
Add @ 7½% of the capital cost for the new tug *i.e.* 7½% of Rs. 138·50 lakhs.	Rs. 10·38 ,,
	Rs. 56·08 ,,
Say	Rs. 56·00 lakhs

(iv) Total expenditure will be the same from 1979-80 onwards.

ENCLOSURE 'F' to APPENDIX II

NEW TUTICORIN PORT

Internal Rate of Return

ALT-I/24-9-1975

Assumption:

(i) Capital cost is arrived at after deducting 20% grant of the cost of Civi Works.

(ii) Increased Port charges, from 1978-79 onwards.

Sl. No.	Year	Cash out Flow			Cash in flow	Net benefit	Discount factor at 9 %	Discounted value	Discounted factor at 10 %	Discounted value
		Capital	Maintenance	Total						
1	2	3	4	5	6	7	8	9	10	11
1.	1976-77 . .	3560·00	156·57	37·1657	217·44	(—) 34·9913	0·917	(—)3208·702	0·909	(—)3180·709
2.	77-78 . .	130·00	159·97	289·97	271·93	(—) 18·04	0·842	(—) 15·190	0·826	(—) 14·901
3.	78-79 . .	170·00	161·22	331·22	444·10	112·88	0·772	87·183	0·751	84·773
4.	79-80 . .	90·00	179·27	269·27	547·15	277·88	0·708	196·739	0·683	189·792
5.	80-81 . .	..	179·27	179·27	616·09	436·82	0·650		0·621	
6.	81-82 . .	..	179·27	179·27	616.09	436·82	0·596		0·564	
7.	82-83 . .	..	179·27	179·27	616·09	436·82	0·547		0·513	
8.	83-84 . .	..	179·27	179·27	616·09	436·82	0·502		0·467	

9.	84-85	..	179·27	179·27	616·09	436·82	0·660			0·424		
10.	85-86	..	179·27	179·27	616·09	436·82	0·422	5·078	2215·988	0·386	4·654	2032·960
11.	86-87	..	179·27	179·27	616·09	436·82	0·388			0·350		
12.	87-88	..	179·27	179·27	616·09	436·82	0·356			0·319		
13.	88-89	..	179·27	179·27	616·09	436·82	0·326			0·290		
14.	89-90	..	179·27	179·27	616·09	436·82	0·299			0·263		
15.	90-91	..	179·27	179·27	616·09	436·82	0·275			0·339		
16.	91-92	..	179·27	179·27	616.09	436·82	0·252			0·218		
17.	1992-93	200·00	179·27	379·27	616·09	236·82	0·231		54705	0·198		46·890
18.	93-94	300·00	179·27	479·27	616·09	136·82	0·212		29·006	0·180		24·628
19.	94-95	350·00	179·27	529·27	616·09	86·82	0·194		16·843	0·164		14·328
20.	95-96	150·00	179·27	329·27	616·09	286·82	0·178		51·054	0·149		42·736
21.	96-97	..	179·27	179·27	616·09	436·82	0·164			0·135		
22.	97-98	..	179·27	179·27	616·09	436·82	0·150			0·123		
23.	98-99	..	179·27	179·27	616·09	436·82	0·138			0·112		
24.	1999-2000	..	179·27	179·27	616·09	436·82	0·126			0·102		
25.	2000-01	..	179·27	179·27	616·09	436·82	0.116	1·145	500·159	0·092	0·509	397·069

1	2	3	4	5	6	7	8	9	10	11
26.	01-02 . .	..	179·27	179·27	616·09	436·82	0·106		0·083	
27.	02-03 . .	..	179·27	179·27	616·09	436·82	0·098		0·075	
28.	03-04 . .	..	179·27	179·27	616·09	436·82	0.090		0·068	
29.	04-05 . .	..	179·27	179·27	616·09	436·82	0·082		0·062	
30.	05-06 . .	..	179·27	179·27	616·09	436·82	0·075		0·057	
			Residual Value = (+) 1650·00				0·075	(+) 123·75	0·057	94·05
								(+) 3275·387 (—) 3223·892		(+) 2927·136 (—) 3195·61
								(+) 51·495		(—) 268·475

Internal rate of return = 9·1% (Say)

ENCLOSURE 'G' to
APPENDIX II.

PORT OF NEW TUTICORIN

Cash Flow

(Rs. in lakhs)

Interest rate 5·75%

Sl. No.	Year	Capital	Revenue	Expenditure	Gross surplus	Return of capital	Interest @ 5·76% on declining balance	Net surplus(+) Deficit(—) col. (6)—col. (7)—col. (8)	Cumulative Surplus(+)/Deficit(—)
1	2	3	4	5	6	7	8	9	10
1.	1976-77	3560·00	217·44	156·57	60·87	..	204·70	—143·83	—143·83
2.	77-78	130·00	271·93	159·97	111·96	..	212·18	—100·22	—244·05
3.	78-79	170·00	444·10	161·22	282·88	..	21·95	+60·93	—183·12
4.	79-80	90·00	547·15	179·27	367·88	..	227·13	+140·75	—42·37
5.	80-81	..	616·09	179·27	436·82	..	227·13	+209·69	+167·32
6.	81-82	..	616·09	189·27	426·82	..	227·13	+209·69	+377·01
7.	82-83	..	616·09	179·27	436·82	..	227·13	+209·69	+586·70
8.	83-84	..	616·09	179·27	436·82	..	227·13	+209·69	+796·39
9.	84-85	..	616·09	179·27	436·82	..	227·13	+209·69	+1006·08

1	2	3	4	5	6	7	8	9	10
10.	85-86	..	616·09	179·27	436·82	..	227·13	+209·09	+1215·77
11.	86-87	..	616·09	179·27	436·82	178·00	216·89	+41·93	+1257·70
12.	87-88	..	616·09	179·27	436·82	184·50	206·28	+46·04	+1303·74
13.	88-89	..	616·09	179·27	436·82	193·00	195·18	+48·64	+1352·38
14.	89-90	..	616·09	179·27	436·82	197·50	183·83	+55·49	+1407·87
15.	1990-91	..	616·09	179·27	436·82	197·50	172·47	+66·85	+1474·72
16.	91-92	...	616·09	179·27	436·82	197·50	161·12	+78·20	+1552·92
17.	92-93	200·00	616·09	179·27	436·82	197·50	161·26	+78·06	+1630·98
18.	93-94 . . .	300·00	616.09	179·27	436·82	197·50	167·15	+72·17	+1703·15
19.	94-95	350·00	616·09	179·27	436·82	197·50	175·92	+63·40	+1766·55
20.	95-96	150·00	616·09	179·27	436·82	197·50	173·19	+66·13	+1732·68
21.	96-97	..	616·09	179·27	436·82	197·50	161·83	+77·49	+1910·17
22.	97-98	..	616·09	179·27	436·82	197·50	150·48	+88·84	+1999·01
23.	98-99	..	616·09	179·27	436·82	205·50	138·66	+92·66	+2091·67
24.	1999-2000	..	616·09	179·27	436·82	217·50	126·16	+93·16	+2184·83
25	2000-2001	..	616·09	179·27	436·82	231·50	112·84	+92·48	+2277·31

26.	01-02	. . . .	616·09	179·27	436·82	237·50	99·19	+100·13	+2377·44
27.	02-03	. . . .	616·09	179·27	436·82	237·50	85·53	+113·79	+2491·23
28.	03-04	. . . .	616·09	179·27	436·82	237·50	71·88	+127·44	+2618·67
29.	04-05	. . . .	616·c9	179·27	436·82	237·50	58·22	+141·10	+2759·77
30.	05-06	. . . .	616·09	179·27	436·82	237·50	44·56	+154·76	+2914·53

APPENDIX III

(*Vide* Para 3·4 of the Report)

Re-evaluation of Tenders before the meeting of the Tender Committee

TUTICORIN HARBOUR PROJECT

NORTH BREAK WATER (L.S. 1775 to L.S. 4142) BY ANY METHOD (including two pier heads)

Amount in Rs.

Sl. No.	Particulars	Estimated amount	Firm 'C'	Firm 'B'	Firm 'D'					
1	2	3	4	5	6	7	8	9	10	11
	Amount as quoted . .	3,52,72,190	3,94,08,643	414,71,818	428,48,102	..	..	..	..	..
1.	Extra claim in case of Firm 'C' for armour stones to be transported from Ambasamudram by road instead of from Thattaparai as quoted by them .		(+) 43,39,525							
2.	Credit for extra quantity of steel in two pier heads provided by Firm 'C', over and above the Departmental specifications .		(—)3,60,000							
	Face value of Tender .		433,38,168	414,71,818	428,48,102					
	Conditions :									
3.	Interest @ 7½% on advance for an average period of 1½ years . . .		(+) 2,25,000 (Proportionate advance Rs. 20·00 lakhs)	(+) 11,250 (Advance Rs. 15·00 lakhs)	(+) 65,833 (Advance Rs. 10·00 lakhs)					

4. Escalation of labour cost .	NPE	NPE	NA
5. Increase in cost of materials (D.P.O.L.), Cement, Steel etc.) . . .	NPE	NPE	NA
6. Increase in seigneorage, royalty etc. on materials .	(Payable only for rubble and broken stone)	(Payable only for rubble)	NA
7. Increase in taxes, duties, tariffs etc. . . .	NPE	NPE	NA
8. Sales tax on contract value .	NPE	NPE	NA
9. Payment of hire-charges, idle hour compensation etc. .	NPE	NA	NA
10. Reduced liquidated damages .	NPE	NA	NA
	(i) Electicity to be generated by tenderer @0·60/kwh. (ii) Extra payment for welding. (iii) Exclusive use of jetty at South Breakwater claimed.	(i) Rates of additional items by mutual agreement. (ii) Steel to be supplied by Deptt. and cost recovered.	(i) Bank guarantee of Rs. 25,000 for security deposit and total retention of 5% of contract value to be deducted @ 10% of the bills.

1	2	3	4	5	6	7	8	9	10	11
			(iv) Rates based on entire work being awarded.							
Evaluated Amount .	352,72,190		436,13,168	414,83,068	429,13,9[illegible]5					

NOTE.—NPE means "Not possible to Evaluate".

NA means "Not applicable".

APPENDIX IV

(*Vide* Para 3·15 of the Report)

Re-valuation of tenders after final clarifications obtained by Tender Committee

TUTICORIN HARBOUR PROJECT

NORTH BREAKWATER (L.S. 1775 M TO 4142 M AND PIER HEADS 2 NOS. BY ANY METHOD)

Sl. No.	Particulars	Estimated Amount	Firm 'B'	Firm 'D'
(1)	(2)	(3)	(4)	(5)
	(A) IF ESCALATION CHARGES ARE TO BE PAID BY THE TENDERER			
1.	Amount as quoted . .	352,72,190	414,71,818	428,48,102
	CONDITIONS:			
2.	Interest at 7½ % on advance for an average period of 1½ years.		NA	(+)65,833
3.	Escalation on labour element		(+)9,38,116 at 2½% contract value)	NA
4.	Rebate in lieu of performance bond.		(—)1,03,680 (at 1/4% of contract value)	..
5.	Seigneorage charges on materials other than stores to be paid by the Department.		NPE	(—)10,000
6.	Sales Tax on contract value etc., to be paid by Deptt.		NPE (Sales Tax on contract value)	(—)4,00,000 (All the sales tax, if any to the provincial Govt.)
7.	Insurance on works and temporary works waived by the Tender Committee.		(—) 4,14,718 (at 1% of gross value of work)	(—) 10,00,000 (Lump-sum)
	Evaluated Total Amount (A).	352,72,190	418,86,536	415,03,935
	(B) IF ESCALATION CHARGES ARE TO BE PAID BY THE DEPARTMENT			
1	Amount as quoted . .	352,72,190	414,71,818	428,48,102
	CONDITIONS			
2	Interest at 7½ % on advance for an average period of 1½ years.		NA	(+)65,833

1	2	3	4	5
3.	Escalation on labour element .		..	(—)12,90,000
4.	Rebate in lieu of performance bond.		(—)1,03,680	..
5.	Seigneorage charges on materials other than stores to be paid by the Department.		NPE	(—)10.000
6.	Sales tax on contract value etc., to be paid by Deptt.		NPE (Sales tax on contract value)	(—)4,00,000 (All the sales tax, if any, to the provincial Govt.)
7.	Insurance on works and temporary works waived by the tender committee.		(—)4,14,718 (at 1% o gross value of work)	(—)10,00,000 (Lump-sum)
	Evaluated Total Amount .	352,72,190	409,53,420	402,13,935

OTHER POINTS

	(i) Rate for variation in quantity of steel in pier heads (ii) Amount of advance required (iii) Performance Bond		Rs. 3000/-M.T. Rs. 15 lakhs. Bond not given, Agreeable for total deduction from bills at 7½% and offered rebate vide item 4 above.	Rs. 3000/- M.T. Rs. 10 lakhs. Bank guarantee for Rs. 25,000/- and total retention of 5% of contract value, recoverable at the rate of 10% from bills.

NOTE:

(a) Firm 'D' gave a letter on 18-3-70 in which they have offered revised rebate of Rs. 20,000/- and Rs. 5 lakhs for items 5 and 6 above respectively. This letter has not been taken into account in the above evaluations. Since these figures have been given without being asked for. after discussions were over, this tentamount to reduction in rate, which the committee has decided not to accept.

(b) N.A. means "Not Applicable".

(c) N.P.E. means "Not possible to Evaluate .

APPENDIX V

Summary of main Conclusions/Recommendations

S. No.	Para No.	Ministry/ Department	Conclusion/Recommendation
1	2	3	4
1.	1.27	Shipping & Transport	Only a few sites in the country can match Tuticorin with its long and eventful history. While ancient maritime cities like Bhrigu-kachchha (Broach) and Tamralipti (Tamluk) are now a mere memory, Tuticorin has survived to play its role in India today. The Committee are happy that the long-deferred hope of our people, especially in the deep south, that Tuticorin would be resuscitated, is nearing fulfilment. The Committee wish that the sense of urgency with which the scheme was first seriously sponsored after independence is sustained effectively.
2.	1.28	—do—	The Committee regret the delay in completing construction of the South Breakwater and the North Breakwater, which were scheduled to have been completed in February, 1973 and May, 1973 respectively. As on the 1st February, 1976, the South Breakwater is stated to be 'almost completed', the wharf wall completed only to the extent of 63 per cent, and the North Breakwater to the extent

1	2	3	4
			of 73 per cent. Such delays not only result in avoidable escalation of costs as compared to the original estimates but also imply the continued loss of valuable shipping days. The Committee urge that at least the present expectation of completing all the marine works by December, 1976, will be fulfilled without any further hindrance.
3.	1.29	Shipping & Transport	While the Committee are unhappy over the delay in the execution of the Port project, they feel equally concerned that the generation of additional traffic, particularly for coal, salt and cement, may take much longer to materialise than originally envisaged. There is therefore need for very close coordination and understanding between the Ministry of Shipping and Transport, the Port authorities, the State Government, the State Undertakings and the various industries which are in the process of coming up in and around Tuticorin, so that traffic is generated and attracted to the Port on a long-term basis to sustain its economic working. The Committee have dealt with these aspects in greater detail in subsequent chapters of the Report.
4.	1.30	—do—	The Committee welcome the idea that the new port and the existing minor port, the latter looked after by the State Government, will eventually be merged. At present both the Ports are functioning side by side. This perhaps has to be so, because the construction

			of the new port has not yet been completed. However, there should be harmonious co-ordination between the functioning of the existing Intermediate Port and the new Major Port at Tuticorin, so that all the available facilities are put to optimum use in the best interests of the country.
5.	2.19	—do—	The Committee note that the traffic estimates at the time of consideration and approval of the Tuticorin Project by the Union Government in 1967 were 35.10 lakh tonnes in 1975-76 (*viz.* in the Fourth year after commissioning of the Port originally expected in 1971-72). The traffic projections for the Tuticorin project have been undergoing changes from time to time, the latest being those given in the report of the Working Group on Ports, 1973 and the minutes of the meeting of the Official Committee held at Madras in September, 1975. The Committee note with concern that while the port would be completed this year, traffic in 1978-79 is now expected to be no more than 22 lakh tonnes and it is only by 1980-81 that the traffic is expected to reach 37 lakh tonnes. This slow rate of growth of traffic is bound to affect adversely the economics of the Tuticorin port.
6.	2.20	—do—	Broadly speaking, the traffic projections for 1980-81 indicate that nearly 50 per cent of it would be contributed by coal. It is pertinent to recall that while the original estimate for coal at the time of sanction of the Project in 1967 was six lakh tonnes, according to the latest projections, it would be 18 lakh tonnes by 1980-81, a threefold increase.

1	2	3	4
			In this connection, the Committee would like to recall the observations made by the representative of the Ministry of Shipping and Transport at the meeting of the Official Committee in September, 1975 that varied figures regarding coal movement were being given by the concerned authorities. It is also noted that the bulk of this coal traffic relates to two thermal units of 210 MW each which are to come up at Tuticorin. There has been admittedly delay in adhering to the schedule for installation of these thermal units, principally because of financial constraints and according to the Official Committee, the latest projections of coal traffic are as follows:— 1978-79 . . . . . . 1 lakh tonnes 1979-80 . . . . . . 7.5 lakh tonnes 1980-81 . . . . . . 13.5 lakh tonnes 1981-82 . . . . . . 18 lakh tonnes (with the commissioning of the third thermal Power unit which has yet to be sanctioned) It is being assumed by the authorities that there would be import of coal to the extent of 6 lakh tonnes in 1981-82 for other general consumers (excluding fertilisers and POL industries) as per projections given below:— 1978-79 . . . . . . 2.5 lakh tonnes 1979-80 . . . . . . 3.2 lakh tonnes 1980-81 . . . . . . 5 lakh tonnes 1981-12 . . . . . . 6 lakh tonnes

			It is understood that the Ministry of Shipping and Transport are undertaking an integrated study for the movement of coal from the coal mines to the consumer points, while independent consultants had been appointed by the Tamil Nadu Electricity Board about the quantum and manner of handling of coal for the thermal stations.
			The Committee need hardly point out that there should have been the closest coordination between the Ministry of Shipipng and Transport/Tuticorin Port and the State authorities so that an integrated scheme for handling of coal for the thermal stations was devised and implemented. The Committee urge that this lacuna should be rectified without further delay so that the designs for the coal berths and other handling equipment at Tuticorin port serve best the requirements of the thermal units and make for efficient and economic handling of coal at the port. The Committee would also like Government to keep a close watch on the actual progress made in setting up of the Thermal Units. In particular, special watch has to be kept about the proposed third Thermal Unit as it would entail import of an additional 5 lakh tonnes of coal.
7.	2.21	—do—	The Committee note that the cement factories in the area are moving coal to the extent of 1.2 lakh tonnes per annum through the all-rail route. The coal traffic for cement factories could be attracted if the sea freight rate was made more competitive. The Committee stress that the requirements for other consumers, particularly the cement factories and the fertiliser factories, should be gone into in detail and a firm decision taken about the quantum and manner

1	2	3	4
			of handling of coal for these users so that facilities could accordingly be built into the berths which are under construction.
8.	2.22	Shipping and Transport	The Committee cannot too strongly stress the need for taking concerted measures to see that the projected coal traffic at Tuticorin port does materialise, for this constitutes as much as 50 per cent of the total projected traffic for 1980-81.
9.	2.23	—do—	As far salt traffic, the Committee note that according to the original projections as much as 8 lakh tonnes were expected to be exported from Tuticorin port. However, according to assessment made in 1973 by the Working Group for the Fifth Plan, the export of salt from Tuticorin would be no more than one lakh tonnes. The detailed review carried out by the official Committee at the meeting held in September, 1975 brought out that there has been a veritable change in the foreign export market of salt and the maximum that could be expected to be shipped in 1978-79 through Tuticorin would be 4 lakh tonnes. It was also brought out that apart from paucity of ships to lift salt, there was a discrimination in sea freight rate in favour of Saurashtra ports, while the all rail freight was cheaper by Rs. 2 per bag as compared to the all sea route. The Central Government was understood to have appointed recently a Consultant to go into the question of handling of salt from Indian ports in an efficient manner.

			The Committee are greatly concerned to note that the Tamil Nadu Salt Corporation are seriously urging the development of minor ports at Vallinokkam and Vappalodi, which are within a distance of a few kilometers from Tuticorin port, for the export of salt. They agree with the Chairman of the Official Committee that "the development of minor ports in such a close proximity of the major port would adversely affect the traffic through the major port and negate the economic justification for its development". The Committee strongly stress the need for maintaining the closest coordination with the State authorities and the Tamil Nadu Salt Corporation so as to see that all desired facilities as are provided at Tuticorin port to handle salt traffic and that there is no question of developing alternative minor ports nearby for handling salt traffic as this would very gravely affect the economics of the port and in fact negate the justification for its development. The Committee attach much importance to this matter and would like to be informed within three months of the concrete action taken by Government in pursuance of this recommendation.
10.	2.24	Shipping & Transport Department of Fertilisers & Chemicals Deptt. of Atomic Energy	As regards Fertiliser traffic, the Committee note that the anticipated traffic at the time of giving administrative approval to the Tuticorin Project was 8 lakh tonnes in 1975-76 (viz. 4th year after the commissioning of the Port than expected in 1971-72). As against this projection, the Official Committee in their meeting held in September, 1975, have placed reliance on a total traffic of 8.90 lakh tonnes in 1978-79 for Fertiliser and Soda Ash Plant, consisting of 3.40 lakh tonnes of dry cargo (Rock-phosphate, sulphur and muriate of potash)

1	2	3	4
			and 5.50 lakh tonnes of wet cargo like Naptha fuel oil etc. It is understood that the fertiliser complex of M/s. Southern Petrochemicals has already gone into production in June, 1975. The Heavy Water Plant of Department of Atomic Energy is expected to go into production by the middle of 1976, and the Tuticorin Alkalies, being set up to produce Soda Ash and ammonium chloride is expected to be in the picture in 1977-78. The Committee hope that these industries will actually come up as per schedule, and the traffic projections now relied upon will materialise.
11.	2.25	Shipping & Transport Railways Deptt. of Fertilisers and Chemicals	The Committee, however, find that at the Official Committee's meeting held in September 1975, it was brought out by the representatives of the SPIC (Fertiliser Group) that there was no possibility of movement of the finished fertiliser products through Tuticorin port as Government had decided that the element of freight would be pegged to Rs. 40 per tonne irrespective of the destination and the mode of transport. However, if the sea-freight structure was made comparable with the railway freight, there could be a possibility of despatching 50,000 tones of finished fertilisers to Andhra Pradesh, Maharashtra, etc. through the port. The Committee would like this matter to be examined by Government at depth, in the interest of utilising adequately the uptodate facilities for handling of fertiliser etc. which are being developed at Tuticorin.

12.	2.26	Shipping & Transport Deptt. of Petroleum Deptt. of Fertilisers and Chemicals	Another point requiring urgent attention is about the nomination of the Tuticorin port as a pricing point for POL products. A firm decision also needs to be taken about the fuel which is to be used in the boilers of the fertiliser plant. The Committee feel that as fertilisers (including raw materials and POL) would constitute the second largest bulk commodity to be handled at Tuticorin port, there is a need for close co-ordination with the representatives of this industry so as to offset all likely difficulties. Apart from administrative decisions regarding the nomination of Tuticorin port as a pricing point for POL products or rationalisation of the sea-freight structure for movement of fertilisers, it is essential that the facilities provided in the port are such as would make for the most economic and efficient handling of the commodity involved.
13.	2.27	Shipping & Transport	It is understood that the Central Government approached the State Government in the latter half of 1975 with a suggestion to form a Greater Tuticorin Development Authority to plan and co-ordinate the development of the environs of Tuticorin industrially, now that a modern port outlet was being provided. While th Committee welcome this belated but essential move, they need hardly point out that the initiative in this behalf should have been taken either along with the sanction for the Tuticorin Port project or very soon thereafter. Meanwhile, valuable time has been lost. Government should always remember that a stitch in time saves nine.

1	2	3	4
			The Committee feel that the State being now under the President's rule, it should be easier to effect a closer co-ordination between different authorities involved in the tasks of Greater Tuticorin Development. It must not be forgotten that rapid development of the hinterland and the resultant capacity to generate and absorb traffic are indispensable to the economic viability of Tuticorin port.
14.	2.28	Shipping and Transport Railways	The Committee would like to draw attention of Government to the state of rail transport facilities in the area, as these have a distinct bearing on the traffic projections by sea for Tuticorin port. At the moment, there is a perceptible improvement since the emergency, in the capacity of the Railways to carry goods and the Railways have also reduced the time for transit and improved reliability. They is also a scheme under implementation for conversion of a portion of metre-gauge to broad gauge on the Southern Railway and a beginning has already been made in this behalf via Nagarcoil. The extent of traffic which would move to or from Tuticorin by rail particularly in bulk commodities like coal, fertiliser and salt, has a close bearing on the traffic to be handled at Tuticorin port and therefore should be closely studied for taking correct investment decisions about facilities to be provided at the Port. The Committee would like the closest co-ordination to be maintained between the Ministry of Shipping and Transport and the Railway Authorities so that the investment in the development of national infrastructure for transport through Tuticorin is regulated in the best overall interest.

15.	2.29	Shipping and Transport Finance	The traffic projections for the Tuticorin Port have been undergoing marked changes from time to time and, according to the information at present available, the traffic of the order envisaged may take a long time to be realised. The Committee would like Government to make, in due course, a critical study of the Tuticorin Project in order to see how far the projections of traffic assumed at the time of sanction of the Project had been actually realised, so that it could provide valuable guidelines while scrutinising similar schemes in the future. The Committee cannot too strongly stress the need for observing priorities in undertaking developmental schemes because of the limited resources available in the country and the competing demands from various sectors, so that the existing resources are put to best use for generating developmental returns for further growth.
16.	2.30	Shipping and Transport	The Committee have no doubt that Government must have kept a careful note of the offer made by the Chief Minister of Madras (now Tamil Nadu) State Government in September, 1967, that the State Government would be prepared to meet by means of loan to the Port of Tuticorin half the deficits that would accrue to the Port in the initial years, so that this undertaking could be invoked as required.
17.	3.34 to 3.36	Shipping & Transport Finance	For a clear appreciaion of the protracted process followed by the Chief Engineer and Administrator, Tuticorin Port, the Tender Committee, and the Ministry of Shipping and Transport in the matter of the grant of contract for construction of North Breakwater of the

1	2	3	4
			Tuticorin Project to the same contractor (Firm 'B'), to whom contract for the South Breakwater had been awarded on the basis of lowest tender, the Committee have quoted from the various connected documents including those of the Ministries of Shipping and Transport and Finance. The Committee find that initially, the Chief Engineer and Administrator of the Port had made a specific recommendation that the contract should be awarded to a different firm (Firm 'D') though, according to his own evaluation of the tenders received, the tender of the said Firm 'D' was only the second lowest, the lowest being that of Firm 'B'. This recommendation of the Chief Engineer and Administrator was based on three main factors, first that the capacity of both the tenderers might not be such as to take over both the works simultaneously, secondly that the progress of work could be kept up on each work (North and South Breakwaters) and the target of completion achieved only if the agency of execution for each major work was different, and thirdly that the works executed till then by the Firm 'B' were to the extent of Rs. 4.17 crores only and the firm had other works (elsewhere) in hand to the extent of Rs. 5.59 crores out of which works worth Rs. 3.80 crores had yet to be completed. The Committee find no evidence of the fact that these weighty arguments of the Chief Engineer and Administrator were given genuinely serious thought or properly analysed in an objective manner by the Ministry of Shipping and Transport.

Thereafter, the Tender Committee, consisting of Development Adviser, Ministry of Shipping and Transport, the Chief Engineer and Administrator, Tuticorin Harbour Project, and the F.A. and C.A.O., Madras Port Trust, re-evaluated the tenders for the North Breakwater and according to that re-evaluation, which turned out to be different from the evaluation made earlier by the Chief Engineer and Administrator, the tender of Firm 'D' was considered to be the lowest, the next higher tender being that of Firm 'B'. The Tender Committee considered the ideas of the Firm 'D' in regard to technical features of the scheme and the methods proposed by them for the execution of the work as 'not sufficiently clear', but at the same time they also found that Firm 'B' too did not have the experience of carrying out marine works. In spite of this finding, the Tender Committee came to the conclusion that Firm 'B' had reasonable resources and also the equipment to carry out the work. The soundness of the arguments of the Chief Engineer and Administrator that the Firm 'B' had other works in hand and that the progress of work could be kept up only if the agency of execution for each major work was different does not seem to have been examined either by the Tender Committee, of which the said Chief Engineer and Administrator was himself a member, or by the Ministry of Shipping and Transport.

At a later stage when the Ministry of Finance acquised, in the award of contract for the North Breakwater also to Firm 'B', they stipulated a condition that this should be done only after the Minis-

1	2	3	4
			try of Shipping & Transport had fully satisfied themselves that Firm 'B' would be able, in view of their intrinsic capacity and the other works they had already on hand, to take on and complete both the assignments, and that it was fully advisable, in the absence of a more detailed study of the financial standing, capacity and experience etc. of Firm 'D', to reject his tender which was the lowest. The Committee again find no evidence of the Ministry of Shipping & Transport having paid serious attention to this suggestion of the Ministry of Finance as they did not carry out any investigation of the capacity of Firms 'B' and 'D' but merely communicated the views of the Ministry of Finance to the Chief Engineer & Administrator. By that time the said Chief Engineer appeared to have lost interest, as is evident from his reply of 5th August, 1970 to the effect that while forwarding the tender he had made his recommendation (that the tender of Firm 'D' for the North Breakwater should be accepted) and pointed out that as the Tender Committee of which he had been a member had come to a different conclusion, namely, acceptance of the offer of Firm 'B' for both the works, further review of the position at that stage separately by himself did not arise. In the opinion of the Committee this cryptic reply of the Chief Engineer & Administrator was another pointer to the Ministry of Shipping & Transport that it was for the Ministry to have a careful look at the recommendations of the Tender Committee in the light, especially of the observations of the Ministry of Finance. This the Ministry of Transport do not

			seem to have done. The Committee therefore, are of the view that since works of such importance, involving heavy expenditure and competent expertise should be given to firms of proven standing and creditable performance in their particular field, the best course in the case should have been to go in for retendering. The Committee also consider that the allotment of work on both the Breakwaters to the same contractor, who had neither the adequate ability nor experience, led to delay and dereliction in the completion of the project and consequential escalations in cost. The Committee recommend that the whole procedure of examination of technical proposals relating to big national Projects in the Ministries should be adequately reviewed and guidelines laid down to ensure that all important and relevant factors are seriously and thoroughly weighed by the Ministries before final decisions are taken.
18	3.36	Shipping & Transport Finance	As regards the particular case of Tuticorin, the Committee desire that the circumstances leading to the award of both the works (South Breakwater and North Breakwater) to the same contractor whose performance was not above reproach should be investigated and the outcome reported to the Committee.
19	4.37	Shipping & Transport	The Committee find that the main reason for awarding the work on both the South Breakwater and the North Breakwater to the same contractor (Firm 'B') was said to be that the two works would proceed simultaneously and be completed by February, 1973 and

1	2	3	4
			May, 1973, respectively. This objective has not been fulfilled as the contractor 'B' slipped the heavily in the completion of the project. The South Breakwater, which was scheduled to be completed by February, 1973 is still (in February 1976) stated to be "almost completed". The whart wall has been completed to the extent of only 63 per cent. The North Breakwater, which was originally scheduled to be in commission by May, 1973, was only partially completed, the progress made being of the order of 73 per cent. This clearly shows that the principal justification offered for not agreeing to the suggestion of the Ministry of Finance to retender the work of North Breakwater was not based on sound judgement.
20	4.38	Shipping & Transport	The non-adherence by the contractor 'B' to the time-schedule for completion of the works took place in spite of the fact that concessions costing Government no less than a sum of Rs. 5.97 lakhs were given to the contractor in Januray and May, 1972, and even further concessions involving as much as Rs. 78.16 lakhs were granted in July, 1973. As stated in the Audit Paragraph, these concessions consisted mainly of refund of hire charges of machinery, refund of demurrage charges, extra amounts or obtaining core stones and armour stones from quarries involving longer leads, relief due to levy of hire charges on hourly basis and waiver of centage charges on materials issued by the Project authorities.

The Committee have examined in detail the concessions granted to the contractor for obtaining core stones and armour stones from quarries other than those contemplated in the contract. They are not at all happy about the position. There was a clear stipulation in the tender notice and agreement that the contractor was to inspect and examine the quarries and satisfy himself regarding the nature of the ground and the sub-soil, the form and nature of work and the materials necessary for the completion of the work and the facilities available. He had agreed, that is to say, to face all risks arising out of the contract. Even so, his pleas regarding allegedly poor availability of stones from quarries contemplated in the contract were met by granting *ex gratia* payment for bringing stones from quarries involving longer leads. It is pertinent to recall that the firm had accepted in August, 1970 the specific allocation of the quarries at Thattaparai and Ambasamundaram and had also in unambiguous terms agreed to any readjustment of quarries during execution of the work. Inspite of these clear stipulations, he was paid an extra rate of Rs. 2.80 per tonne for stones brought from quarries other than Thattaparai on quantities in excess of 31,250 tonnes in any calendar month upto the 29th February, 1972. From the 1st March, 1972 onwards even this stipulation was reduced to 25,000 tonnes in a calendar month. No improvement in performance, however, was brought by this concession, granted along with many others, and ultimately the contractor got his demand conceded in July, 1973 for payment, with retrospective effect, of extra amounts for carrying *all* core stones obtained from quarries other than That-

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			taparai at a rate of Rs. 3.42 per tonne for South Breakwater and Rs. 2.55 per tonne for North Breakwater. This was done primarily on the anticipation that there would be no further setback in the schedule prescribed for completion of the work, but again all expectations were belied. In this context it is significant to note certain observations of the Secretary (Transport) in March, 1973, namely, that he found it difficult to say who was responsible for that state of affairs, that the contractor had shown little business acumen by agreeing to things which were obviously uneconomic, that the Project Officer at Tuticorin seemed to have taken such an unrealistic attitude as to endanger the timely completion of the project, and that "the Ministry were in a jam". When the decision was taken to allot both the works (of South Breakwater and North Breakwater) costing about Rs. 12.01 crores (including maximum escalation as calculated at that time) to firm 'B'. it was known, as the Audit paragraph states, that the firm had experience of completing works for Rs. 4.17 crores only. Besides, out of other works for Rs. 5.59 crores awaiting execution by that firm, it was still to complete works for Rs. 3.80 crores. It was also known that the firm had no experience of marine construction. In spite of all this, the firm came to be allotted this important assignment. It seems obvious that the Ministry of Shipping & Transport had made an initial mistake. It should at least have tried to keep a strict watch on the progress of works and the performance of the contractor instead of repeatedly conceding to

the demands of the defaulting contractor. Again, it appears to be another typical case when a private contractor deliberately quotes, to begin with, a lower rate in order to gain the contract, and after making some progress slackens the pace of work in order to extract lucrative concessions from Government. The Committee feel that if the authorities are vigilant, particularly in the matter of ascertaining the experience, performance and standing of competing contractors, they would not find themselves in a "jam" as they confessedly did in the present case. The Secretary (Transport) was constrained to note in March, 1973, that a stage had been reached where they had somehow to get the project completed. The Committee are convinced that the Ministry of Shipping and Transport must accept full responsibility for allowing such a state of affairs to come to pass. It is strange that the contractor's demands for *ex-gratia* payments had to be conceded without even making reasonably sure that the project would be completed without further up setting the time schedule. The Committee would like to be informed of the precise progress made in the completion of the project and the commissioning of the Port. The Committee would also emphasise that in the circumstances of the case, the soundness of the works should be thoroughly tested on commissioning and a clean chit on performance obtained before all the amounts due, particularly the *ex-gratia* payments, are released to the contractor. Government must have an adequate lever to ensure adherence to quality and soundness of the executed works.

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21	4.39	Shipping & Transport	As a result of delay in execution, the contractor has also enjoyed the benefit of interest-free adavance of large amounts for a much longer period beyond January, 1972, when the refund of advance would have commenced on completion of 50 per cent of the works, if the original-time schedule had been maintained by the contractor. The loss to Government on this account and the corresponding accretion to the coffers of the contractor is bound to be heavy and would to that extent escalate the total cost of the project.
22	4.40	—do—	It appears that the contractor had appointed two sub-contractors, and in the case of one, no approval of Government, as required under the contract, was sought or given. The Committee are of the view that if a thorough scrutiny of the experience, expertise, standing and performance of the tendering firms for the large harbour works was properly made, Government could perhaps have secured a more reliable agency for the timely and satisfactory execution of the works.
23	4.41	—do—	It is necessary to recall that even after enjoying the various concessions, the contractor (Firm 'B') went in for arbitration against the Project authorities in respect of his claims for increasing the time limit of escalation etc. As stated during evidence by the Secretary (Transport) himself, it was "unfortunate that even after this attempt was made and certain claims had been admitted and reliefs

			were given, he went to arbitration and a certain award was given in his favour". The Committee find that the total amount awarded in favour of the contractor as a result of arbitration is as much as Rs. 88.6 lakhs. Government have, of course, not accepted the award and a civil suit has been filed accordingly. The Committee ask Government to take suitable action to ensure that the case is competently and forcefully fought in court and then comprehensively followed up. Government and the country have already suffered heavy losses on account of avoidable delay in the completion of works and consequential failure in commissioning the port for traffic. The Committee would like to be informed in detail of the ultimate outcome of the case and all concomitant consequences.
24	4.49 & 4.50	—do—	The Committee are unable to find any convincing reasons for Government to construct a finger jetty at a cost of Rs. 11 lakhs (approx.) and to make its use available free of charge to the contractor when the contractor deployed 'end on method' for works on South Breakwater. It is clear from the Audit Paragraph that the stipulation about the Department considering the 'provision of a jetty at —5.65 m. of South Breakwater was only with reference to the floating crafts likely to be brought in and used by the tenderers' if the work was undertaken by the 'island method' only. What appears to have happened is that the contractor demanded the provision of a jetty as one of the pre-conditions and the Department agreed to do so, thus imposing a contractual obligation on itself

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			The Committee are of the view that the department, being under no obligation in the matter, displayed a conspicuous lack of financial prudence. It was surely open to the department, in view of stipulations in the tender notice, to take the stand that for work to be done by 'end on method' there was no question of provision of a jetty at Government cost. At any rate, the Department should at least have insisted that this *ex-gratia* benefit given to the contractor would be set off against his claims for carriage of stones for the breakwater from longer distances etc.

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