

**FORTY SEVENTH REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1985-86)**

(EIGHTH LOK SABHA)

**AVOIDABLE/UNNECESSARY IMPORTS**

**MINISTRY OF DEFENCE**

**(DEPARTMENT OF DEFENCE PRODUCTION &  
SUPPLIES)**

*Presented in Lok Sabha on 30-4-86*

*Laid in Rajya Sabha on 30-4-86*

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*April, 1986/Vaisakha, 1908 (S)*

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CORRIGENDA TO 47TH REPORT (8TH LOK SABHA)  
OF THE PUBLIC ACCOUNTS COMMITTEE PRESENTED  
TO LOK SABHA ON 30.4.1986.

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### \*Part II

Minutes of the sittings of Public Accounts Committee held on 12-2-1986  
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\*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library.

**PUBLIC ACCOUNTS COMMITTEE  
(1985-86)**

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3. Shri O. P. Babal—*Senior Financial Committee Officer*

## INTRODUCTION

1. The Chairman of the Public Accounts Committee do present on their behalf this Forty-Seventh Report of the Committee on para 16 of the Report of Comptroller and Auditor General of India for the year 1983-84, Union Government (Defence Services) relating to Avoidable, Unnecessary Imports.

2. The Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Defence Services) was laid on the Table of the House on 14 May, 1985.

3. The Committee observed that Department of Defence Production failed to instal balancing plant and machinery to augment the balancing facilities for the targeted production in 1979-80. The Committee has deplored the unrealistic attitude in fixing targets which were not in tune with the production facilities available or planned to be augmented. Even though exercises in identifying balancing plant and machineries began in 1978 on a piece meal basis, a comprehensive project proposal covering all requirements of balancing plant and machineries was proposed in November, 1980 and the project was finally sanctioned in January 1982 *i.e.* after a period of 3 and a half years. Anticipating delay in raising the production facilities, user department *i.e.* the Department of Defence preferred to meet their requirements from private sector. The Committee find that there had been lack of proper planning and coordination between Departments of Defence and Defence Production and Supplies in demand projections. While on the one hand it was decided to produce the vehicles through ordnance factories, on the other hand, it was decided to procure them from private sector resulting in wasteful and infructuous expenditure, lack of efforts to raise indigenous production of imported items, too frequent resort to imports and delay and foreign exchange expenditure.

4. The Committee also find that the Department of Defence Production imported 40 drivers cabins at the cost of Rs. 79.53 lakhs in July 1981 to February 1982. The landed cost of imported cabin was Rs. 19,832 against the indigenous cost of Rs 4,631 per

cabin *i.e.* more than four times because indigenous availability of cabins from the only source that was available was much less than the total projected requirements. It is perturbing to note that the Department of Defence Production had depended on a single source for supply of vital defence components contrary to the instructions in this regard. Out of the 400 cabins imported, 311 numbers costing Rs. 61.68 lakhs were lying in factory's stock at the end of August 1984. The unnecessary import of cabins resulted in an extra expenditure of Rs. 60.96 lakhs. Not only that, the cabins imported at such a high cost remained unutilised during 1981-82 and 1982-83, but also 53 cabins still remained unutilised at the end of March 1986. The Committee have expressed their unhappiness at this heavy extra expenditure of Rs. 60.96 lakhs due to inaccurate conception in the Department's planning and requirements.

5. Again, the target of production for Shaktiman vehicles at Factory 'M' was enhanced on 21 July 1978 to 4200 numbers, but no corresponding action was taken to increase the machining capacity of the factory for fly wheel housing. A milling machine demanded by the factory as early as July 1977 to raise its milling capacity was sanctioned in January 1982 only *i.e.* after four and a half years. The Committee find that failure to instal a milling machine and decline in the production of the Ordnance Factory during the years 1978-79 and 1979-80 resulted in import of 1000 sets of fly wheel housings, 934 imported fly wheel housing costing Rs. 6.98 lakhs which were received during January to March 1982 remained unutilised for a long period. The Committee are distressed to find that import was resorted to in this case just to utilise the foreign exchange which was stated to be as "surplus". This attitude is reprehensible and not conducive to the policy of indigenisation of components required by the Defence.

6. Similarly the Committee find that 50 numbers each of the equipment 'X' and 'Y' imported to act as buffer stock proved unnecessary involving extra cost of Rs. 8.58 lakhs in foreign currency even though sufficient installed capacity was already in existence at Factory A.

7. The Public Accounts Committee examined the Audit Paragraph at their sittings held on 12 February, 1986. The Committee

considered and finalised this Report at their sitting held on 25 April 1986. The Minutes of the sittings form Part II\* of the Report.

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

9. The Committee would like to express their thanks to the officers of the Department of Defence Production and Supplies for the cooperation extended by them in giving information to the Committee.

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

NEW DELHI;

April 28, 1986

Vaisakha 8, 1908 (S)

E. AYYAPU REDDY

Chairman,

Public Accounts Committee.

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\* Not printed. One cyclostyl'd Copy laid on the Table of the House and 3 Copies placed in Parliament Library.

## REPORT

[Based on Para 16 of the Report of the C&AG of India for the year 1983-84, Union Government (Civil) relating to Unnecessary/Avoidable Import].

(i) *Unnecessary Import*—Audit Para points out that in July 1978 the targets for production of Nissan Petrol vehicles at factory 'M' were revised in July 1979 to 2,000 vehicles during 1980-81, 2,500 were fixed at 2,000 numbers per annum from 1979-80. The targets were revised in July 1979 to 2,000 vehicles during 1980-81, 2,500 during 1981-82 and 3,000 each during 1982-83 and 1983-84. The targets were later again revised downwards in October 1980 to 1,000 vehicles for 1980-81, 1,200 for 1981-82, 1,800 for 1982-83 and 2,000 for 1983-84. The reasons given for the downward revision were that balancing plant and machinery to augment the production were not in position (these were actually sanctioned only in January 1982) and foreign exchange was not available to supplement the shortfall between the requirements for higher targets and indigenous availability. The production capacity of Nissan Vehicles (Nissan Carrier & Nissan Petrol) in Vehicles Factory, Jabalpur, in 1978, was around 4,100 Vehicles per annum. The target fixed for Nissan Vehicles for the year 1977-78 was as under:

	Target	Achievement
(1) NC (Vahar)	3600	3638
(2) NP (Jonga)	500	550
	<u>4100</u>	<u>4183</u>

2. The Committee desired to know the reasons for raising production target for Nissan Vehicles particularly during peace time (during 1980-81 to 1983-84) and then reducing the same. The Department of Defence Production in reply have stated:

"The increase in target was suggested based on requirements projected by the Army. The decrease was related to changes in demand pattern based apparently on procurements of alternative vehicles from civil trade."



3. Enquired if the position of balancing plant and machinery was not known when the targets were revised upward in July 1979 and if so, how the factory fixed the target of 2000 Nos. even in 1978 without the balancing plant. In reply the Department of Defence Production and Supplies have stated:—

“In July 1979, it was known that Vehicle Factory, Jabalpur, needed additional capacity (balancing plant and machinery amongst others) to achieve a level of production of 9000 to 10000 vehicles per annum. However, a higher target for NP Vehicle was decided upon with expectation of getting increased indigenous supply and import support during the intervening period.”

4. Asked as to what steps were taken to expand the production facilities in the light of decision taken in July 1978 to increase the production of Nissan Petrol Vehicle, the Department of Defence Production and Supplies in a note have stated that the production facilities at the factory for vital sub-assemblies like engine, axle, transfer case, gear box etc. for both Nissan 1 Ton and Nissan Patrol are common. Target for Nissan Patrol was increased after scaling down the target for Nissan 1 Ton Vehicle within the overall annual target for Nissan Vehicle @4300 vehs/annum. For bought out items, contractors/sub-contractors were approached to accommodate the change in requirement.

5. According to Audit Para, it was decided in July, 1978 to raise the Production of Nissan Vehicles at Vehicle Factory, Jabalpur from 1979-80, but the sanction for additional plant and machinery was issued only in January, 1982 *i.e.* after 3½ years.

6. Asked about the justification for the delay of 3½ years in the issue of sanction (in January 1982) for plant and machinery, the Department in a note have stated as under:—

“In pursuance of the decision taken early in 1978 that additional plant and machinery and facilities would have to be procured and set up at VFJ to enable the factory to meet higher production target, the factory initiated proposals for new plant and machinery and a comprehensive project proposal covering all requirements of balancing Plant & Machinery to achieve a production level of 9000

to 10,000 vehicles per annum was proposed in November 1980. After receipt of clarifications from Ordnance Factory Board, Government sanction was issued on 2nd January 1982."

7. Meanwhile, the factory decided in July 1979 to import 1,200 driver's Cabins from the foreign collaborator to meet the higher targets fixed in July 1979. The foreign collaborator was informed of the import in May 1980. After the targets were reduced in October 1980, the factory requested (October 1980) the Ordnance Factory Board (OFB) to drop the import as the indigenous supplies were adequate. The collaborator refused to cancel the order but agreed to reduce the quantity to 400 cabins.

8. The Ministry of Defence informed the Audit in November 1984 that a sales agreement concluded with the collaborator for import of certain components included the cabins, but since the cabins was a simple item available indigenously and the import price was 4 times the indigenous price, there was no justification for its import. However, after a great deal of persuasion the order was short-closed.

9. Commenting on the Audit observations regarding import of driver's cabins, the Secretary, Defence Production and Supplies stated during evidence as under:—

".....by the time these revised targets were fixed and when these cabins were required, we had only one indigenous source whose capacity was much less than the total requirement of these cabins. That was the position until July 1979. Another source, on which departmental order had been placed in September 1976 was also there. The supplies commenced from July 1979, but in a very meagre quantity. Therefore, you would find that the requirement of these cabins was much more as per the revised target than the total indigenous capacity available at that time. That was the primary reason for placing orders for imported cabins, even though the organisation knew that the price of imported cabin is much higher than the price of the indigenously produced cabin. When the position became clear that this additional requirement is not necessary because the targets were reduced, we tried to cancel this order. We succeeded only partly and four hundred had to be imported".

10. Pointing out that one of the objects of Department of Defence Production was to indigenise the defence equipment, the Committee asked for justification for the import of driver's cabins which was a simple item available indigenously. The Secretary, Defence Production and Supply replied:

"Sir, you are very right that it is a simple item and its price was lower than the imported one but it all arose because of the decision taken in October, 1978".

11. The witness further stated that decision to import cabins was taken in the vehicle review production meeting in which the Ministry, the users, the producers and the Defence (Finance) are represented. It was also stated that the target was basically revised because of the discard policy finalised by the users on the basis of which they re-worked their total requirement. Asked if the user and the producer in this case were not the same department, the Secretary (DP&S) replied:

"Yes, Defence Ministry, not my Department the users are with the Defence Department. They project their requirement which is vetted by Finance. Whatever I am asked to produce I try to produce and supply to them, but joint reviews in regard to the production targets and supplies are carried out in my department under the Chairmanship of the Secretary from time to time."

12. The Committee wanted to know who initiated the demand for import of cabins. The witness stated:

"The factory projected its demand to the Ordnance Factories Board. The Board processed the whole thing in consultation with the Ministry and the foreign exchange was released as per the usual practice....."

13. The Committee asked whether the decision was taken at the factory level or at the DDS level and whether the Technical Committee at the DDS level was consulted. The Director General, Ordnance Factory, stated:

"Firstly, at the factory, technical committee exists, and its Chairman is the General Manager of the factory. He reports to the Central Technical Committee under DDS. Therefore, there are two caps which the G.M. wears.

One cap as Chairman of the technical committee, reports to the DDS for developmental purposes and the second cap he wears as GM of the factory to be engaged in the task of production vehicles.

The technical Committee has been acting and developing two sources because one source generally does not always prove to be reliable. . . . . We had only one source of supply, the Ideal Structural.

On the other side, this cabin was one of the items cleared by the technical committee for import also. There is a standard list for importation which is reviewed from time to time by the deletion process as you develop the indigenous sources. Because indigenous sources were not sufficiently developed, the technical committee had cleared this for import list. . . . ."

14. Clarifying the position further the Director General Ordnance Factories in his letter dated 27-2-1986 furnished to the Committee after evidence stated that out of the various Technical Committees functioning under Department of Defence Supplies, only two Technical Committees are headed by the General Managers of the Ordnance Factories. One is the Technical Committee (Vijayanta Parts) for Vijayanta tanks at Heavy Vehicle Factory Avadi. The other is the Technical Committee Vehicles Jabalpur (TCVJ) at Vehicle Factory, Jabalpur. According to the functioning of the Technical Committee Vijayanta Parts (TCVP) it was the practice to get the clearance of the Technical Committee before processing cases for import.

15. At jabalpur, the import proposals are made by a Team of Technical/Production Officers and vetted by Joint Controller of Finance and Accounts and processed further with Ordnance Factory Board/Ministry of Defence, Department of Defence Production for issue of sanction and foreign exchange release depending on the delegation of powers to release foreign exchange.

16. In the extant case, the item was a part of a list prepared by Factory Technical Officers in consultation with the Financial Adviser at the Factory level. These were re-examined under specific direction of Chairman, Ordnance Factory Board, given on 21-2-80 to Member/Vehicle, Member Finance, General Manager, Vehicle Factory

Jabalpur, Asstt. General Trucks and Jt. Controller of Defence Accounts Vehicle Factory Jabalpur.

17. The revised list of items and quantities was submitted by General Manager Vehicle Factory Jabalpur and was discussed in the meetings held on 4-3-80 and 5-3-80 at Ordnance Factory Board. Negotiations were also held with Nissan Representatives by O.F. Board Members on 4-3-80, 5-3-80 and 18-3-80.

18. Finally, as authorised by the Ministry of Defence, Department of Defence Production issued on 13-5-80, Ordnance Factory Board issued a letter of intent to Nissan for import of the item.

19. Clarifying the position further, the Secretary, Defence Production stated in evidence that "in these cases, the user as well as authority to decide import was General Manager. Secondly, targets of annual production of these three items were fixed by the Government. In pursuance of that, General Manager projected the demand. Letter of intent was issued after approval by the Ministry of Defence".

20. The Committee enquired if any attempt had been made to find out why the order was revised and whether there was a bonafide mistake in making the original estimate and then reducing it. In reply the Secretary (DP&S) stated:

"The revised requirement was worked out by the general staff which is not a single body. It goes for approval to the Chief of the Army and the DG of the Vehicle Directorate concerned. But the reason for which the requirement came down was not because of scale of requirement but because instead of waiting for production, they purchased from private sector equivalent vehicles and therefore the need for increased production went down".

21. The Committee asked whether it was not due to defective planning and coordination that on the one hand it was decided to manufacture the vehicles by the Department themselves and on the other, it was decided to procure them from private trade. The witness replied:

"Our department is not concerned with the purchase decision. If any user purchases finished product from any party our department does not interfere with it.....As regards defective planning, I would concede that there is

always scope for improvement. Government has given a lot of thought to this problem and now have evolved a mechanism in which 10—15 years perspective plan would be there of what we require, how much is to be indigenised, a particular plan of this sort would be available for all the three departments—Defence Department Research & Development Department and the Defence Production Department—and one can hope that chances of such a situation developing in future would be considerably minimised”.

22. The Committee pointed out that there was no increase in target for the year 1980-81 and the increase in target for 1981-82 was only 500 numbers. They asked why the factory decided to import 1,200 driver's cabins in July, 1979 to increase the production of vehicle to the extent of 500 numbers only in 1981-82 and whether the indigenous supplies for driver's cabin were not adequate for the Production of even 2500 vehicles in 1981-82. In reply, the Department of Defence Production and Supplies in a note have stated:

“The targets were provisionally revised downwards in May, 1979 and the target for 1979-80 was reduced to 1000. This was on account of the fact that there was shortfall in availability of jonga cabins for production in the year 1979-80. Still in July 1979 the target for production of Jongs in 1980-81 was kept up at 2,000 and at 2,500 for 1981-82 and at 3,000 for 1982-83 and at 3,000 for 1983-84, because production of Nissan 1 Ton vehicles was again to be stepped down to 2,300 per year from 1980-81 onwards and imports of Jonga cabins were anticipated. The downward revision was made final in October; 1980 to 1000 jongs in 1980-81 and 1200 in 1981-82 and 1800 in 1982-83 and 2,000 in 1983-84 because Army decided to go in for jeeps from Civil trade to make up for their shortfall in availability of Nissan Petrol (Jonga). Correspondingly, the targets for production of Nissan 1 Ton vehicles was changed to 3300 in 1981, and 3100 in 1981-82 and 2,500 in 1982-83 and 2300 in 1983-84 making a total of 4300 vehicle of both types in a year as per the revised product mix required by the Army. Only around October, 1980 the improvements in the indigenous availability of Jonga cabins was

noticeable and action was immediately taken to cancel orders for import of the cabins in the light of Army's decision on the revised product mix. But by then foreign collaborator was not amenable to cancellation of the import order."

23. According to Audit Para, 400 cabins costing Rs. 79.53 lakhs were received in the factory during July 1981 to February, 1982. One cabin was received as advance sample over and above the above order. The matching components, viz., clamp, cushion rubber, bumper hood, etc. for these cabins were, however, ordered by the factory during December, 1981 to February 1982 on indigenous firms and were received during March 1982 to May, 1983.

24. Out of 401 cabins imported 311 numbers costing Rs. 31.68 lakhs were lying in factory's stock at the end of August, 1984. The landed cost per imported cabin was Rs. 19,832 against the cost of Rs. 4,631 per indigenous cabin. Thus unnecessary import of 400 cabins had resulted in extra expenditure of Rs. 60.90 lakhs.

25. The Committee enquired why the cabins imported at such a high cost were not utilised for a long time and how some of them remained unutilised till date. The Secretary, Defence Production and Supplies stated as under:

"Your observations are very valid and I share your concern. The additional quantity arranged through import was not immediately required for use because the original requirement of more number of vehicles was reduced. Secondly, as regard the actual utilisation. I am told that only 53 cabins remain unutilised not because they cannot be used, but because they are basically being used in vehicles which are used for special purposes like mountaineering, rally expeditions, etc. So, they are being used selectively".

26. In a subsequent note furnished to the Committee, the Department of Defence Production and Supplies stated that after receipt of the cabins, the requirement of the matching components were ascertained and orders for the same were placed on indigenous trade firms. The cost of matching components per cabin was Rs. 584/-. Meanwhile the supplies for NP. Cabin from indigenous sources improved. It was preferred to use the indigenous cabins in production keeping

the imported as a cushion. One of the indigenous sources stopped supplies from 83-84 onwards, necessitating of imported cabins.

The year-wise utilisation of the 400 imported cabins is stated to be as follows:

1981-82	NIL
1982-83	NIL
1983-84	20
1984-85	164
1985-86	164

27. The Committee desired to know why the matching components were ordered only after the arrival of the imported cabins and why the requirement was not anticipated earlier. In reply the Department of Defence Production and Supplies have stated:

“The matching components were found to be needed because the new model imported cabins could not directly fit into the old model chassis that was under manufacture indigenously. With the fitment of the matching components the imported cabins could be utilised in the indigenous production. The requirement for matching components was realised as soon as the sample was studied in January, 1980”.

28. Audit Para points out that the target of production of Shaktiman Vehicles at factory 'M' was fixed in July 1978 at 4,200 numbers per annum. As a milling machine demanded by the factory in July 1977 was not sanctioned till then and in the absence of the machine, the factory's capacity for machining of castings for fly wheel housing was limited to 4,000 number per annum, the factory requested the Ordered Factory Board in December 1979 to arrange for import of 1,700 sets of finished fly wheel housing to meet the production targets.

29. The Committee desired to know the basis of projecting import requirement of 1700 sets of finished fly wheel housing. The Department of Defence Production and Supplies in a note have stated that fly wheel Housing is a major item for Shaktiman Engine Assembly, involving a few special purpose machines for machining from casting. In 1977-78 and 1978-79, Vehicles Factory Jabalpur's target for Shaktiman Vehicles was 3060 nos. per annum.



"On 21.7.78 the target for Shaktiman Vehicles was enhanced to 4200 nos. per annum from 79-80 onwards with further requirement for 300 nos. per annum for spare Engine assembly. Machining capacity at VFJ for the item was not sufficient to meet the requirement for 4500 sets. During 1979-80 and 1980-81 VFJ's achievement in machining the item was 2600 nos. and 2483 nos. respectively only. Requirement of 1700 nos. for import was thus based on the anticipated shortfall in availability upto 1981-82".

30. The Committee pointed out that milling machine was demanded by the factory in July, 1977 but could be sanctioned only in January 1982. They desired to know the reasons for not sanctioning the milling machine in 1977 itself. The Department in a note have stated as under:

"The Milling Machine was one of the items of plant and machinery included in the project proposal for augmentation of the capacity in Vehicle Factory, Jabalpur. It was not demanded in July 1977 but was only included in a list of plant and machinery required for the augmentation project. Inclusion of the machine in the list did not amount to a demand. A firm demand for the machine was made by the factory only in January 1980 after excluding it from the project for augmentation. It was subsequently considered but only along with the augmentation project sanctioned in January 1982".

31. After three months of placing the demand, the factory requested the Ordnance Factory Board in March 1980 to defer/drop the import as scaling down of the targets for production of vehicles was under consideration of a higher power team in view of considerable foreign exchange involved in the procurement of components to meet the target. The High Power Team was headed by the Secretary, Defence Production and DGOF/Chairman, OFB and other senior officers of the Department of Defence Production and Ordnance Factories. However, as per directives of the Ordnance Factories Board an order for import of 1,000 sets of finished fly wheel housing was placed in March 1980.

32. The targetted production vis-a-vis actual achievement of the vehicles during 1977-78 to 1983-84 was as under:

	1977-78	78-79	79-80	80-81	81-82	82-83	83-84
Target :	3060	3060	3000	3300	3600	3700	3800
Achievement :	3071	2713	2402	3320	3670	2902	3868

33. The Committee asked if it was not possible to defer/drop the import as requested by the factory in March 1980. In reply the Department have stated:

“The import proposal was processed and the order was placed by VFJ on 20-3-80 for 1000 nos. keeping in view the fact that for this item, the only indigenous source was VFJ whose capacity was limited, importation was necessary as an insurance against stoppages in indigenous production and to provide a cushion.”

34. The Committee pointed out that the import of 1000 sets of fly wheel housing was necessitated by the shortfall in the targetted production during the years 1979-80 and 1980-81 which was 900 sets and subsequently when indigenous production kicked up and imported sets were also received, the stocks became surplus. In reply, the Secretary Defence Production and Supplies stated in evidence:

“I have before me the figures of production from 1976-77 to 1984-85. During this period the total production of engines was 31,163 and fly wheels 30,230. So, during this period there was no surplus. Rather there was some gap. This decision to have higher targets was taken in July, 1979. In 1979-80 the production of fly wheel housing was 2600 and the requirement was much more than that. Even prior to that year it was less than 3000. So the production of the preceding year and the same year gave enough justification that there would be a gap and to fill up that gap we had to import. Since these targets came down, therefore, the situation arose.”

35. Against the order of 1000 sets of finished fly wheel housing 934 fly wheels costing Rs. 6.98 lakhs were received during January to March 1982. As the targets for Shaktiman vehicles were meanwhile

scaled down in October 1980 to 3,300 numbers in 1980-81, 3,600 numbers in 1981-82, 3,700 numbers in 1982-83 and 3800 numbers in 1983-84. The whole stock along with another 703 numbers of imported fly wheel housing already in stock of the factory was lying unused in August 1984. The import of 934 fly wheel housing at the cost of Rs. 6.98 lakhs was thus unnecessary and it involved an extra expenditure of Rs. 2.77 lakhs as compared to the cost of indigenous components. The Committee enquired if responsibility for unnecessary import of fly wheels was fixed, the Secretary (DP&S) in reply stated:

"I do not consider imports a wrong thing."

36. The Committee enquired whether it was a fact that imports were resorted to at that time because there was no constraint of foreign exchange. The witness replied:

"I do not want to go into it. In 1978 we had the problem of utilising our surplus foreign exchange position. We introduced various schemes in the country. That was, I think, the only year in the last 10 years like that".

37. The position regarding production vis-a-vis utilisation of Fly Wheel Housing in the factory during 1982-83 to 1984-85 is as below:

Year	Vehicles (SMan) produced	Engine produced (OE+ Spare)	Production of Fly Wheel Housing
82-83	2902	3400	4025
83-84	3868	3815	3623
84-85	3800	4002	3351

Present stock as in 8/85 (Machined Fly Wheel Housing)

Ex-Import 537 Nos.

EX-VFJ 780 Nos.

38. Asked why the import order was not reduced when it was decided in October 1980 to scale down production of vehicles. The Secretary Defence Production and Supplies stated in evidence:

"It was not done on consideration of buffer stock".

39. Enquired as to how the buffer stock of 1637 number of fly wheel housing could be justified particularly in view of the fact that total production of Shaktiman Vehicles was in the range of 3600—3800 numbers. The Department in reply stated as under:

“Import of fly wheel housing was made to match the higher target for Shaktiman Vehicle laid down at Vehicle Production Review Meeting in July 1978 and May 79 i.e. 4200 veh+300 spare Engine+rejections. Had the factory actually produced to match that target, the import stock would have been put into use.

Buffer stock will vary from time to time depending upon variations in production and consumptions. Against a target of 4500 Engines, 1637 fly wheel housing is just over four months requirements”.

40. It is seen that the target for Shaktiman Vehicles was enhanced from 3060 Nos. per annum to 4200 Nos. per annum from 1979-80 onwards with further requirements for 300 Nos. per annum, but machining capacity at Vehicle Factory, Jabalpur for the item was not sufficient to meet the requirement for 4500 Nos. Asked why steps were not taken to increase the machining capacity to match the enhanced target of production of 4500 numbers. The Department have stated:

“Steps were taken to increase the overall inhouse capacity to match the target for 4500 Shaktiman Vehicle through a supplementary project”.

41. Asked why a milling machine demanded by Factory 'M' in July 1977 was not sanctioned when enhanced target of production of Shaktiman Vehicle was fixed and whether the machine was available indigenously, in reply the Department of Defence Production & Supplies have stated:

“At that time an exercise for assessment of the consolidated requirement for augmenting the total capacity was being carried out and the provisioning of this particular machinery was not dealt with in isolation. Further, machine of fly wheel housing was not the only determining factor for increasing production of vehicles. The machine was indigenously available.”

42. Audit Para points out that for assembly with tanks factory 'A' was supplying equipment 'X' and 'Y' to factory 'B' from 1966-67 and 1967-68 respectively. Against the created capacity for 192 numbers of each per annum, factory 'A' actually manufactured only 75 equipment 'X' and 64 equipment 'Y' on average per annum till 1975-76. The production was stepped up thereafter to a level of 163 equipment 'X' and 178 equipment 'Y' per annum from 1976-77. In October 1977 the Director General Ordnance Factories decided to import 50 numbers of each requirement to act as buffer stock in view of steep rise in the targets at factory 'A'.

43. Accordingly, Supply Wing of an Indian Mission abroad (SW) concluded a contract in May 1979 with this foreign firm 'C' for supply of the equipment by February 1980 at a total cost of £51,000 (Rs. 9.48 lakhs). The delivery date was later extended to May 1981.

44. The Committee desired to know if any difficulty was faced by the factory to manufacture the equipment as per target fixed and whether there was any proposal to further increase the production target of the equipments beyond the level already reached. In reply the Defence Production and Supply Department stated that "the capacity of the Factory (A) was 192 sets of various optical instruments per annum. No difficulty was faced by the factory in meeting the target fixed. However, in view of lower production of Tanks at Factory (B) upto 1975-76, a part of the capacity in Factory (A) was diverted for manufacture of other sighting equipment required urgently by Defence Services. There was no proposal before the Factory (A) to further increase the production target beyond the level already reached.

45. Asked about the reasons for import of equipment 'X' and 'Y', the Secretary, Defence Production and Supplies stated before the Committee during evidence as under:—

"Here also the basic question remains the same. I have tried to analyse it further and I have seen for my own satisfaction from 1966-67 upto 1984-85 the tank production on the one side and the production of these two equipments on the other side to see whether this gap necessitates import. I find that in 1975-76, 1976-77 and 1977-78 which are the years relevant for making an assessment, the production of equipment X was lower than the production of tanks. In regard to equipment Y, in both the

years 1976-77 and 1977-78, similar position obtained. When the question arose in my mind. When later on, they were able to bring the production of these two to the level of production of the other, why could not they do it at that time? So I have been able to locate a Minute of the Meeting where the capacity of this Ordnance Factory, Dehra Dun, for production of instruments was required to be utilised more for other instruments by the users than for this equipment. Of course, it was inter-usable. But if the priority would have been only for these two equipments, there probably would have been no need for import. Since a greater capacity was utilised for production of other things, they could not meet this requirement, in this year. The two years production show that there is a gap between the requirement and the availability."

46. After acceptance by the SW (Supply Wing) on warranty certificate furnished by the firm, 50 equipment 'X' were received by the factory in January 1982. Equipment 'Y' was received during September 1982 (40 numbers) and February 1983 (10 numbers). The total cost of equipment was Rs. 11.10 lakhs (according to the Ministry this included Rs. 1.66 lakhs erroneously charged as customs duty) and the import involved an extra expenditure of Rs. 8.58 lakhs with reference to factory 'A' cost of production during 1981-82.

47. The Committee asked whether the high cost of imported equipments as compared to factory's cost of production was considered before deciding to hold buffer stock of 50 numbers of each of the equipments. In reply the Department of Defence Production and Supplies have stated:—

"The decision to import the equipment was taken after considering all the pros and cons including the cost aspect. Since the production was expected at that time to be stepped up fast at HVF, Avadi, the build up of some buffer stock of the equipment 'X' and 'Y' was considered necessary."

48. The Committee were also informed in reply to a query that the equipments were imported into India on the basis of the warranty certificate given by the manufacturer to the Inspection Wing of Supply Mission in London as per clause 15(B) of the contract. Asked whether inspection of equipment 'X' and 'Y' was carried out by the

inspection Wing before despatch, the Ministry stated: "since the equipments were accepted by DGISM, London based on the warranty certificate given by the Manufacturer, the question of carrying out dimensional or other checks before despatch did not arise."

49. The equipments were ordered when production programme was revised in 1977. These were delivered in 1982. In this context, the Committee desired to know whether such delay was anticipated and if so was any effort made to produce them indigenously. The Department have replied:

"The orders were placed on the firm in an expeditious manner, in May 1979 and supplies were expected by February 1980 (after 9 months). Delay by the firm could not be apprehended at the time of placement of orders. Later, since Factory (A) was able to maintain its production in relation to requirement of Factory (B) no further efforts were considered necessary for developing additional indigenous production sources. Also because the production of VIJAYANTA TANKS was tapering off, the requirement for producing the equipments in Factory (A) came down later on. Neither the delay in receipt of imported supplies nor reduction in requirements could be anticipated before May 1979."

50. 40 Nos. of equipment 'Y' were received in September 1982 and 10 Nos. in February 1983. Inspection of these equipments commenced during November/December 1982 but completed only in April 1984. The Committee asked how it took such a long time. The Department in reply have stated:

"40 Nos. of equipment 'Y' were received in September 1982 and 10 Nos. in February 1983. The first batch of equipments were put up for fitment trials in October/November 1982 and discrepancies were pointed out to DGISM(SW) London. Since the firm desired 100 per cent check, the same was carried out subsequently and 100 per cent pieces were returned to the firm in April 1984. The time lag is due to correspondence between the Factory, the DGISM and the firm and 100 per cent dimensional Inspection at Ordnance Factory."

51. The Committee asked when adequate installed capacity was available for production of equipments 'X' and 'Y', why import of these equipments was resorted to in October 1977 particularly when these equipments were required only to create a buffer stock. The Department of Defence Production & Supplies have stated:—

“In order to meet the anticipated increase in production of tanks at Factory 'B' the supply of instruments was under continuous review. The minimum stock had reached Zero levels during years 1976-77, 1977-78 and 1978-79. As a precaution against such stockouts and consequent hold up in the issue of completed tanks, it was considered prudent to make a provision of atleast 3 months stock as a buffer.”

52. The Committee enquired if the buffer stock requirement of Equipment 'X' and Equipment 'Y' could not be met indigenously through utilising the production at factory. The Department replied:—

“The requirements of Army of other equipments were showing an upward trend. Diversion of capacity to produce buffer stock would have meant production of other items at lower levels which would have adversely affected the Army. Efforts were therefore made to meet the immediate requirements of the Army and to depend on import for building up buffer stock.”

53. When the Committee pointed out that an extra expenditure of Rs. 8.58 lakhs on imports of these equipments could have been avoided by producing them indigenously, the Secretary, Defence Production and Supplies stated in reply:

“There is no dispute on the point that had there been no imports, that much foreign exchange would have been saved.”

54. The Committee note that production targets at factory 'M' for production of Nissan Patrol Vehicles was fixed in July 1978 at 2000 numbers per annum from 1979-80. These targets were revised in July 1979 to 2000 vehicles during 1980-81, 2500 during 1981-82 and 3000 vehicles each during the years 1982-83 and 1983-84. The increase in targets, was it is stated to be based on requirements projected by the Army. The higher targets fixed in July, 1979 were later again revised downwards in October, 1980 to 1000 vehicles for 1980.



31, 1200 vehicles for 1981-82, 1800 for 1982-83 and 2000 for 1983-84 because the balancing plant and machinery to augment production were not in position and foreign exchange was also not available for the bridging imports to meet the requirements for higher targets and indigenous availability. The Committee are perturbed to note that no balancing plant and machinery to augment production facilities were installed when it was decided to raise production targets. The Committee are surprised to observe that instead of fixing the targets of production on the basis of production capacity available or planned to be augmented, targets were earlier fixed unrealistically on demands only and thereby game of numbers was indulged into. Such unrealistic attitude in the field of Defence Supplies is highly deplorable. Instead, a higher target for Nissan Patrol Vehicle was decided upon with expectation of getting increased indigenous supply and import support during intervening period. Even though exercises in identifying balancing plant and machineries began in 1978 on a piece meal basis, a comprehensive project proposal covering all requirements of balancing plant and Machinery to achieve a production level of 9000 to 10,000 vehicles per annum was proposed in November, 1980. The project was finally sanctioned in January 1982 i.e. after a period of three and a half year. The Committee regret to note that this has happened in spite of their earlier recommendation contained in their 109th Report (6th Lok Sabha) presented to Lok Sabha on 22 December, 1978 recommending induction of additional items of balancing equipment. This is highly deplorable. The Committee view the delay of three and a half years in sanctioning balancing plant and equipment at factory 'M' with serious concern. In view of the above mentioned facts the delay cannot be justified in terms of scaling down of target in the Vehicles Production Review Meeting of 1980. The Committee find that because of the anticipated delay in raising the production facilities, the user department i.e. the Department of Defence preferred to meet their requirement from private sector. The Committee fail to understand why all aspects; raising production and time frame of works required to implement it was not discussed in the joint meetings of producers and users. This is a sad commentary on project planning.

55. The Committee find that there had been lack of proper planning and coordination between Departments of Defence and Defence Production and Supplies in demand projections. While on the one hand it was decided to produce the vehicles through ordnance factories, on the other, it was decided to procure them from private sector resulting in wasteful and infructuous expenditure, lack of efforts to raise indigenous production of imported items, too frequent resort to imports and delay and foreign exchange expenditure. The Department of Defence Production and Supplies ordered import of 1200 drivers cabins

which is stated to be a simple item from a foreign collaborator to meet the higher production targets fixed in July 1979. Later on, when targets were reduced in October, 1980, the factory requested the Ordnance Factories Board to drop the import as the indigenous supplies were adequate. The collaborator refused to cancel the order but agreed to reduce the quantity to 400 cabins.

56. 400 drivers cabins were imported at the cost of Rs. 79.53 lakhs in July 1981 to February 1982. The landed cost of imported cabin was Rs. 19832 against the indigenous cost of Rs. 4631 per cabin i.e. more than four times. It has been stated that indigenous availability of cabins from the only source that was available was much less than the total projected requirements. It is perturbing to note that the Department of Defence Production had depended on a single source for supply of vital defence components contrary to the instructions in this regard. The matching components, viz., clamp, cushion rubber, bumper-hood etc. for these cabins ordered on indigenous firms during December 1981 to February 1982 were received during March 1982 to May 1983. As the cabins imported were as per design of the foreign manufacturer, these could not be fitted on the indigenous chassis and as such expenditure of Rs. 584 per cabin had to be incurred on additional fittings to mount the cabins on the chassis. The Committee fail to understand why our requirements were not specified to the manufacturers while importing cabins as per our requirements. The cost of indigenous components was Rs. 584 per cabin. Out of the 400 cabins imported, 311 numbers costing Rs. 61.68 lakhs were lying in factory's stock at the end of August 1984. The Committee are perturbed to note that unnecessary import of cabins resulted in an extra expenditure of Rs. 60.96 lakhs. Not only that, the cabins imported at such a high cost remained unutilised during 1981-82 and 1982-83, but also 53 cabins still remained unutilised at the end of March 1986. While sharing Committee's concern over non-utilisation of the cabins for a long time, the Secretary, Defence Production and Supplies during evidence stated that "the additional quantity arranged through import was not immediately required for use because the original requirement of more number of vehicles was reduced." The non-utilisation of imported cabins for such a long time raises a doubt in the mind of the Committee, if the requirement of the Department for this equipment was really so urgent as to necessitate its immediate import rather than wait for its development by indigenous sources. The Committee cannot but express their unhappiness at this heavy extra expenditure of Rs. 60.96 lakhs due to inaccurate conception in the Department's planning and requirements.

57. The Committee note that the Department of Defence Production and Supplies have constituted a number of Committees for various

disciplines of stores to identify development of sources for items for indigenisation. Two of these Committees constituted at factory level are headed by the General Managers of 2 Ordnance Factories. It is surprising to note that the procedure followed for import of items in these two Committees is entirely different. While in the case of Heavy Vehicles Factory, Avadi, it is practice to get clearance of the Technical Committee (Vijayant Parts) before processing cases for import, at Vehicle Factory, Jabalpur where the other Technical Committee headed by a General Manager exists, the import proposals are made by a team of Technical/Production Officers and processed further with Ordnance Factory Board/Department of Defence Production for issue of sanction and release of foreign exchange. Obviously the Technical Committee which is responsible for indigenisation of vehicle parts was not consulted in the instant case. The Committee are unable to comprehend why an altogether different procedure is followed at Vehicles Factory, Jabalpur for import of components and why Technical Committee was not consulted there.

58. Another glaring case of faulty planning and lack of coordination with regard to import projection vis-a-vis indigenous availability of components of vehicles at various levels in the Department of Defence Production and Supplies has come to the notice of the Committee in the course of their examination. The target of production for shaktiman vehicles at Factory 'M' was enhanced on 21 July, 1978 to 4200 numbers but no corresponding action was taken to increase the machining capacity of the factory for fly wheel housing. The factory had demanded a milling machine as early as July 1977 to raise its milling capacity but the same was sanctioned in January 1982 only i.e. after four and a half years. Meanwhile, the Factory requested for import of 170C sets of finished fly wheel housings. After 3 months of placing the orders in March, 1980 the Factory requested to defer/drop the import as scaling down of targets for production of vehicles was under consideration of a high power team in view of considerable foreign exchange involved in the procurement of components to meet the target. However, the Ordnance Factories Board preferred to import 1000 sets of finished fly wheel housing to build up a buffer stock and orders were placed in March 1980. The Committee are distressed to find that failure to instal a milling machine and decline in the production of the Ordnance Factory during the years 1978-79 and 1979-80 resulted in import of 1000 sets of fly wheel housings. They are not convinced with the plea taken by the Department that import order was placed in view of the

fact that for this item, the only indigenous source was vehicle Factory Jabalpur whose capacity was limited and import was necessary as an insurance against stoppages in indigenous production and to provide a cushion. The Committee strongly disapprove of this approach of building buffer stock of inventories by resorting to imports at higher costs and spending precious foreign exchange when indigenous capacity is already available in the country and could be augmented easily by installing balancing plant and machinery.

59. The more distressing fact is that the imported stock of 934 fly wheel housing costing Rs. 6.98 lakh which were received during January to March 1982 alongwith another stock of 703 numbers already imported remained unutilised for a long period. The present stock of Machined Fly Wheel Housing as in August, 1985 was stated to be 1317 (537 numbers ex-import and 780 numbers ex-Vehicles Factory Jabalpur). Judged in its entirety, the Committee find that costly import of fly wheel housing was not necessary. They are not happy with the statement made by the Secretary (DP&S) during evidence that I do not consider imports a wrong thing. . . In 1978 we had the problem of utilising our surplus foreign exchange position." The Committee are distressed to find that import was resorted to in this case just to utilise the foreign exchange which was stated to be as "surplus" This attitude is reprehensible and not conducive to indigenisation of components required by the Defence.

60 Similarly the Committee find that 50 numbers each of the equipment 'X' 'Y' imported to act as buffer stock proved unnecessary involving extra cost of Rs. 8.58 lakhs in foreign currency even though sufficient installed capacity was already in existence at Factory A. Import of these equipments has been justified on the ground that production of Tanks with which equipment X and Y were fitted at Factory B was expected to be stepped up and a part of the capacity of the Factory A was utilised to produce other sighting equipments required urgently by Defence Services. The Committee find this explanation hardly convincing as they find that production of tanks at Factory B has all through since 1977-78 to 1984-85 been lagging behind the production of X and Y equipment at Factory A.

61. It is shocking to note that the factory A wanted import of equipment X and Y in 1977, but the same was ordered after more than 2 years in May, 1979 while the deliveries were made in 1982. More distressing is the fact that equipment Y received in 2 lots of 40

and 10 numbers in September, 1982 and February, 1983 was returned to manufacturers in May 1984 after inspection in April, 1984 for rectification of defects. The Committee strongly feel that with better planning buffer stock of 50 numbers of equipment X and Y could have been built by raising the level of production at Factory A suitably over a period of time. Thus, unnecessary imports of these equipment could have been avoided and as admitted by the Secretary (DP&S) during evidence, "much foreign exchange would have been saved had there been no imports."

*Paragraph 16 (ii)—Import at high cost due to delay in development of indigenous sources*

62. A Technical Committee (TC) was set up in May 1971 at factory 'A' to establish indigenous source of manufacture and supply of components of a heavy vehicle. It was decided that, as far as possible, more than one source for such components should be developed. Till 1974, there was no indigenous supplier for the item. The only source for this item was import. After investigations, the T.C. in 1974 located a firm 'X' as a possible source for supply of Pannier bag tanks (a rubberised fuel tank for storage of diesel to run the heavy vehicle). The DDS placed a development order on the firm in March 1975 for supply of 200 sets at the rate of Rs. 11,500 per set. The firm completed supplies in 1977. Thereafter the following orders were placed on the firm during October 1977 to January 1981:

Mor ths of placing orders	Quantity ordered	Rate
October 1977 . . . . .	500 sets	Rs. 10,900 per set
August 1978 . . . . .	500 sets	Rs. 10,900 per set
January 1981 . . . . .	(i) 214 tanks rear OS	Rs. 3,510 each
	(ii) 237 tanks rear NS	Rs. 3,000 each
	(iii) 303 tanks front OS	Rs. 4,047 each
	(iv) 231 tanks front NS	Rs. 3,941 each

The firm completed the first two orders for 1,000 sets by March 1979. Against the order of January 1981, the firm was to complete the supplies by February 1982. However, only 9 tanks rear NS and 8 tanks front OS were received during February to April 1982. As further supplies were not made and the firm was under lock out from

March 1982, the order on them was cancelled in April 1983 without any financial repercussions on either side.

63. Although more than one source of supply was expected to be established, no order, developmental or otherwise, was placed for the tanks during the 7 years till 1982 on any other supplier. According to the Ministry of Defence (October 1984), it was decided to place an order on firm 'Y', a second source of supply. In reply to a question as to why no development order was placed on firm 'Y' the Defence Supplies have stated that "firm 'Y' responded to their enquiry for the first time on 17th July, 1978. In supply order could not be placed on the firm as the quantity earmarked for placement of orders on the firm 'Y' was reduced by Directorate General Ordnance Services. The item is made of fabric material and has a shelf life of four to five years. Thus excess provisioning for the said item could not be resorted to".

64. Only in 1982, a development order was placed on firm 'Y' for 200 sets at Rs. 15,906 per set at the total cost of Rs. 31.81 lakhs, but the firm failed to submit pilot samples and the order was cancelled in April 1984.

65. The Audit para states that due to the failure of firm 'X' to supply pannier bag tanks against the order of January 1981 and failure to establish a second source of supply in item, the factory had to import the tanks from the original manufacturer and also obtain the same from the Army stock to meet its production targets for the heavy vehicle. Imports from the original foreign manufacturer were resorted to during the period from October 1982 to July 1983 for the following quantities:

Rear OS	..	..	214
Rear NS	..	..	237
Front OS	..	..	303
Front NS	..	..	231

66. The total cost of imports was Rs. 94.69 lakhs (POB). As compared to the rate of firm 'X' the imports involved an extra expenditure of Rs. 57.52 lakhs.

67. The Committee enquired about the action taken against the firm 'X' for its failure to supply by item resulting in costly imports. The Secretary Defence Supplies stated in evidence:—

"They were locked out in March 1982. It is a *force majeure* clause and no compensation can be claimed under the

contract. But when they resumed production, they agreed to execute the order on the old price."

68. In a subsequent note furnished to the Committee, the Department of DP&S have stated as under:—

"No penal action was taken against the firm due to following reasons:—

- (a) The supply order was a developmental order.
- (b) The firm had not at any stage refused to perform the contract. They went on lock out in March, '82 consequent on continuous labour problems.
- (c) There was no other indigenous source of supply for the item. Hence the question of risk purchase did not arise.
- (d) After reopening in April, 1984, the firm was asked to supply the item at the rates applicable against order placed in January, 1981. The firm agreed and executed the order at the old price.

69. Enquired if any legal advice was obtained in this regard, the witness replied:

"Legal advice was not taken on this specific issue. But even if we had to resort to risk purchase, purchase from whom? There is no other source."

70. The indigenous cost per set of pannier bad tank against the last orders of December 85/January 1986 *vis-a-vis* the last import order of July 1983 is as under:—

Sl. No.	Item	Indigenous Cost (in Rs.)	Import cost (in Rs.)
1	FTH 11441 Tank Fuel Front (near side)	6349/-	9640.28
2	FTH 11442 Tank Fuel Front (off side)	6325/-	10443.20
3	FTH 11443 Tank Fuel Rear (Near side)	5676/-	9114.88
4	FTH 11444 Tank Fuel Rear (off side)	5485/-	9114.88
Cost per set :		23835/-	38313.24

71. The Committee are concerned to note that Technical Committee set up in May 1971 to establish indigenous source of manufacture and supply of components for a heavy vehicle failed to develop more than one source for Pannier bag tanks. The solitary source developed in 1974 closed down in March 1982 when orders for the supply of Pannier bag tank parts placed in January 1981 were pending for supplies. (It is perturbing to note that though more than one source of supply was expected to be established, no order developmental or otherwise was placed for the tanks during the 7 years ending 1982 on any other supplier. Though another firm 'Y' had responded to an enquiry in July 1978, no orders were placed on this firm as the quantity earmarked for placement of orders on this firm was reduced by Director General Ordnance Services. The Committee would like to know why developmental or regular orders were not placed on this firm during 1978 to 1981, when supplies were obtained from firm X, to develop a second source of supply as had been decided earlier when Technical Committee was set up.

72. The failure of firm 'X' to supply Pannier bag tanks against the order of January, 1981 and failure to develop indigenous source of supply resulted in import during the period October 1982 to July 1983 of a total cost of Rs. 94.69 lakhs involving extra expenditure of Rs. 57.52 lakhs. The Committee take a serious note of the costly lapse. They would like the matter to be examined in depth to find out why more than one source for supply of Pannier bag tanks was not developed. The Committee would like to be assured that failure to establish a second source of supply was not a deliberate attempt with some ulterior motives on the part of those entrusted to develop indigenous sources of supply.

73. It is also strange to note that the Department of Defence Production and Supplies never contemplated any legal action against firm X for its failure to supply the item which resulted in costly imports. The justification for not taking any penal action has been given in terms of supply order but a developmental one, the firm having declared lock out, no other indigenous source of supply for the item being



available and the firm on re-opening, agreeing to supply the order at the old price. This explanation is not convincing at all because of the fact that legal advice on this specific issue was never sought. The Committee also understand that the order was not a developmental one as the same was placed in 1981 when the firm had already supplied 1000 sets ordered earlier in 2 lots of 500 sets each in 1977 and 1978. There was also no ground for the firm to refuse the order or not to fulfill the same on reopening when the Department of Defence Production and Supplies was the sole user of this item. The Committee are, therefore, inclined to believe that it was deliberate lapse. They would like that responsibility for the lapse may be fixed.

NEW DELHI:

*April 28, 1986*

*Vatsakha 8, 1908(S)*

E. AYYAPU REDDY,

*Chairman,*

*Public Accounts Committee.*

## APPENDIX I

### *Part 16—Avoidable/Unnecessary Imports*

#### 16. (i) Unnecessary imports

In July 1978 the targets for production of Nissan Patrol vehicles at factory 'M' were fixed at 2,000 numbers per annum from 1979-80. The targets were revised in July 1979 to 2,000 vehicles during 1980-81, 2,500 during 1981-82 and 3,000 each during 1982-83 and 1983-84. The targets were later again revised downwards in October 1980 to 1,000 vehicles for 1980-81, 1,200 for 1981-82, 1,800 for 1982-83 and 2,000 for 1983-84. The reasons given for the downward revision that balancing plant and machinery to augment the production were not in position (these were actually sanctioned only in January 1982) and foreign exchange was not available to supplement the shortfall between the requirements for higher targets and indigenous availability.

Meanwhile, the factory decided (July 1979) to import 1,200 driver's cabins from the foreign collaborator to meet the higher targets fixed in July 1979. The foreign collaborator was informed of the import in May 1980. After the targets were reduced in October 1980, the factory requested (October 1980) the Ordnance Factory Board (OFB) to drop the import as the indigenous supplies were adequate. The collaborator refused to cancel the order but agreed to reduce the quantity to 400 cabins. The Ministry of Defence, Ministry stated (November 1984) that a sales agreement concluded with the collaborator for import of certain components included the cabins but since the cabin was a simple item available indigenously and the import price was 4 times the indigenous price there was no justification for its import. The Ministry added that after a great deal of persuasion the order was short-closed subject to payment of a compensation of Rs. 1.77 lakhs to the collaborator on account of the short-closure.

The cabins (401 numbers : Rs. 79.53 lakhs) were received in the factory during July 1981 to February 1982. The matching component viz., clamp, cushion rubber, bumper hood, etc. for these cabins were, however ordered by the factory during December 1981

to February 1982 on indigenous firms and were received during March 1982 to May 1983. Out of 401 cabins imported, 311 numbers (cost : Rs. 61.68 lakhs) were lying in factory's stock at the end of August 1984.

The landed cost per imported cabin was Rs. 19,832 against the cost of Rs. 4,631 per indigenous cabin. Unnecessary import of 401 cabins resulted in extra expenditure of Rs. 60.96 lakhs.

The target production of Shaktiman vehicles at factory 'M' was fixed (July 1978) at 4,200 numbers per annum. As a milling machine demanded by the factory in July 1977 was not sanctioned till then and in the absence of the machine the factory's capacity for machining of castings for fly wheel housing was limited to 4,000 numbers per annum, the factory requested the OFB (December 1979) to arrange for import of 1,700 sets of finished fly wheel housing to meet the production target. The OFB stated (September 1984) that consolidated requirements of plant and machinery were sanctioned in January 1982 to meet enhanced requirement of 4,200/4,700 vehicles per annum.

After three months of placing the demand the factory requested the OFB in March 1980 to defer/drop the import as scaling down of the targets for production of vehicles were under consideration of a high power team in view of considerable foreign exchange involved in the procurement of components to meet the target. However, as per directives of the OFB an order for import of 1,000 sets of finished fly wheel housing was placed (March 1980).

Against the order, 934 fly wheels (Cost : Rs. 6.98 lakhs) were received (January to March 1982). As the targets for Shaktiman vehicles were meanwhile scaled down (October 1980) to 3,300 numbers (1980-81) 3,600 numbers (1981-82), 3,700 numbers (1983-84) and 3,800 numbers (1983-84), the whole stock along with another 703 numbers of imported fly wheel housing already in stock of the factory was lying unused (August 1984). The import of 934 fly wheel housing (cost : Rs. 6.98 lakhs) was thus unnecessary and it involved an extra expenditure of Rs. 2.77 lakhs as compared to the cost of indigenous component. The Ministry stated (November 1984) that the import was justified in the context of production programme at the time import action was taken and that the imported quantity proved as necessary cushion for production requirement.

For assembly with tanks factory 'A' was supplying equipment 'X' and 'Y' to factory 'B' from 1966-67 and 1967-68 respectively. Against the created capacity for 192 numbers of each per annum, factory 'A' actually manufactured only 75 equipment 'X' and 64 equipment 'Y' on average per annum till 1975-76. The production was stopped up thereafter to a level of 163 equipment 'X' and 178 equipment 'Y' per annum respectively from 1976-77. The Ministry stated (September 1984) that the full capacity at factory 'A' was utilised to achieve the output of different stores for which priority was given.

In October 1977 the Director General, Ordnance Factories decided to import 50 numbers of each equipment to act as buffer stock in view of steep rise in the targets at factory 'A'. Accordingly, Supply Wing of an Indian Mission abroad (SW) concluded a contract with a foreign firm 'C' (May 1979) for supply of the equipment by February 1980 at a total cost of £51,000 (Rs. 9.43 lakhs). The delivery date was later extended to May 1981.

After acceptance by the SW on warranty certificate furnished by the firm 50 equipment 'X' were received by the factory in January 1982. Equipment 'Y' was received during September 1982 (40 numbers) and February 1983 (10 numbers). The total cost of equipment was Rs. 11.10 lakhs (according to the Ministry this includes Rs. 1.66 lakhs erroneously charged as customs duty) and the import involved an extra expenditure of Rs. 8.58 lakhs with reference to factory 'A's cost of production during 1981-82.

As equipment 'X' was found unacceptable (March 1982) in critical inspection in the factory, the supplies were back loaded to the supplier (June 1982) for rectification at their cost. Of these 45 were received back (March 1984) after rectification but as they were found to have certain other defects and the supplier had agreed to accept the cost of rectification (estimated cost : Rs. 0.34 lakh), the rectification was being undertaken by the factory (August 1984). The remaining 5 were under receipt (August 1984).

During inspection of equipment 'Y' received in September 1982 dimensional discrepancy that could affect the fitment in the tank was observed (November/December 1982). Although the SW intimated (July 1983) that the supplier had asked to complete inspection of all the 50 equipment 'Y' and return only the over dimensional ones to them for repair, the inspection was completed only in April 1984 and the full supplies were back loaded in May 1984 to the supplier for rectification.

The capacity of factory 'B' and factory 'A' was evenly matched (200 : 192). While factory 'B' never achieved a higher figure than 177 (1976-77) and production in that factory gradually came down to 133 in 1982-83, factory 'A' had fully met the programmes assigned to it and was capable of reaching the capacity. The import of equipment 'X' and 'Y' (cost: Rs. 11.10 lakhs) during 1980-81 and 1981-82 at an extra cost of Rs. 8.58 lakhs for creating a buffer stock was, therefore, unnecessary. The Ministry stated (September 1984) that the capacity of factory 'A' having been fully booked for the production of essential targetted items and there being higher probabilities of damages to the equipment, the creation of the buffer stock was considered prudent for easy flow during assembly of tanks.

16(ii) *Import at high cost due to delay in development of indigenous sources*

A Technical Committee (TC) was set up in May 1971 at factory 'A' to establish indigenous source of manufacture and supply of components of a heavy vehicle. It was decided that, as far as possible, more than one source for such components should be developed.

Pannier bag tank is a rubberised fuel tank for storage of diesel to run the heavy vehicle. It consists of four fuel tanks one each for rear and front offside (OS) and near side (NS). After investigations the TC located (1974) firm 'X' as a possible source of supply for the tank. Based on the recommendations of the TC the Department of Defence Supplies (DDS) placed a development order on the firm in March 1975 for supply of 200 sets at the rate of Rs. 11,500 per set. The firm completed the supplies in March 1977. Thereafter following orders were placed on the firm during October 1977 to January 1981:—

Months of placing orders	Quantity ordered	Rate
October 1977 . . . . .	500 sets	Rs. 10,900 per set
August 1978 . . . . .	500 sets	Rs. 10,900 per set
January 1981 . . . . .	(i) 214 tanks rear OS	Rs. 3,510 each
	(ii) 237 tanks rear NS	Rs. 3,500 each
	(iii) 303 tanks front OS	Rs. 4,047 each
	(iv) 231 tanks front NS	Rs. 3,941 each

The firm completed the first two orders for 1,000 sets by March 1979. Against the order of January 1981, the firm was to complete the supplies by February 1982. However, only 9 tanks rear NS and 8 tanks from OS were received during February to April 1982. As further supplies were not made and the firm was under lock out from March 1982 the order on them was cancelled in April 1983 without any financial repercussions on either side.

Although more than one source of supply was expected to be established, no order, developmental or otherwise, was placed for the tanks, during the 7 years till 1982 to place an order on firm 'Y' but as the requirements of tanks were subsequently reduced by the Army and the quantity available for placement of an order was meagre, the order could not be placed. Only in July 1982 a development order was placed on firm 'Y' for 200 sets at Rs. 15,906 per set (total cost : Rs. 31.81 lakhs), but the firm failed to submit pilot samples and the order was cancelled in April 1984.

Due to the failure of firm 'X' to supply pannier bag tanks against the order of January 1981 and failure to establish a second source of supply in time the factory had to import the tanks from the original manufacturer and also obtain the same from the Army stock to meet its production targets for the heavy vehicle. Imports from the original foreign manufacturer were resorted to during the period from October 1982 to July 1983 for the following quantities:—

Rear OS . . . . .	214
Rear NS . . . . .	237
Rear OS . . . . .	303
Rear NS . . . . .	231

The total cost of imports was Rs. 94.69 lakhs (FOB). As compared to the rate of firm 'A' the imports involved an extra expenditure of Rs. 57.52 lakhs.

## APPENDIX II

### *Statement of Observations and Recommendations*

Sl. No.	Para No.	Ministry/Department concerned	Observations/Recommendations
1	2	3	4
1	54	Defence Production and Supplies	<p>The Committee note that production targets at factory 'M' for production of Nissan Patrol Vehicles was fixed in July 1978 at 2000 numbers per annum from 1979-80. These targets were revised in July 1979 to 2000 vehicles during 1980-81, 2500 during 1981-82 and 3000 vehicles each during the years 1982-83 and 1983-84. The increase in targets, was it is stated to be based on requirements projected by the Army. The higher targets fixed in July, 1979 were later again revised downwards in October, 1980 to 1000 vehicles for 1980-81, 1200 vehicles for 1981-82, 1800 for 1982-83 and 2000 for 1983-84 because the balancing plant and machinery to augment production were not in position and foreign exchange was also not available for the bridging imports to meet the requirements for higher targets and indigenous availability. The Committee are perturbed to note that no balancing plant and machinery to augment production facilities were installed when it was decided to raise production targets. The Committee are surprised to observe that instead of fixing the targets of production on the basis of production capacity</p>

available or planned to be augmented, targets were earlier fixed unrealistically on demands only and thereby game of numbers was indulged into. Such unrealistic attitude in the field of Defence Supplies is highly deplorable. Instead, a higher target for Nissan Patrol Vehicle was decided upon with expectation of getting increased indigenous supply and import support during intervening period. Even though exercises in identifying balancing plant and machineries began in 1978 on a piece meal basis, a comprehensive project proposal covering all requirements of balancing plant and Machinery to achieve a production level of 9000 to 10,000 vehicles per annum was proposed in November, 1980. The project was finally sanctioned in January 1982 i.e. after a period of three and a half years. The Committee regret to note that this has happened in spite of their earlier recommendation contained in their 109th Report (6th Lok Sabha) presented to Lok Sabha on 22 December, 1978 recommending induction of additional items of balancing equipment. This is highly deplorable. The Committee view the delay of three and a half years in sanctioning balancing plant and equipment at factory 'M' with serious concern. In view of the above mentioned facts the delay cannot be justified in terms of scaling down of target in the Vehicles Production Review Meeting of 1980. The Committee find that because of the anticipated delay in raising the production facilities, the user department i.e. the Department of Defence preferred to meet their requirement from private sector. The Committee fail to



2 55 Defence Production & Supplies

understand why all aspects; raising production and time frame of works required to implement it was not discussed in the joint meetings of producers and users. This is a sad commentary on project planning.

The Committee find that there had been lack of proper planning and coordination between Departments of Defence and Defence Production and Supplies in demand projections. While on the one hand it was decided to produce the vehicles through ordnance factories, on the other, it was decided to procure them from private sector resulting in wasteful and infructuous expenditure, lack of efforts to raise indigenous production of imported items, too frequent resort to imports and delay and foreign exchange expenditure. The Department of Defence Production and Supplies ordered import of 1200 drivers cabins which is stated to be a simple item from a foreign collaborator to meet the higher production targets fixed in July 1979. Later on, when targets were reduced in October, 1980, the factory requested the Ordnance Factories Board to drop the import as the indigenous supplies were adequate. The collaborator refused to cancel the order but agreed to reduce the quantity to 400 cabins.

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400 drivers cabins were imported at the cost of Rs. 79.53 lakhs in July 1981 to February 1982. The landed cost of imported cabin was Rs. 19832 against the indigenous cost of Rs. 4631 per cabin i.e.

more than four times. It has been stated that indigenous availability of cabins from the only source that was available was much less than the total projected requirements. It is perturbing to note that the Department of Defence Production had depended on a single source for supply of vital defence components contrary to the instructions in this regard. The matching components, viz., clamp, cushion rubber, bumper-hood etc. for these cabins ordered on indigenous firms during December 1981 to February 1982 were received during March 1982 to May 1983. As the cabins imported were as per design of the foreign manufacturer, these could not be fitted on the indigenous chasis and as such expenditure of Rs. 584 per cabin had to be incurred on additional fittings to mount the cabins on the chasis. The Committee fail to understand why our requirements were not specified to the manufacturers to while importing cabins as per our requirements. The cost of indigenous components was Rs. 584/- per cabin. Out of the 400 cabins imported, 311 numbers costing Rs. 61.68 lakhs were lying in factory's stock at the end of August 1984. The Committee are perturbed to note that unnecessary import of cabins resulted in an extra expenditure of Rs. 60.96 lakhs. Not only that, the cabins imported at such a high cost remained unutilised during 1981-82 and 1982-83, but also 53 cabins still remained unutilised at the end of March 1986. While sharing Committee's concern over non-utilisation of the cabins for a long time, the Secretary, Defence Production and Supplies during evidence stated that "the additional quantity arranged through import was not

immediately required for use because the original requirement of more number of vehicles was reduced." The non-utilisation of imported cabins for such a long time raises a doubt in the mind of the Committee, if the requirement of the Department for this equipment was really so urgent as to necessitate its immediate import rather than wait for its development by indigenous sources. The Committee cannot but express their unhappiness at this heavy extra expenditure of Rs. 60.96 lakhs due to in-accurate conception in the Department's planning and requirements.

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The Committee note that the Department of Defence Production and Supplies have constituted a number of Committees for various disciplines of stores to identify development of sources for items for indigenisation of these Committees constituted at factory level are headed by the General Managers of 2 Ordnance Factories. It is surprising to note that the procedure followed for import of items in these two Committees is entirely different. While in the case of Heavy Vehicles Factory, Avadi, it is a practice to get clearance of the Technical Committee (Vijayant Parts) before processing cases for import, at Vehicle Factory Jabalpur where the other Technical Committee headed by a General Manager exists, the import proposals are made by a team of Technical Production Officers and processed

further with Ordnance Factory Board/Department of Defence Production for issue of sanction and release of foreign exchange. Obviously the Technical Committee which is responsible for indigenisation of vehicle parts was not consulted in the instant case. The Committee are unable to comprehend why an altogether different procedure is followed at Vehicles Factory, Jabalpur for import of components and why Technical Committee was not consulted there.

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Another glaring case of faulty planning and lack of coordination with regard to import projection *vis-a-vis* indigenous availability of components of vehicles at various levels in the Department of Defence Production and Supplies has come to the notice of the Committee in the course of their examination. The target of production for Shaktiman vehicles at Factory 'M' was enhanced on 21 July 1978 to 4200 numbers but no corresponding action was taken to increase the machining capacity of the factory for fly wheel housing. The factory had demanded a milling machine as early as July 1977 to raise its milling capacity but the same was sanctioned in January 1982 only i.e. after four and a half years. Meanwhile, the Factory requested for import of 170C sets of finished fly wheel housings. After 3 months of placing the orders in March, 1980 the Factory requested to defer/drop the import as scaling down of targets for production of vehicles was under consideration of a high power team in view of considerable foreign exchange involved in the procurement of components to meet the target. However, the Ordnance Factories Board

preferred to import 1000 sets of finished fly wheel housing to built up a buffer stock and orders were placed in March 1980. The Committee are distressed to find that failure to instal a miling machine and decline in the production of the Ordnance Factory during the years 1978-79 and 1979-80 resulted in import of 1000 sets of fly wheel housings. They are not convinced with the plea taken by the Department that import order was placed in view of the fact that for this item, the only indigenous source was vehicle Factory Jabalpur whose capacity was limited and import was necessary as an insurance against stoppages in indigenous production and to provide a cushion. The Committee strongly disapprove of this approach of building buffer stock of inventories by resorting to imports at higher costs and spending precious foreign exchange when indigenous capacity is already available in the country and could be augmented easily by installing balancing plant and machinery. ⌘

The more distressing fact that the imported stock of 934 fly wheel housing costing Rs. 6.98 lakh which were received during January to March 1982 alongwith another stock of 703 numbers already imported remained unutilised for a long period. The present stock of Machined Fly Wheel Housing as in August, 1985 was stated to be 1317 (537 numbers ex-import and 780 numbers ex-Vehicles Factory Jabalpur). Judged in its entirety, the Committee

find that costly import of fly wheel housing was not necessary. They are not happy with the statement made by the Secretary (DP&S) during evidence that "I do not consider imports a wrong thing. . . . . In 1978 we had the problem of utilising our surplus foreign exchange position." The Committee are distressed to find that import was resorted to in this case just to utilise the foreign exchange which was stated to be as "surplus". This attitude is reprehensible and not conducive to indigenisation of components required by the Defence.

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Similarly the Committee find that 50 numbers each of the equipment 'X' and 'Y' imported to act as buffer stock proved unnecessary involving extra cost of Rs. 8.58 lakhs in foreign currency even though sufficient installed capacity was already in existence at Factory A. Import of these equipments has been justified on the ground that production of Tanks with which equipment X and Y were fitted at Factory B was expected to be stepped up and a part of the capacity of the Factory A was utilised to produce other sighting equipments required urgently by Defence Services. The Committee find this explanation hardly convincing as they find that production of tanks at Factory B has all through since 1977-78 to 1984-85 been lagging behind the production of X and Y equipment at Factory A.

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It is shocking to note that the factory A wanted import of equipment X and Y in 1977, but the same was ordered after more than 2 years in May, 1979 while the deliveries were made in 1982. More distressing is the fact that equipment Y received in 2 sets of 40 and

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10 numbers in September, 1982 and February, 1983 was returned to manufacturers in May 1984 after inspection in April, 1984 for rectification of defects. The Committee strongly feel that with better planning buffer stock of 50 numbers of equipment X and Y could have been built by raising the level of production at Factory A suitably over a period of time. Thus, unnecessary imports of these equipment could have been avoided and as admitted by the Secretary (DP&S) during evidence, much foreign exchange would have been saved had there been no imports."

The Committee are concerned to note that Technical Committee set up in May 1971 to establish indigenous source of manufacture and supply of components for a heavy vehicle failed to develop more than one source for Pannier bag tanks. The solitary source developed in 1974 closed down in March 1982 when orders for the supply of Pannier bag tank parts placed in January 1981 were pending for supplies. It is perturbing to note that though more than one source of supply was expected to be established, no order developmental or otherwise was placed for the tanks during the 7 years ending 1982 on any other supplier. Though another firm 'Y' had responded to an enquiry in July 1978, no orders were placed on this firm as the quantity earmarked for placement of orders on this firm was reduced by Director General Ordnance Services. The Committee would like

to know why developmental or regular orders were not placed on this firm during 1978 to 1981, when supplies were obtained from firm X, to develop a second source of supply as had been decided earlier when Technical Committee was set up.

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The failure of firm 'X' to supply Pannier bag tanks against the order of January, 1981 and failure to develop indigenous source of supply resulted in import during the period October 1982 to July 1983 at a total cost of Rs. 94.69 lakhs involving extra expenditure of Rs. 57.52 lakhs. The Committee take a serious note of the costly lapse. They would like the matter to be examined in depth to find out why more than one source for supply of Pannier bag tanks was not developed. The Committee would like to be assured that failure to establish a second source of supply was not a deliberate attempt with some ulterior motives on the part of those entrusted to develop indigenous sources of supply.

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It is also strange to note that the Department of Defence Production and Supplies never contemplated any legal action against firm X for its failure to supply the item which resulted in costly imports. The justification for not taking any penal action has been given in terms of supply order but a developmental one, the firm having declared lock out, no other indigenous source of supply for the item being available and the firm on re-opening, agreeing to supply the order at the old price. This explanation is not convincing at all because of the fact that legal advice on this specific issue was never sought.



The Committee also understand that the order was not a developmental one as the same was placed in 1981 when the firm had already supplied 1000 sets ordered earlier in 2 lots of 500 sets each in 1977 and 1978. There was also no ground for the firm to refuse the order or not to fulfil the same on reopening when the Department of Defence Production and Supplies was the sole user of this item. The Committee are, therefore, inclined to believe that it was a deliberate lapse. They would like that responsibility for the lapse may be fixed.

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