

PUBLIC ACCOUNTS COMMITTEE (1977-78)

(SIXTH LOK SABHA)

THIRTY-NINTH REPORT

NEW PORT AT TUTICORIN

MINISTRY OF SHIPPING AND TRANSPORT

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 208th Report (Fifth Lok Sabha)]

Presented in Lok Sabha on : 20 DEC 1977

Laid in Rajya Sabha on : 20 DEC 1977



**LOK SABHA SECRETARIAT
NEW DELHI**

November, 1977/Kartika, 1899 (S)

Price : Rs. 2.80

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
ANDHRA PRADESH			12.	Charles Lambert & Company, 101, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.	30
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam)	8	13.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60
2.	G.R. Lakshminpathy Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	94	14.	Deccan Book Stall, Ferguson College Road, Poona-4	65
ASSAM			15.	M/s. Usha Book Depot, 585/A, Chira Bazar Khan House, Girgaum Road, Bombay-2 B R.	5
3.	Western Book Depot, Pan Bazar, Gauhati.	7	MYSORE		
BIHAR			16.	M/s. Peoples Book House, Opp Jaganmohan Palace, Mysore-1	16
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur	37	RAJASTHAN		
GUJARAT			17.	Information Centre Government of Rajasthan Tripolia Jaipur City	38
5.	Vijay Stores, Station Road, Anand.	35	UTTAR PRADESH		
6.	The New Order Book Company Ellis Bridge, Ahmedabad-6.	61	18.	Swastik Industrial Works 59, Holi Street Meerut City	2
HARYANA			19.	Law Book Company Sardar Patel Marg, Allahabad-1	48
7.	M/s Prabhu Book Service, Nai Subzimandi, Gurgaon, (Haryana),	14	WEST BENGAL		
MADHYA PRADESH			20.	Granthaloka, 5/1 Ambica Mookherjee Road Belgharia, 24 Parganas	10
8.	Modern Book House, Shiv Vilas Palace, Indore City	13	21.	W Newman & Company Ltd 3 Old Court House Street, Calcutta	44
MAHARASHTRA			22.	Firma K L. Mukhopadhyay 6/1A Banchharam Akur Lane Calcutta 12	82
9.	M/s. Sunderdas Chanchand. 601, Girgaum Road, Near Princess Street, Bombay-2	6	23.	M/s. Mukherji Book House, 8B, Duff Lane, Calcutta-6	4
10.	The International Book House (Private) Limited 9 Ash Lane, Mahatma Gandhi Road, Bombay-1	22			
11.	The International Book Service Deccan Gymkhana Poona-4	26			

CORRIGENDA TO THE 39TH REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE (SIXTH LOK
SABHA) ON NEW PORT AT TUTICORIN,
PRESENTED TO THE LOK SABHA ON
20TH DECEMBER, 1977.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
12	2	6	intransic	intrinsic
15	1.32	11	penultimate	penultimate
58	4	4	Ferbilizers	Fertilizers
59		1	gone away	gone awry
59		4	<u>add</u> 'is' before 'expected'	
60	5	4	<u>add</u> 'of' before 'adequate'	
60	5	11	<u>add</u> 'the' after 'rate'	

CONTENTS

		PAGE
	COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1977—78)	(iii)
	INTRODUCTION	(v)
CHAPTER I	Report	1
CHAPTER II	Recommendations/Observations which have been accepted by Government	22
CHAPTER III	Recommendations/Observations which the Committee do not desire to pursue in view of the replies from Government	32
CHAPTER IV	Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration	42
CHAPTER V	Recommendations/Observations in respect of which Government have furnished interim replies	56
APPENDIX	Summary of Main Conclusions/Observations	57

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

CHAIRMAN

Shri C. M. Stephen

MEMBERS

Lok Sabha

2. Shri Balak Ram
3. Shri Brij Raj Singh
4. Shri Tulsidas Dasappa
5. Shri Asoke Krishna Dutt
6. Shri Kanwar Lal Gupta
7. Shri P. K. Kodyan
8. Shri B. P. Mandal
9. Shri R. K. Mhalgi
10. Dr. Laxminarayan Pandeya
11. Shri Gauri Shankar Rai
12. Shri M. Satyanarayan Rao
13. Shri Vasant Sathe
- *14. Shri Sheo Narain
- *15. Shri Jagdambi Prashad Yadav

Rajya Sabha

16. Smt. Sushila Shanker Adivarekar
17. Shri Sardar Amjad Ali
18. Shri M. Kadershah
19. Shri Piare Lal Kureel
urf Piare Lal Talib
20. Shri S. A. Khaja Mohideen
21. Shri Bezawada Papireddi
22. Shri Zawar Hussain

SECRETARIAT

Shri B. K. Mukherjee—*Joint Secretary.*

Shri T. R. Ghai—*Senior Financial Committee Officer.*

*Ceased to be a Member of the Committee on his appointment as
Minister of State w.e.f. 14-8-1977.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Thirty Ninth Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Two Hundred and Eighth Report (Fifth Lok Sabha) on paragraph 37 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil) relating to the New Port at Tuticorin.

2. On 10 August, 1977, an 'Action Taken Sub-Committee, consisting of the following members, was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri C. M. Stephen—CHAIRMAN
2. Shri Asoke Krishna Dutt—CONVENER

MEMBERS

3. Shri Gauri Shankar Rai
4. Shri Tulsidas Dasappa
5. Shri Kanwar Lal Gupta
6. Shri Zawar Hussain
7. Shri Vasant Sathe

3. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted the Report at their sitting held on 17 October, 1977. The Report was finally adopted by the Public Accounts Committee (1977-78) on 15 November, 1977.

4. For facility of reference, the conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the conclusions/recommendations of the Committee have also been appended to the Report in a consolidated form.

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

NEW DELHI;
November 15, 1977

Kartika 24, 1899 (S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

CHAPTER I

1.1. This Report of the Committee deals with action taken by Government on the recommendations contained in their 208th Report (Fifth Lok Sabha) 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.

1.2. The 208th Report of the Committee (Fifth Lok Sabha) was presented on the 6th April, 1976. Government started furnishing Action Taken Notes on the recommendations/observations contained in the Report in the last week of June, 1976, and by the middle of July, 1976 replies to most of the recommendations had been received from them. It was only in the case of 2 recommendations (out of 24) that the replies were furnished by Government in August, 1976.

1.3. As the information contained in some of the Action Taken Notes needed to be updated, the latest position in respect thereof was obtained from the Ministry of Shipping and Transport in June, 1977.

1.4. The Action Taken Notes furnished by Government have been categorised under the following heads:

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

S. Nos. 1, 2, 3, 4, 6—9, 11, 13, 14—16

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

S. Nos. 5, 12, 21, 22-23.

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

S. Nos. 10, 17, 18, 19, 20, 24

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

NIL

1.5. The Committee have considered the replies furnished by the Government and have made further observations on some of the

replies included in Chapter II (i.e. Recommendations/Observations that have been accepted by Government) and also on those replies which have not been accepted or only partially accepted by the Committee and are included in Chapter IV of the Report.

1.6. The Committee are glad that after the 208th Report of the Public Accounts Committee (5th Lok Sabha) was presented on the 6 April 1976, Government furnished Action Taken Notes on all the 24 recommendations/observations contained in that Report well within the stipulated period of six months, replies to most of the recommendations/observations having been furnished even much earlier in June and July, 1976.

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

The need to materialise the projected coal traffic at Tuticorin Port (Paragraph 2.22—Sl. No. 8)

1.8. Emphasising the need for materialisation of the projected coal traffic at Tuticorin Port, the Committee, in para 2.22 of the Report, had stressed 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.

1.9. In their Action Taken Note dated 16 July 1976, the Ministry of Shipping and Transport have stated:

“As pointed out by the Committee, bulk of the coal traffic relates to the two thermal units of 210 MW each which are to come up at Tuticorin. The work on the Thermal Station has already started at site. A study for the movement of coal from the coal mines to the consumer points with a view to evolve an optimal system has been completed. The report on the Consultant is being considered.”

1.10. Economic viability of the port depends upon adequate traffic, of which coal traffic is the most important. While appreciating that a study for the movement of coal is being conducted by a Consultant, the Committee would like to be informed in due course about the decision taken on the Consultant's Report and the concrete steps taken to step up coal traffic.

Need for coordination between the Tamil Nadu Salt Corporation and the Tuticorin Port to handle salt traffic at Tuticorin Port (Para 2.23—Sl. No. 9).

1.11. Stressing the need to have better coordination between the Tamil Nadu Salt Corporation and the Tuticorin Port to handle the

Salt traffic in the Port (export) without detriment to its development, the Committee, in para 2.23 of their report, had observed:

"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 Vappalodi, which are within a distance of a few kilometers from Tuticorin Port, for the export of salt. They agreed 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."

1.12. The Action Taken Note dated 21 June 1976, furnished by the Ministry of Shipping & Transport is reproduced below:

“At the meeting of the Official Committee in September 1975, it was indicated that the coastal movement of salt would be four lakh tonnes and the overseas traffic only one lakh tonnes in 1978-79. It is a matter of encouragement that the salt manufacturers in the region have been successful in contracting to ship 2.75 lakh tonnes of salt during the year 1976-77 as against the original anticipation of one lakh tonnes only. The discrimination in sea freight in favour of Saurashtra Ports is being examined and a consultant is also being appointed to examine the question of handling salt in an efficient manner. Government agree with the recommendation of the Committee that development of minor ports at Vallinokkam and Vappalodi in close proximity of Tuticorin Port would be detrimental to the interests of the major ports.”

1.13. The Committee note that there has been some improvement in the materialisation of salt traffic (export) at Tuticorin Port during the year 1976-77, as compared to indications which were available at the time of review by the Official Committee in September 1975. While noting that the manufacturers have been able to secure a contract for the shipment of 2.75 lakh tonnes of salt, the Committee would sound a note of caution that this should not create a sense of complacency and that efforts should continue to be made to reach the originally targeted figure of 8 lakh tonnes per year of salt traffic to be moved through Tuticorin Port.

In regard to movement of salt through some minor ports in the vicinity of Tuticorin, the Committee find that while the Central Government have expressed themselves to be in agreement with the observations of the Committee that the development of minor ports at Valinokkam and Vappalodi, in close proximity to the interests of the major port, no indication whatsoever has been given as to the positive steps being taken by the Central Government to avoid such a situation. The Committee would like to be informed about the steps taken by the Government in this direction.

Fulfilment of the traffic projections of some of the industries coming up near the Port (Paragraph 2.24—Sl. No. 10)

1.14. Expressing hope that the Tuticorin Project would meet the requirement of the increased traffic projections of some of the indus-

tries which were coming up in its vicinity, the Committee, in paragraph 2.24 of their Report, had observed:

"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) 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."

1.15. In their Action Taken Note dated 15 July 1976, the Ministry of Shipping & Transport have stated:

"M/s. Southern Petrochemical Industries Corporation commenced production in July last year. After initial teething troubles, regular production has started. The arrival of tankers with Naptha and furnace oil has picked up. The dry raw materials are expected to move regularly from June 1976. All civil and structural works of the Heavy Water Plant have been completed and the Project is expected to be ready for testing and commissioning by March 1977. The Tuticorin Alkalies is expected to go into production in 1979."

1.16. In this context, the Ministry of Chemicals & Fertilisers, *vide* their Action Taken Note dated 26 August, 1976* have informed the Committee as follows:

"Official Committee's estimate of total traffic for 1978-79 seems to be higher. Three lakh tonnes of solid material and 5 lakh tonnes of liquid cargo will be more appropriate."

*Not vetted by Audit.

The fertilizer plant of SPIC has already gone into production. M/s. Tuticorin Alkalies have been granted letter of intent for the manufacture of 66,000 tonnes per annum of soda ash and Ammonium Chloride each. The construction of the plant has not yet started. It is expected to go into production in late 1979-80 and could start optimum production only two-three years thereafter."

1.17. In their Action Taken Note dated 22nd July 1976, the Department of Atomic Energy, have also informed the Committee as follows:

"The Heavy Water Plant being set up by the Department of Atomic Energy at Tuticorin was, as per the original schedule, expected to be completed by early 1975. However, the completion of the project has been delayed on account of the following reasons:

1. Change from spread foundation to pile foundation,
2. Non-availability of structural steel,
3. Transport bottlenecks especially for Over Dimensional Consignments,
4. Abnormal delays on the part of indigenous suppliers in maintaining delivery schedules of indigenous equipment and delays in fabrication work due to force majeure and other reasons.
5. Paucity of certain specialised services comprising of *inter alia*,
 - (a) ultrasonic testing, (b) special radiographic films and (c) chemical cleaning *in situ*.
6. Incorporating of improvements and modifications based on the experience of the Baroda Heavy Water Plant.

Assuming that all indigenous equipment and materials would be available by November 1975, it was expected that the plant would be completed by middle of 1976 but on account of continuance of the reasons mentioned at item No. 4 and 5 above, it has been further delayed by one year. Main plant structure has been completed. All important equipment and machineries have been received at site and the erection work is in progress. The plant is now expected to be completed by middle of 1977. In any case, it may be mentioned here that the traffic generated at Tuticorin port on account of Heavy Water project will be quite negligible."

1.18. Explaining the latest position, the Department of Atomic Energy have intimated the Committee on 15 July 1977:—

“All the civil and structural works of the Plant have been completed. About 98 per cent erection of mechanical equipment and piping has been completed. Balance work is in hand. About 90 per cent of other finishing works, such as installation, instrumentation, painting etc. have been completed and the remaining works are in hand. The testing of the Plant is already over. The commissioning trials are expected to commence by September, 1977.

In any case, it may be mentioned here that the traffic generated at Tuticorin Port on account of Heavy Water Project will be negligible.”

1.19. The Committee feel disturbed to note that the schedules for setting up of the Tuticorin Alkalies and of the Heavy Water Plant (of the Department of Atomic Energy), on which the projections of fertilizer traffic were relied upon by the Official Committee in September 1975, have gone awry. As against 1977-78, when the Tuticorin Alkalies was expected to come into the picture, the Committee have now been informed by the Ministry of Shipping and Transport that Tuticorin Alkalies is expected to come into production only in 1979. According to the Ministry of Chemicals and Fertilisers, the construction of the plants has not yet started and they expect it to come into production still later, viz., 1979-80, the optimum production therefrom coming only two or three years thereafter.

Similarly, the expected date of middle of 1976 for commencement of production by the Heavy Water Plant of the Department of Atomic Energy had been shifted to March 1977 by the Ministry of Shipping and Transport. The Department of Atomic Energy have stated that the commissioning trials are expected to commence only by September 1977. The Department of Atomic Energy have also stated that the traffic generated at Tuticorin Port on account of the Heavy Water Project will be quite negligible.

The sum total of all the information now furnished to the Committee is that even the revised projection of fertiliser traffic of 8.90 lakh tonnes by 1978-79, as anticipated by the Official Committee at their meeting held in September 1975, will not materialise. Judged against the original estimate of fertiliser traffic viz. 8 lakh tonnes, which was relied upon at the time of giving administrative approval to the Tuticorin Project in 1975-76, the Committee cannot help feeling that there is something seriously wrong with the whole process of determining anticipations of traffic which formed the basis for

formulation of a big project like deep sea harbour at Tuticorin. Such unrealistic anticipations ultimately lead to creation of additional capacity not capable of being utilised fully, which naturally has an adverse effect on the economics of the Project. The Committee would, therefore, suggest that, apart from reviewing the procedures laid down for the purpose of project planning, the Ministry should bestir themselves right now for exploring the possibilities of attracting adequate traffic to Tuticorin Port so that the facilities which have been set up at enormous capital cost do not remain unutilised.

Proper utilization of the facilities for handling of fertilizers at Tuticorin (Paragraph 2.25 S. No. 11)

1.20. Recommending for the review of the freight rate with a view to fetching maximum despatch of fertilizers through the Port, the Committee, in para 2.25 of their Report, had observed:

"The Committee, however, find that at the Official Committee's meeting held in September 1975, it was brought out by the representative 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 upto-date facilities for handling of fertiliser etc. which are being developed at Tuticorin."

1.21. In the Action Taken Note dated 19 July 1976,* furnished by the Ministry of Railways, they have stated:

"The observations of the Committee mainly concern the Ministry of Shipping & Transport and Department of Fertilisers & Chemicals who will no doubt furnish a suitable reply to the Committee."

1.22. In their Action Taken Note dated 25 August, 1976, the Ministry of Shipping & Transport, have stated:

"The recommendation of the Committee that the question of modifying the sea-freight structure to make it comparable with railway freight should be examined in depth by Gov-

*Not Vetted by Audit.

ernment has been noted. The freight rate for fertilisers is fixed by the Indian Coastal Conference. Director General of Shipping took up the question with the Conference. Since the present freight rates per tonne from Tuticorin to Visakhapatnam and Bombay are respectively Rs. 111.90 and Rs. 135.20, the possibility of reducing the rate to Rs. 40 per tonne seems remote. However, the Indian Coastal Conference has undertaken to study the matter on the basis of the special loading facilities available or likely to be available at Tuticorin Port."

1.23. The Ministry of Chemicals and Fertilizers, *vide* their reply dated 26 August, 1976* have informed the Committee as under:

"The question of levying concessional rate of freight with a view to promoting the use of upto date facilities at Tuticorin will have to be considered by the Department of Shipping and the port authorities in consultation with the Ministry of Agriculture. This Ministry has not received any representation regarding rationalisation of sea freight structure from SPIC".

1.24. The Committee note that at the instance of the Director General of Shipping, the Indian Coastal Conference has undertaken to study the question of reducing the freight rate for fertilisers from Tuticorin in the interest of adequate utilisation of handling facilities for fertilisers being developed at Tuticorin. It has been pointed out to the Committee that the gap between the existing freight rates of Rs. 111.90 per tonne from Tuticorin to Visakhapatnam and Rs. 135.20 per tonne from Tuticorin to Bombay on the one hand and Rs. 40/- per tonne pegged by the Government for movement (to any destination) of finished fertilisers of the S.P.I.C. (Fertiliser Group) on the other, is too large and the possibility of reducing the rate to Rs. 40/- per tonne is rather remote. The Committee accordingly suggest that the pegging of the abovementioned freight rate at Rs. 40/- per tonne may be reviewed by Government in all its ramifications. The point which the Committee would like to emphasise is that there should be adequate utilisation of the fertiliser handling capacity provided at Tuticorin.

Need to have a critical study of the traffic projections at the Tuticorin Port (Paragraph 2.29—Sl. No. 15).

1.25. Stressing the need to have a realistic assessment of the traffic projections in the port with a view to evolving guidelines for future ventures of this nature, the Committee, in paragraph 2.29 of their Report, had observed:

"The traffic projections for the Tuticorin Port have been undergoing marked changes from time to time and accord-

*Not Vetted by Audit.

ing 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."

1.26. In their Action Taken Note dated 21 June, 1976, the Ministry of Shipping and Transport, have stated:

"While noting the recommendation for guidance, it is stated that projections for traffic are usually based on the expected rate of growth of the hinterland of the Port. This expected rate of growth which itself depends upon various complex matters, sometimes does not materialise quickly enough and therefore the projections of traffic made from time to time are not actually realised."

1.27. The Committee do not feel enthused with the reply of the Government in regard to a matter which is fundamental for the economics of a new port like Tuticorin. The Ministry's statement that the "expected rate of growth which itself depends upon various complex matters sometimes does not materialise quickly enough and therefore the projections of traffic made from time to time are not actually realised" is rather naive. The Committee see no reason as to why, with all the resources and planning machinery at their command, Government should not be able to draw up "realistic" projections of traffic before giving the seal of administrative approval to national projects concerning development of Ports. As already observed by the Committee in their comments on Government's replies to the recommendation at S. No. 10 above, there is something seriously wrong with the whole process of delineating projections of traffic. The Committee cannot overstress the need for review of the whole procedure with a view to ensuring that the original estimates of anticipated traffic are realistic and not based on assumptions which have not been gone into in depth.

Construction of North Breakwater at Tuticorin Port (Paras 3.34 and 3.35—Sl. Nos. 17 and 18)

1.28. Referring to the contract for construction of North Breakwater of the Tuticorin Port which was also granted to the second lowest quoted firm to whom contract for the South Breakwater had been awarded, the Committee, in paragraphs 3.34, 3.35 and 3.36 of their Report, had observed:

“(a) 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 the 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, firstly that the capacity of both the tenders might not be such as to take over both the works simultaneously, secondly that the progress of work could be kept upon 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. 4.7 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.

(b) 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, revaluated the tenders for the North Breakwater and according to that

reevaluation, 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.

- (c) At a later stage when the Ministry of Finance acquiesce, in the award of contractor 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 sepa-

rately 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 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.

- (d) 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."

1.29. In their original Action Taken Note dated 15th July, 1976, the Ministry of Shipping and Transport have stated:

"The Chief Engineer and Administrator of the Port of New Tuticorin invited tenders for the construction of North breakwater and two pierheads. On evaluation of the tenders by the Chief Engineer and Administrator firm 'B' was the lowest and firm 'D' was the second lowest. Having summarised the tenders the Chief Engineer and Administrator recommended the award of work of North breakwater to firm 'D', the second lowest tenderer. However, the tenders and the recommendations of the Chief Engineer and Administrator were examined by a Tender Committee. The Tender Committee of which the Chief Engineer and Administrator was also a member found that firm 'D' did

not have a sufficiently clear idea of the works to be done and the firm had not taken contracts for a number of years. The Tender Committee unanimously recommended the award of the work to firm 'B'. The recommendations of the Tender Committee which were unanimous were accepted by the Government."

1.30. In a subsequent communication (No. DAT-23/76-PDA dated 19-8-1976, the Committee have been informed by the Ministry about the following observations of Audit on their above-quoted reply:

"Public Accounts Committee has specifically pointed out that there was no evidence of the fact that the three weighty arguments initially put forward by the Chief Engineer and Administrator for not allotting the work to 'B' were given genuinely serious thought or properly analysed in an objective manner by the Ministry before allotting the work to 'B'. The Ministry has not proposed any reply to this point."

1.31. In their further Action Taken Note dated 13 August 1976, the Ministry of Shipping and Transport have stated:

"The Government accept the recommendation of the Committee* and have communicated and extracted of the recommendation to all Ministries/Departments for guidance and compliance.

As regards this particular case the recommendations** of the Tender Committee which examined the question of award of work for the North Breakwater in great detail was accepted by the Government and hence the work was awarded to firm 'B'. The inexperience of the Firm 'B' in marine works was duly noted by the Tender Committee but in view of the large turn-over of work already done by this firm and the fact that the ideas of the other competing firm 'D' were not sufficiently clear and the firm 'D' had also not taken contracts for number of years, the Tender Committee recommended in favour of award of work to firm 'B'. Government did not consider the suggestions of the Ministry of Finance for retendering of this work as it was apprehended that retendering would not only lead to delay but there was also a possibility of higher rates being quoted if the work was retendered. In view of the fact that the award of work was proceeded by a detailed examination of the various tenders by a

*Paragraph (c) of the recommendation.

**Paragraph (d) of the recommendation.

Tender Committee, the Ministry is of the opinion that a further investigation at this stage into the circumstances leading to the award of both the works to the same contractor does not appear necessary nor is likely to be of much use."

1.32. The Ministry of Finance, in their Action Taken Note dated 29 September 1976, have stated in respect of paragraph (c) of the Committee's above recommendation:

"Ministry of Shipping and Transport in their O.M. No. DAT-23/76-PDA dated the 13th August, 1976 have already furnished the action taken note communicating the acceptance of the recommendation by the Government. An extract of the recommendation has also been circulated to all Ministries/Departments for guidance and compliance.

With regard to the penultimate paragraph of the recommendation it may be mentioned that the general guidelines in the matter of execution of contracts are laid down in Rules 12 to 15 of the General Financial Rules 1963. Comprehensive guidelines are also laid down for examination of projects, invitation and acceptance of tenders etc., in the Departmental Manuals of the executing agencies on the basis of the guidelines and orders issued by Government from time to time. For the Public Sector Undertakings, guidelines are available in the form of a booklet entitled, "General conditions of contract and Standard Contract Form for Civil Works in Public Sector Undertakings". Some of the important factors etc. which should be taken into account while awarding contracts have again been brought to the notice of all Ministries/Departments in this Department."

1.33. The Committee endorse the comments of Audit and would like to express their unhappiness over the manner in which the contract for the North Breakwater at Tuticorin was allotted to the same contractor to whom contract for the South Breakwater there had been awarded without placing on record cogent reasons for rejecting the three weighty arguments initially put forward by the Chief Engineer and Administrator of the Port.

1.34. The Committee are unhappy that the Government did not consider it necessary to re-examine the whole question of the award

of a tender to a particular firm despite the salutary suggestion of the Ministry of Finance that the work should be retendered. This at least would have cleared the clouds hanging over this particular contract.

Completion of the work by the Contractor
(Paragraph 4.37—Sl. No. 19)

1.35. Expressing dissatisfaction over the delay in completion of the work on both the South Breakwater and the North Breakwater by the Contractor (Firm 'B'), the Committee had observed in paragraph 4.37 of their Report:

"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 judgment."

1.36. In their Action Taken Note dated 21 June, 1976, the Ministry of Shipping and Transport, have stated:

"The contractor (firm 'B') is behind the schedule of completion of the two contracts. While the financial difficulties of the contractor were chiefly responsible for the slow progress, there have been some other factors also contributing for the delay in the completion, like steep rise in the prices of materials, labour etc. As on 1st May 1976 the progress is as follows:

- (i) South Breakwater—Breakwater* has been completed leaving entrance to the pier head.
- (ii) Wharf wall 68.09% † completed.
- (iii) North Breakwater 74.14% ‡ completed."

*92 per cent completed by June, 1977.

†Completed in all respects in December, 1976.

‡89 per cent completed by June, 1977.

1.37. In view of the persistent failure on the part of contractor 'B' to adhere to the time schedule, the Committee expect that the penalty clauses in the agreement with the contractor shall be duly operated upon to fully safeguard the interests of Government.

Grant of concessions to the Contractor (Paragraph 4.38— Sl. No. 20)

1.38. Deprecating the action of Government in granting ex-gratia payments and concessions to the contractor (firm 'B') even when there was a non-adherence to the time schedule of the construction work, the Committee, in paragraph 4.38 of their Report, had observed:

"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 re-adjustment 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 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, perfor-

mance 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."

1.39. In their Action Taken Note dated 13th August, 1976 the Ministry of Shipping and Transport have stated:

"The contracts were awarded to the firm 'B' after thorough examination of the tenders received. The concessions were agreed to after spot-inspections and evaluating the difficulties of the contractor. This was done in the interest of getting the project completed expeditiously. Supervision to ensure the quality and soundness of the works is being provided by the Port. Besides, the contract provides for release of 50% of retention money and performance guarantee after expiry of maintenance period of 12 months.

The progress made in the completion of project as on 1-5-1976 is as follows:—

- (i) *South Breakwater*:—Breakwater completed leaving the entrance of pier-head.*
- (ii) *North Breakwater*:—74.13% completed.**
- (iii) *Wharf wall*:—68.09% completed.†

*92 per cent completed by June, 1977.

**89 per cent completed by June, 1977.

***Completed fully in December, 1976.

1.40. The Committee have already expressed their unhappiness about the manner in which the contract was awarded to this particular firm. They have also stated in unequivocal terms that the responsibility lay with the Ministry in making gratuitous concessions to the firm in order to somehow get the work done. This is not the way in which a Project should be executed involving as it does huge outlays of tax-payers' money. The Committee would like that the whole matter may be examined with a view to find out if concessions were in fact justified and to fix responsibility for the lapses at the various stages of the construction of the Breakwater which resulted in delays and consequent escalation of cost of the project.

Construction of finger jetty (Paragraphs 4.49 and 4.50—Sl. No. 24)

1.41. Commenting on the lack of financial prudence in making available a finger jetty to the contractor at Government cost, the Committee, in paragraphs 4.49 and 4.50 of their report had observed:

“The Committee are unable to find any convincing reasons for Government to construct a finger jetty at a cost of Rs. 11 lakh (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. 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 distance etc.”

1.42. In their Action Taken Note dated 21 June, 1976,* the Ministry of Shipping and Transport have stated:

“As regards finger jetty, it was stipulated in the tender that provision of a jetty by the Department at—5.65 m. of South Breakwater would be considered by the department only with reference to the floating crafts likely to be brought in and used by the tenderers. The firm—B while tendering for the South Breakwater “any method” stipulated a special condition for provision of a Finger jetty, by the department at—5.65 m. Even during negotiations, with the tender committee the firm had insisted on the requirement of the jetty, though any method of construction was under contemplation then. This has been accepted as one of the special conditions, with his rates for “any method” of construction, forming part of the contract. Thus the provision of the finger jetty has become a contractual obligation, by virtue of the special stipulation by the contractor in his tender itself, and it is not due to the self imposition of the department. As such the finger jetty at 5.65 m. depth was provided by the department.”

1.43. The Committee would like to express their unhappiness about the Project authorities agreeing to the provision of a finger jetty at Government cost, in spite of the fact that the contractor chose to do the work by ‘end on method’. The Committee would like this matter to be gone into more critically by Government as per recommendation made on the Ministry’s reply to S. No. 20.

*Not verified by Audit.

CHAPTER 'I

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT.

Recommendation (Sl. No. 1, Para 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.

Action Taken

The scheme for the construction of the deep sea harbour at Tuticorin contemplates construction of four alongside berths with ancillary facilities. Out of the four berths, two have already been completed and opened for traffic. Works on the remaining two berths are in progress.

(Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA dated
21 June, 1976.)

Recommendation (Sl. No. 2, Para 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.

Action Taken

The completion of the project has been delayed chiefly due to adverse financial condition of the contractor. The progress under both the contracts as on 6 June 1977 is as follows:

- (i) *South Breakwater*: Breakwater completed except pierhead at Eastern end. 92 per cent of South Breakwater works have been completed.
 - (ii) *North Breakwater*: 89 per cent completed.
 - (iii) *Wharf Wall*: Completed in all respects in December, 1976 and all the four alongside berths are under operation.
- (Ministry of Shipping & Transport O.M. Nos. DAT-23/76, dated 21-6-76 and DAT-27/77-PDA, dated 6-6-77.)

Recommendation (Sl. No. 3, Para 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 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.

Action Taken

Industrialisation of any area depends upon various factors. The construction of the deep sea harbour at Tuticorin has assured a certain amount of industrial activity in that area. e.g., the setting up of the petro-chemical complex at Tuticorin is directly related to the port facilities available. It is hoped that more industries will soon come up because one industry attracts other industries. To ensure greater coordination Government are contemplating the setting up of Tuticorin Advisory Board.

(Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated 21st June, 1976.)

Recommendation (Sl. No. 4, Para 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 co-ordination between the functioning of the existing Inter-mediate Port and the New Major Port of Tuticorin, so that all the available facilities are put to optimum use in the best interest of the country.

Action Taken

Noted.

[Ministry of Shipping & Transport (Transport Wing) O.M. No. PGL-43/76, dated.....]

Recommendation (Sl. No. 6, Para 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, 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
1981-82	.	.	.	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.

Action Taken

The need for taking concerted measures to ensure that the projected coal traffic at Tuticorin does materialise has been realised and as a step in this direction a study for the movement of coal from the coal mines to the consumer points has been taken up. Close coordination is being maintained with the State Authorities in respect of the facilities to be provided for handling coal at the port for the Thermal station.

(Ministry of Shipping and Transport O.M. No. DAT-23/76-PDA,
dated 21st June, 1976.)

Recommendation (Sl. No. 7, Para 2.21)

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 attract-

ed 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.

Action Taken

The coal traffic for cement factories has been exclusively moving by rail. It is a fact that this traffic could be attracted if the sea freight was more competitive. The whole question of coastal movement of coal is under study by a firm of consultants. Requirement of coal of other consumers as projected to this Ministry have also been covered in the study. The mechanical handling facilities for the coal traffic at the Port will be based on the recommendation of the consultants.

(Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA,
dated 21st June, 1976.)

Recommendation (Sl. No. 8, Para 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 the total projected traffic for 1980-81.

Action Taken

As pointed out by the Committee, bulk of the coal traffic relates to the two thermal units of 210 MW each which are to come up at Tuticorin. The work on the Thermal Station has already started at site. A study for the movement of coal from the coal mines to the consumer points with a view to evolve an optimal system has been completed. The report of the Consultant is being considered.

(Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA,
dated the 16th July, 1976.)

Recommendation (Sl. No. 9, Para 2.23)

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 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 Vappalodi, which are within a distance of a few kilometers from Tuticorin port, for the export of salt. They agreed 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.

Action Taken

At the meeting of the Official Committee in September 1975, it was indicated that the coastal movement of salt would be four lakh tonnes and the overseas traffic only one lakh tonnes in 1978-79. It is a matter of encouragement that the salt manufacturers in the region have been successful in contracting to ship 2.75 lakh tonnes of salt during the year 1976-77 as against the original anticipation of one lakh tonnes only. The discrimination in sea freight in favour of Saurashtra Ports is being examined and a consultant is also being appointed to examine the question of handling salt in an efficient manner. Government agree with the recommendation of the Committee that development of minor ports at Vallinokkam and Vappalodai in close proximity of Tuticorin Port would be detrimental to the interests of the major Port.

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA,
dated the 21st June, 1976.]

Recommendation (Sl. No. 11. Para 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 upto-date facilities for handling of fertiliser etc. which are being developed at Tuticorin.

Action Taken

(i) *Reply of the Ministry of Shipping & Transport*

The recommendation of the Committee that the question of modifying the sea-freight structure to make it comparable with railway freight should be examined in depth by Government has been noted. The freight rate for fertilisers is fixed by the Indian Coastal Conference. Director General of Shipping took up the question with the Conference. Since the present freight rates per tonne from Tuticorin to Visakhapatnam and Bombay are respectively Rs. 111.90 and Rs. 135.20, the possibility of reducing the rate to Rs. 40 per tonne seems remote. However, the Indian Coastal Conference has undertaken to study the matter on the basis of the special loading facilities available or likely to be available at Tuticorin Port.

[M/O Shipping & Transport No. PTT(75)/76, dated 25th August, 1976.]

(ii) *Reply of the Ministry of Chemicals & Fertilizers*

The question of levying concessional rate of freight with a view to promoting the use of upto-date facilities at Tuticorin will have to be considered by the Department of Shipping and the port authorities in consultation with the Ministry of Agriculture. This Ministry has not received any representation regarding rationalisation of sea freight structure from SPIC.

[Ministry of Chemicals & Fertilizers O.M. No. 176(4)/76-Ferts. IV dated 26th August, 1976.]

(iii) Reply of the Ministry of Railways

The observations of the Committee mainly concern the Ministry of Shipping & Transport and Department of Fertilisers & Chemicals who will no doubt furnish a suitable reply to the Committee.

[Ministry of Railways (Railway Board) O.M. No. 76-BC-PAC/V/208, dated 19th July, 1976/28 Asadha, 1898.]

Recommendation (Sl. No. 13, Para 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 co-ordinate 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.

Action Taken

The recommendation has been noted and efforts are being made to ensure that investment incurred in the development of Tuticorin Port is adequately realised. The matter of setting up a Tuticorin Advisory Board is being actively pursued with State Government.

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated 21st June, 1976.]

Recommendation (Sl. No. 14, Para 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 Railway 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 *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 & 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.

Action Taken

(i) *Reply of Ministry of Shipping & Transport: -*

The Committee's recommendation about "the closest co-ordination to be maintained between the Ministry of Shipping & Transport and the Railway Authorities so that the investment in the development of national infra-structure for transport through Tuticorin is regulated in the overall interest" is noted.

[M/O S&T U.O. No. PTT-77/76, dated the 20th July, 1976.]

(ii) *Reply of Ministry of Railways:*

The observations of the Committee are noted. The Railway Board have recently approved the taking up of two surveys. one for a parallel BG line from Tuticorin to Tirunelveli and the other, for developing rail facilities in Tuticorin area and line capacity works on the adjoining MG sections for moving the anticipated increased generation of traffic in the Tuticorin area and through the port. The surveys are likely to commence shortly.

[Ministry of Railways (Railway Board) O.M. No. 76-BC-PAC/V/208.
dated the 21st June, 1976.]

Recommendation (Sl. No. 15. Para 2.29)

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.

Action Taken

While noting the recommendation for guidance, it is stated that projections for traffic are usually based on the expected rate of growth of the hinterland of the Port. This expected rate of growth which itself depends upon various complex matters, sometimes does not materialise quickly enough and therefore the projections of traffic made from time to time are not actually realised.

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated the 21st June, 1976.]

Recommendation (Sl. No. 16. Para 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 in the initial years, so that this undertaking could be invoked as required.

Action Taken

The suggestion of the Union Transport Minister to the effect that Madras Government (now Tamil Nadu) 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 was accepted by the Chief Minister of Madras. The offer has been noted.

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated the 21st June, 1976.]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF GOVERNMENT.

Recommendation (Sl. No. 5, Para 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 lakhs 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 lakhs tonnes. This slow rate of growth of traffic is bound to affect adversely the economics of the Tuticorin port.

Action Taken

(i) *Original reply of the Ministry:*

The traffic projections are made on certain assumptions taking into account, in general, the economic development of the hinterland. A review of the projections should necessarily take cognizance of pace of the economic development. At the Official Committee meeting held in September 1975, the general feeling was that there was a slowing down in the pace of development following the heavy recession of the economy and inflation. The Southern Petro Chemical Industries Corporation that should have gone into production in early 1975 had not done so until July/August 1975. The Thermal Power Station work was delayed for want of allocation of funds. The production of salt had not developed to the extent anticipated earlier. The coastal movement of salt was affected by the upward revision of freight rates. The overseas market was also dull. It was in this context that the projection of traffic was downgraded to 22 lakhs tonnes in 1978-79.

However, following the declaration of emergency the economy of the country as a whole had shown upward trends. On account

of the high priority for power generation given in the 20 Point Programme, the execution of works in the Thermal Power Plant has been accelerated by the Tamil Nadu Government. It is now mentioned in the Planning Commission's report that the traffic prospects in coal will be of the order of 7.5 lakh tonnes in 1978-79 (as against the assessment of 3.5 lakh tonnes made by the Official Committee). Likewise there was an indication that more quantity of foodgrains could be shifted to Tuticorin from Madras to meet the requirements of deficit coastal areas in Tamil Nadu. The Salt Manufacturers were successful in contracting to ship 2.75 lakh tonnes of salt during the year 1976-77 as against the original anticipation of 1 lakh tonne only. The SPIC have gone into commercial production and the projected traffic in phosphate and sulphur is likely to be achieved. With these new developments, it is anticipated that the performance in 1978-79 is likely to exceed the estimates.

(Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA. dated the 21st June, 1976.)

(ii) *Further information furnished by the Ministry:—*

In a further Note furnished to the Committee on 6 June, 1977, the Ministry have stated:

"The Official Committee that met on 15th of September, 1975, estimated the traffic to develop to 21.9 lakh tonnes by 1978-79. Based on the above project, the traffic during 1976-77 was expected to go up to 13.96 lakh tonnes.

As against this, the traffic that materialised during 1976-77 was 15.50 lakh tonnes (Major Port 6.3 lakh tonnes, Minor Port 9.2 lakh tonnes). 6.3 lakh tonnes handled through the Major Port comprised 3 lakh tonnes of P.O.L. and 2.8 lakh tonnes of cement.

As regards coal, the Port has developed the infrastructure for handling coal during the interim period. The first unit of the Thermal Station is expected to be commissioned by December, 1978 when the traffic will pick up to 1.2 million tonnes of coal during 1978-79.

During the last two years, the SPIC have been concentrating on production of urea and only small quantities of other complex fertilisers. Therefore, the movement of phosphate and sulphur was minimal. With better weather conditions that has prevailed during 1976-77, the off-take of the complex fertilisers is expected to increase in the years to come. With diversification of products more

of phosphate and sulphur be expected to move through Tuticorin. This will be of the order of about 3 lakh tonnes in 1978-79.

On the whole, the trade prospects look buoyant. It is likely that traffic in 1977-78 will be 19 lakh tonnes mainly comprising 3.5 lakh tonnes of salt, 3 lakh tonnes of coal, 3.5 lakh tonnes of cement, 3.5 lakh tonnes of POL, about 2.0 lakh tonnes of general cargo, 2 lakh tonnes of food-grains and fertilisers and 1.5 lakh tonnes of raw fertilizers. Of this about 9 lakh tonnes is likely to pass through the Major Port."

(Ministry of Shipping & Transport O.M. No. DAT-27/77-PDA, dated 6th June, 1977.]

Recommendation (Sl. No. 12. Para 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 material 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 off set all likely difficulties. Apart from administrative decision regarding the nomination of Tuticorin Port as a pricing point for POL products on 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.

Action Taken

(i) Reply of Ministry of Shipping & Transport:

Reply to its question of declaring Tuticorin Port as a pricing point for POL products and the type of fuel to be used in the fertiliser plant will be sent by the Departments of Petroleum and Fertilisers and Chemicals.

Regarding the Committee's recommendation about the need for close co-ordination with representatives of the fertiliser industry, it may be stated that the Authorities of the New Tuticorin Port are keeping a close liaison with the representatives of the industry. Similarly, as regards the handling of the commodities involved, the New Tuticorin Port has stated that the temporary facilities provided for handling POL products are adequate and economic for the pre-

sent level of traffic. The work on the permanent oil jetty has also been commenced and the berth is expected to be ready by end of 1977. Efficiency and economy in handling of rock phosphate and sulphur is ensured by landing bulk quantities of cargo directly into the lorries for taking to the factory site. This saves cost and avoids wastage in handling.

[O.M. No. PTT-76/76 dated 3-8-76.]

(ii) *Reply of Ministry of Petroleum*

Government set up Oil Prices Committee (OPC) in March 1974, under the Chairmanship of Dr. K. S. Krishnaswamy, Executive Director (now Deputy Governor) of the Reserve Bank of India, to examine and recommend, *inter-alia*, the pricing arrangement to be followed on the termination of the pricing arrangement based on the report of Shantilal Shah Committee. One of the specific terms of reference to the Committee was the need for additional pricing points e.g., Mangalore, Tuticorin, Port Blair etc. The OPC considered the memoranda of the various interests and also heard their submissions. In its Interim Report, the OPC recommended specifically in regard to Mangalore and Tuticorin that "after due consideration, we have come to the conclusion that there are no special circumstances warranting an exception to the general principle we have evolved for determining prices at up-country stations". This principle was that only refinery will be the primary pricing points, and that prices in the main installations and up-country depots shall be determined on the basis of the prices at the nearest refinery point plus the cost of the transportation (including wharfages) the cheapest means—coastal, barge, rail or pipeline. This was not only in respect of supplies of naphtha but for all petroleum products.

The final report of the OPC is expected to be received in the course of next two or three months. In the meanwhile, Government have accepted this recommendation which was given effect to from 14th July, 1975.

Government have set up a Fertilizer Prices Committee under the chairmanship of Shri S. S. Marthe, Chairman Bureau of Industrial Costs and Prices to suggest retention prices for different units in operation and those likely to be commissioned during the Fifth Plan Period which would give each unit the requisite rate of return on capital. The committee would, *inter alia*, also examine the delivered cost of foodstock and further major inputs in different fertilizer factories and suggest whether these costs need be rationalised. A copy of the order constituting the committee is enclosed. (Annexures I & II).

The Ministry of Petroleum O.M. No. P-20012/31/76-PPD dated the 27th August, 1976.]

(iii) *Reply of the Ministry of Chemicals and Fertilisers*

Government set up an Oil Prices Committee (OPC) in March, 1974 under the Chairmanship of Dr. K. S. Krishnaswamy, Executive Director (now Deputy Governor) of Reserve Bank of India, to examine and recommend, *inter-alia*, the pricing arrangement to be followed on the termination of the pricing arrangement based on the report of the Shantilal Shah Committee. One of the specific terms of reference to the Committee was the need for additional pricing points, e.g. Mangalore, Tuticorin, Port Blair etc. The OPC considered the memoranda of the various interests and also heard their submissions. In its interim Report, the OPC recommended specifically in regard to Mangalore and Tuticorin that "after due consideration, we have come to the conclusion that there are no special circumstances warranting an exception to the general principle we have evolved for determining prices at upcountry stations". This principle was that only refinery will be the primary pricing points, and that prices in the main installations and up-country depots shall be determined on the basis of the prices at the nearest refinery point, plus the cost of the transportation (including wharfages) by the cheapest means—coastal, barge, rail or pipeline. This was not only in respect of supplies of naphtha but for all petroleum products.

The final report of the OPC is expected* to be received in the course of next two or three months. In the meanwhile, Government have accepted this recommendation which was given effect to from 14th July, 1975.

Government have set up a Fertilizer Prices Committee under the Chairmanship of Shri S. S. Marthe, Chairman, Bureau of Industrial Costs and Prices to suggest retention prices for different units in operation and those likely to be commissioned during the Fifth Plan Period which would give each unit the requisite rate of return on capital. The Committee would, *inter alia*, also examine the delivered cost of feed stock and further major inputs at different fertiliser factories and suggest whether these costs need to be rationalised**.

M/s. SPIC will use only fuel oil in the boilers. There is so far no programme for change-over to coal. The fuel oil requirement

*In their O.M. No. P 20012/31/76-PPD, dated 3 June 1977, the Ministry of Petroleum intimated that the final report of the Oil Prices Committee had been received and was under consideration of Government.

**In their O.M. No. 176(4)/76-Ferts. IV, Dated 30 May 1977, the Ministry of Chemicals and Fertilizers intimated that only Part I of the report of the Fertilizers Prices Committee (dealing with straight nitrogenous fertilizers) had been submitted to Government on 18 May 1977, and that the second part of the Report regarding Complex Fertilizers was still awaited.

has already been included in the figures given in reply to recommendation No. 10.

(Ministry of Chemicals and Fertilizers O.M. No. 176(4)/76-Ferts.IV dated 26 August, 1976).

— — — — —

ANNEXURE I

(to reply to Sl. No. 12)

M-21012 (3) /75-Ferts. IV

GOVERNMENT OF INDIA (BHARAT SARKAR)
MINISTRY OF CHEMICALS AND FERTILIZERS)

New Delhi dated 8th January, 1976.

OFFICE MEMORANDUM

The Government of India have decided to set up a Committee known as the Fertilizer Prices Committee to study the present basis for pricing of fertilizers and recommend a pricing policy that would ensure a fair return on investment on a sustained basis. The composition of the Committee will be as follows:—

1. Shri S. S. Marathe, Chairman, Bureau of Industrial Costs and Price *Chairman*
2. Shri L. Kumar, Adviser, Planning Commission *Member*
3. Shri N. Rajan, Adviser (F), B.P.E. *Member*
4. A representative of Deptt. of Agriculture *Member*
5. Shri N. Ramaswamy, Joint Secretary, Ministry of Petroleum *Member*
6. Shri K.C. Sharma, Chairman & Managing Director, F.C.I. *Member*
7. Shri Paul Pothan, Managing Director, IFFCO. *Member*
8. Shri F. J. Herdia, Finance Director, MCF *Member*
9. Shri R. Jayaraman, Member, BICP *Member*
10. Shri Satya Nand, Executive Director, FAI *Member*
11. Shri N. K. Sreenivasan, Joint Secretary (Fertilizers) *Member Secretary*

The terms of reference of the Committee will be as follows:

- (a) To evolve the norms for determining the production costs in the various fertilizer units including the return on capital, which would make investment in the industry attractive.
- (b) To suggest with the regard to the feedstock used, vintage of plants and other constraints to production, the retention

prices for different units in operation and those likely to be commissioned during the Fifth Plan period which would give the requisite rate of return and also recommend a scheme of pooling for the operation of the retention prices concept.

- (c) To examine the cost of feed stock and other major inputs at different fertilizer factories and suggest whether the prices of the feed stock and inputs need to be rationalised.
- (d) To suggest a formula for revision in the manufacturers' exfactory realisation plant-wise, from time to time, cost of the feed stock or in all the major inputs.
- (e) To evolve a policy for pricing of the imported fertilizers in relation to cost of imports, the nutrient content and the price of indigenous fertilizers of similar grades.
- (f) To consider any other matter which may be related to or have a bearing on the issues mentioned above.

The committee will complete its work and submit its report to Government within a period of six months from the date of its constitution.

Sd/-

(M. RIAZUDDIN)

Under Secretary to the Govt. of India.

ANNEXURE II

(to reply to Sl. No. 12)

No.. M-21012(3)|75-Ferts. IV

GOVERNMENT OF INDIA (BHARAT SARKAR)

MINISTRY OF CHEMICALS AND FERTILIZERS

New Delhi dated 31st January, 1976.

OFFICE MEMORANDUM

SUBJECT.—Fertilizer Prices Committee.

The undersigned is directed to refer to this Ministry's office memorandum of even no. dated the 8th January, 1976 regarding the constitution of the above mentioned committee, and to say that the following substitution/addition has been made in the membership of the Committee:

- (i) The name of Shri Bahadur Murao, Member, Bureau of Industrial Costs and Prices shall be added to the list of members of the Committee.

- (ii) Shri M. Satyapal, Adviser, Planning Commission will function as member of the Committee in place of Shri Kumar, Adviser, Planning Commission.

Sd/-

(M. RIAZUDDIN)

Under Secretary to the Government of India.

Recommendation (Sl. No. 21. Para 4.39)

As a result of delay in execution, the contractor has also enjoyed the benefit of interest-free advance of large amount 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 offers of the contractor is bound to be heavy and would to that extent escalate the total cost of the project.

Action Taken

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 correlation in respect of time in linear proportion. The stages of recovery of the machinery offers that extent escalate the total cost of the project.

- | | |
|-----------------------|--|
| (i) South Breakwater | Recovery commenced in March, 1974. Amount so far recovered Rs. 28.18 lakhs against Rs. 52.01 lakhs. |
| (ii) North Breakwater | Recovery commenced in March, 1974. Amount so far recovered Rs. 10.83 lakhs as against Rs. 40.30 lakhs. |

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated 21st June, 1976.]

Recommendation (Sl. No. 22, Para 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.

Action Taken

The contractor had appointed a sub-contractor under the South Breakwater contract, for doing the works of wharf wall and rock dredging in 12/71. This sub-contractor was appointed after getting the approval of the Government as required under the contract between the Government and the firm—B. This sub-contract arrangement was subsequently cancelled by the contractor before making any considerable progress by the sub-contractor. Since then the main contractor is executing the work of wharf wall and so far he has completed 68.09 per cent. Similarly, the dredging work so far done has also been done by the main contractor (firm-B) only.

When the Government came to know that the contractor was having a sub-contract, under the North Breakwater contract, without the approval of the Government, he was asked to stop the sub-contract and also to terminate the power of attorney of the sub-contractor and to ensure that no legal or other problems arise on this account. The sub-contract was accordingly terminated by the main contractor. The main contractor is carrying out the North Breakwater works and so far 74.13 per cent. work has been completed. (Ministry of Shipping and Transport O.M. No. DAT-23/76-PDA dated 21st June, 1976.)

Recommendation (Sl. No. 23, Para 4.4)

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.

Action Taken

The arbitration awards upheld some claims of the contractor and rejected some of the claims. Government contested the award in

a Court of Law, but the Court upheld the arbitration awards *in toto*. On examining the judgement of the Court and taking into account various aspects of the case, Government decided not to appeal against the judgement of the Court.

[Ministry of Shipping and Transport O.M. No. DAT-23/76-PDA
dated 21st June, 1976.]

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

Recommendation (Sl. No. 10, Para 2.24)

As regards Fertilizer traffic, the Committee note that the anticipated traffic at the time of giving Administrative approval of 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) 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.

Action Taken

(i) Reply of the Ministry of Shipping and Transport

M/s. Southern Petrochemical Industries Corporation commenced production in July last year. After initial teething troubles, regular production has started. The arrival of tankers with Naptha and furnace oil has picked up. The dry raw materials are expected to move regularly from June, 1976. All civil and structural works of the Heavy Water Plant have been completed and the Project is expected to be ready for testing and commissioning by March, 1977. The Tuticorin Alkalies is expected to go into production in 1979.

[Ministry of Shipping and Transport O.M. No. DAT/23-76-PDA
dated 15th July, 1976.]

(ii) Reply of Ministry of Chemicals and Fertilizers

Official Committee's estimate of total traffic for 1978-79 seems to be higher. Three lakhs tonnes of solid material and 5 lakh tonnes

of liquid cargo will be more appropriate. The fertilizer plant of SPIC has already gone into production. M/s. Tuticorin Alkalies have been granted letter of intent for the manufacture of 66,000 tonnes per annum of soda ash and Armonium Chloride each. The construction of the plant has not yet started. It is expected to go into production in late 1979-80 and could start optimum production only two-three years thereafter.

[Ministry of Chemicals and Fertilizers O.M. No. 176(4)/76-Forts. IV
26-8-1976.]

(iii) Reply of the Department of Atomic Energy

The Heavy Water Plant being set up by the Department of Atomic Energy at Tuticorin was, as per the original schedule, expected to be completed by early 1975. However, the completion of the project has been delayed on account of the following reasons:—

1. Change from spread foundation to pile foundation,
2. Non-availability of structural steel,
3. Transport bottlenecks especially for Over Dimensional Consignments,
4. Abnormal delays on the part of indigenous suppliers in maintaining delivery schedules, of indigenous equipment delays in fabrication work due to force majeure and other reasons,
5. Paucity of certain specialised services comprising of *inter alia*,
(a) ultrasonic testing, (b) special radiographic films, and
(c) chemical cleaning *in situ*.
6. Incorporating of improvements and modifications based on the experience of the Baroda Heavy Water Plant.

Assuming that all indigenous equipment and materials would be available by November, 1975, it was expected that the plant would be completed by middle of 1976 but on account of continuance of the reasons mentioned at items No. 4 and 5 above, it has been further delayed by one year. Main plant structure has been completed. All important equipment and machineries have been received at site and the erection work is in progress. The plant is now expected to be completed by middle of 1977. In any case, it may be mentioned here

that the traffic generated at Tuticorin port on account of Heavy Water Project will be quite negligible.

[Department of Atomic Energy O.M. No. 8/4(2)-75(P).
dated 22nd July, 1976.]

Further reply, dated 15th July, 1977, from the Department of Atomic Energy giving latest position:

All the civil and structural works of the Plant have been completed. About 98 per cent erection of mechanical equipment and piping has been completed. Balance work is in hand. About 90 per cent of other finishing works, such as installation, instrumentation, painting etc. have been completed and the remaining works are in hand. The testing of the Plant is already over. The commissioning trials are expected to commence by September 1977.

In any case, it may be mentioned here that the traffic generated at Tuticorin Port on account of Heavy of Heavy Water Project will be negligible.

Recommendation (SI. No. 17, Para 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 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.

(i) *Original Reply of the Ministry of Shipping & Transport:*

The Chief Engineer and Administrator of the Port of New Tuticorin invited tenders for the construction of North Breakwater and two pierheads. On evaluation of the tenders by the Chief Engineer and Administrator firm "B" was the lowest and firm "D" was the second lowest. Having summarised the tenders the Chief Engineer and Administrator recommended the award of work of North breakwater to firm 'D', the second lowest tenderer. However, the tenders and the recommendations of the Chief Engineer and Administrator were examined by a Tender Committee. The Tender Committee of which the Chief Engineer and Administrator was also a member found that firm "D" did not have a sufficiently clear idea of the works to be done and firm had not taken contracts for a number of years. The Tender Committee unanimously recommended the award of the work to firm "B". The recommendations of the Tender Committee which were unanimous were accepted by the Government.

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated 15th July, 1976.]

(ii) *Further information from the Ministry:*

In a subsequent communication (No. DAT-23/76-PDA, dated 18th September, 1976), the Committee were informed by the Ministry about the following observations of Audit on their above-quoted reply:—

"Public Accounts Committee has specifically pointed out that there was no evidence of the fact that the three weighty arguments initially put forward by the Chief Engineer and Administrator for not allotting the work to 'B' were given genuinely serious thought or properly analysed in an objective manner by the Ministry before allotting the work to 'B'. The Ministry has not proposed any reply to this point."

Recommendations (Sl. Nos. 17 and 18, Paras 3.34 to 3.36)

(a) 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 & 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 the lowest tender, the Committee have quoted from the various connected documents including those of the Ministries of Shipping & 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 & Transport.

(b) 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.

(c) 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 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 decision are taken.

(d) 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.

Action Taken

(i) *Reply of Ministry of Shipping and Transport*

The Government accepted the recommendation of the Committee and have communicated an extract of the recommendation to all Ministries/Departments for guidance and compliance.

2. As regards this particular case the commendations**of the Tender Committee which examined the question of award of work for the North Breakwater in great detail was accepted by the Government and hence the work was awarded to firm 'B'. The inexperience of the firm 'B' in marine works was duly noted by the Tender Committee but in view of the large turn-over of work already done by this firm and the fact that the ideas of the other competing firm 'D' were not sufficiently clear and the firm 'D' had also not taken contracts for a number of years, the Tender Committee recommended in favour of award of work to firm 'B'. Government did not consider the suggestions of the Ministry of Finance for retendering of this work as it was apprehended that retendering would not only lead to delay but there was also a possibility of higher rates being quoted if the work was tendered in view of the fact that the award of work was preceded by a detailed examination of the various tenders by a Tender Committee, the Ministry is of the opinion that a further investigation at this stage into the circumstances leading to the award of both the works to the same contractor does not appear necessary nor is it likely to be of much use.

[Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated 13th August, 1976.]

(ii) *Reply of the Ministry of Finance to paragraph (c) of the recommendation.*

Ministry of Shipping & Transport in their O.M. No. DAT 23/76-PDA, dated the 13th August, 1976, have already furnished the action

*paragraph (c) of the recommendation.

**paragraph (d) of the recommendation.

taken note communicating the acceptance of the recommendation by the Government. An extract of the recommendation has also been circulated to all Ministries/Departments for guidance and compliance.

With regard to the penultimate paragraph of the recommendation it may be mentioned that the general guidelines in the matter of execution of contracts are laid down in Rules 12 to 15 of the General Financial Rules, 1963. Comprehensive guidelines are also laid down for examination of projects, invitation and acceptance of tenders etc., in the Departmental Manuals of the executing agencies on the basis of the guidelines and orders issued by Government from time to time. For the Public Sector Undertakings, guidelines are available in the form of a booklet entitled, "General conditions of contract and Standard Contract Form for Civil Works in Public Sector Undertakings". Some of the important factors etc. which should be taken into account while awarding contracts have again been brought to the notice of all Ministries/Departments in this Department O.M. No. F.12(28)-E(Coord)/76, dated the 29th September, 1976, copy enclosed.

[Ministry of Finance, Department of Expenditure, O.M. No. F. 12(28)-E(Coord)/76, dated 29th September, 1976.]

ENCLOSURES TO REPLIES TO SL. NOS. 17 AND 18

No. F.12(28)-E(Coord)/76

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

Department of Expenditure

New Delhi, the 29th September, 1976

OFFICE MEMORANDUM

SUBJECT.—208th Report of Public Accounts Committee (5th Lok Sabha)—recommendation regarding procedure of examination of technical proposals relating to big national Projects in the Ministries.

The Public Accounts Committee in Sub-Para of para 3.36 of their 208th Report have recommended as follows:—

"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."

The above recommendation has been accepted by the Government.

2. General Guidelines in the matter of executions of contracts are laid down in Rules 12—15 of the General Financial Rules and Government of India's decision thereunder. Guidelines for the Public Sector Undertakings are also available in the form of a booklet entitled "General conditions of contract and Standard Contract Form for civil works in Public Sector Undertakings". On the Defence side, the works projects are normally executed through the MES and detailed procedure for registration of contractors, selections of tenderers, issue and acceptance of tenders and administration of contracts are laid down in MES regulations, MES standing orders and various policy instructions issued from time to time. In the CPWD for big works the tenders are generally invited on item rate basis and tenders above a certain limit are scrutinised by a Works Advisory Board.

3. Some of the important factors which should, *inter alia* be taken into account are recapitulated below:—

1. *Financial resources of the tenderer.*

The value of the works executed in the past or in hand should be considered for assessing whether a firm is financially sound.

2. *Technical Competence of the tenderer.*

On the basis of works carried out in the past an assessment should be made whether the firm has the technical competence to execute the job.

3. *Availability of the required type of machinery and equipment with the contractor.*

4. *Capacity and past experience of the contractor.*

5. *Evaluation of the offers on a common datum.*

On the basis of the conditions stipulated by the tenders and/or clarifications obtained, the offers should be evaluated to a common datum and the lowest technically acceptable offer considered.

4. It is requested that the procedure of examination of technical proposals relating to big national Projects may be reviewed keeping

in view the above factors and guidelines suitably modified where necessary.

Sd/-

(J. P. DAS)

Joint Secretary to the Govt. of India.

To

All Ministries/Departments of the Govt. of India.

Recommendation (Sl. No. 19 Para 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.

Action Taken

The contractor (Firm 'B') is behind the schedule of completion of the two contracts. While the financial difficulties of the contractor were chiefly responsible for the slow progress, there have been some other factors also contributing for the delay in the completion, like steep rise in the prices of materials, labour etc. As on 1st May, 1976, the progress is as follows:—

- (i) South Breakwater—Breakwater* has been completed leaving entrance to the pier head.
- (ii) Wharf wall 68.09 per cent** completed.
- (iii) North Breakwater 74.13 per cent***completed.

(Ministry of Shipping and Transport O.M. No. DAT-23/76-PDA, dated 21st June, 1976.)

*92 per cent completed by June, 1977.

**89 per cent completed by June, 1977.

***Completed in all respects in December, 1976.

Recommendation (Sl. No. 20, Para 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 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 Ambassamundaram 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 upon 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 wrok, 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 the 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.

Action Taken

The contracts were awarded to the firm 'B' after thorough examination of the tenders received. The concessions were agreed to after spot-inspections and evaluating the difficulties of the contractor. This was done in the interest of getting the project completed expeditiously. Supervision to ensure the quality and soundness of the works is being provided by the Port. Besides, the contract provides for release of 50 per cent of retention money and performance guarantee after expiry of maintenance period of 12 months.

The progress made in the completion of project as on 1st May, 1976 is as follows:—

- (i) *South Breakwater*: Breakwater completed leaving the entrance of pier-head.*
- (ii) *North Breakwater*: 74.13 per cent completed.**
- (iii) *Wharf wall*: 68.09 per cent completed.***

(Ministry of Shipping and Transport O.M. No. DAT-23/76-PDA, dated 13th August. 1976.)

Recommendation (Sl. No. 24, Paras 4:49 and 4:50)

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. 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

*92 per cent completed by June 1977.

**89 per cent. completed by June 1977.

***completed fully in December 1976.

would be set off against his claims for carriage of stones for the breakwater from longer distances etc.

Action Taken

As regards finger jetty, it was stipulated in the tender that provision of a jetty by the Department at —5.65 m. of South Breakwater would be considered by the department only with reference to the floating crafts likely to be brought in and used by the tenderers. The firm—B while tendering for the South Breakwater “any method” stipulated a special condition for provision of a finger jetty, by the department at —5.65 m. Even during negotiations, with the tender committee the firm had insisted on the requirement of the jetty, though any method of construction was under contemplation then. This has been accepted as one of the special conditions, with his rates for “any method” of construction, forming part of the contract. Thus, the provision of the finger jetty has become a contractual obligation, by virtue of the special stipulation by the contractor in his tender itself, and it is not due to the self imposition of the department. As such the finger jetty at —5.65 m. depth was provided by the department.

(Ministry of Shipping & Transport O.M. No. DAT-23/76-PDA, dated
21st June, 1976.)

CHAPTER V

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

NIL

NEW DELHI;
November 15, 1977
Kartika 24, 1899 (S).

C. M. STEPHEN.
Chairman,
Public Accounts Committee.

APPENDIX

Consolidated statement showing Conclusions/Recommendations

Sl. No.	Para No. of the Report	Ministry Department concerned	Conclusion/Recommendation
1	2	3	4
1	1.6		<p>The Committee are glad that after the 208th Report of the Public Accounts Committee (5th Lok Sabha) was presented on the 6th April, 1976, Government furnished Action Taken Notes on all the 24 recommendations/observations contained in that Report well within the stipulated period of six months, replies to most of the recommendations/observations having been furnished even much earlier in June and July, 1976.</p>
2	1.10	Min. of Shipping & Transport	<p>Economic viability of the port depends upon adequate traffic, of which coal traffic is the most important. While appreciating that a study for the movement of coal is being conducted by a Consultant, the Committee would like to be informed in due course about the decision taken on the Consultant's Report and the concrete steps taken to step up coal traffic.</p>

1	2	3	4
3	I. 13	Min. of Shipping & Transport	<p>The Committee note that there has been some improvement in the materialisation of salt traffic (export) at Tuticorin Port during the year 1976-77, as compared to indications which were available at the time of review by the Official Committee in September, 1975. While noting that the manufacturers have been able to secure a contract for the shipment of 2.75 lakh tonnes of salt, the Committee would sound a note of caution that this should not create a sense of complacency and that efforts should continue to be made to reach the originally targeted figure of 8 lakh tonnes per year of salt traffic to be moved through Tuticorin Port.</p> <p>In regard to movement of salt through some minor ports in the vicinity of Tuticorin, the Committee find that while the Central Government have expressed themselves to be in agreement with the observations of the Committee that the development of minor ports at Vallinokham and Vappalodi, in close proximity to the interests of the major port, no indication whatsoever has been given as to the positive steps being taken by the Central Government to avoid such a situation. The Committee would like to be informed about the steps taken by the Government in this direction.</p>
4	I. 19	Min. of Shipping & Transport/ Min. of Chemicals & Fertilizers/ Depp. of Atomic Energy	<p>The Committee feel disturbed to note that the schedules for setting up of the Tuticorn Alkalies and of the Heavy Water Plant (of the Department of Atomic Energy), on which the projections of fertilizer traffic were relied upon by the Official Committee in Sep-</p>

tember, 1975, have gone away. As against 1977-78, when the Tuticorin Alkalies was expected to come into the picture, the Committee have now been informed by the Ministry of Shipping and Transport that Tuticorin Alkalies expected to come into the production only in 1979. According to the Ministry of Chemicals and Fertilisers, the construction of the plants has not yet started and they expect it to come into production still later, viz., 1979-80, the optimum production therefrom coming only two or three years thereafter.

Similarly, the expected date of middle of 1976 for commencement of production by the Heavy Water Plant of the Department of Atomic Energy had been shifted to March 1977 by the Ministry of Shipping and Transport. The Department of Atomic Energy have stated that the commissioning trials are expected to commence only by September 1977. The Department of Atomic Energy have also stated that the traffic generated at Tuticorin Port on account of the Heavy Water Project will be quite negligible.

The sum total of all the information now furnished to the Committee is that even the revised projection of fertiliser traffic of 8.90 lakh tonnes by 1978-79, as anticipated by the Official Committee at their meeting held in September 1975, will not materialise. Judged against the original estimate of fertiliser traffic, viz., 8 lakh tonnes, which was relied upon at the time of giving administrative approval to the Tuticorin Project in 1975-76, the Committee cannot help feeling that there is something seriously wrong with the whole process of determining anticipations of traffic which formed the basis for

formulation of a big project like deep sea harbour at Tuticorin. Such unrealistic anticipations ultimately lead to creation of additional capacity not capable of being utilised fully, which naturally has an adverse effect on the economics of the Project. The Committee would, therefore, suggest that, apart from reviewing the procedures laid down for the purpose of project planning, the Ministry should bestir themselves right now for exploring the possibilities of attracting adequate traffic to Tuticorin port so that the facilities which have been set up at enormous capital cost do not remain unutilised.

5

I.24

Ministry of Shipping
& Transport/
Ministry of Railways/
Ministry of Chemicals
& Fertilizers

The Committee note that at the instance of the Director General of Shipping, the Indian Coastal Conference has undertaken to study the question of reducing the freight rate for fertilisers from Tuticorin in the interest adequate utilisation of handling facilities for fertilisers being developed at Tuticorin. It has been pointed out to the Committee that the gap between the existing freight rates of Rs. 111.90 per tonne from Tuticorin to Vishakhapatnam and Rs. 135.20 per tonne from Tuticorin to Bombay on the one hand and Rs. 40/- per tonne pegged by the Government for movement (to any destination) of finished fertilisers of the S.P.I.C. (Fertiliser Group) on the other, is too large and the possibility of reducing rate to Rs. 40/- per tonne is rather remote. The Committee accordingly suggest that the pegging of the above mentioned freight rate at Rs. 40/- per tonne may be reviewed by Government in all its ramifications. The

point which the Committee would like to emphasise is that there should be adequate utilisation of the fertiliser handling capacity provided at Tuticorin.

5

I.27

Min. of Shipping
& Transport/
Min. of Finance

The Committee do not feel enthused with the reply of the Government in regard to a matter which is fundamental for the economics of a new port like Tuticorin. The Ministry's statement that the "expected rate of growth which itself depends upon various complex matters sometimes does not materialise quickly enough and therefore the projections of traffic made from time to time are not actually realised" is rather naive. The Committee see no reason as to why, with all the resources and planning machinery at their command, Government should not be able to draw up 'realistic' projections of traffic before giving the seal of administrative approval to national projects concerning development of Ports. As already observed by the Committee in their comments on Government's replies to the recommendation at S. No. 10 above, there is something seriously wrong with the whole process of delineating projections of traffic. The Committee cannot overstress the need for review of the whole procedure with a view to ensuring that the original estimates of anticipated traffic are realistic and not based on assumptions which have not been gone into in depth.

61

7

I.33
&
I.34

Do.

The Committee endorse the comments of Audit and would like to express their unhappiness over the manner in which the contract for the North Breakwater at Tuticorin was allotted to the same contractor to whom contract for the South Breakwater there had been

awarded without placing on record cogent reasons for rejecting the three weighty arguments initially put forward by the Chief Engineer and Administrator of the Port.

The Committee are unhappy that the Government did not consider it necessary to re-examine the whole question of the award of a tender to a particular firm despite the salutary suggestion of the Ministry of Finance that the work should be retendered. This at least would have cleared the clouds hanging over this particular contract.

8

I.37

Min. of Shipping
& Transport

In view of the persistent failure on the part of contractor 'B' to adhere to the time schedule, the Committee expect that the penalty clauses in the agreement with the contractor shall be duly operated upon to fully safeguard the interests of Government.

2

9

I.40

Do.

The Committee have already expressed their unhappiness about the manner in which the contract was awarded to this particular firm. They have also stated in unequivocal terms that the responsibility lay with the Ministry in making gratuitous concessions to the firm in order to somehow get the work done. This is not the way in which a Project should be executed involving as it does huge outlays of tax-payers' money. The Committee would like that the whole matter may be examined with a view to find out if concessions were in fact justified and to fix responsibility for the lapses at the

various stages of the construction of the Breakwater which resulted in delays and consequent escalation of cost of the project.

9

I.43

Do.

The Committee would like to express their unhappiness about the Project authorities agreeing to the provision of a finger jetty at Government cost, in spite of the fact that the contractor chose to do the work by 'end on method'. The Committee would like this matter to be gone into more critically by Government as per recommendation made on the Ministry's reply to S. No. 20.

