

**TWO HUNDRED AND TWENTY-  
THIRD REPORT**

**PUBLIC ACCOUNTS COMMITTEE**  
**(1984-85)**

(SEVENTH LOK SABHA)

**CLAIMS OUTSTANDING AGAINST  
A COLLABORATOR**

**MINISTRY OF RAILWAYS**  
**(RAILWAY BOARD)**

**[Para 16 of the Advance Report of the C&AG of India  
for the year 1981-82, Union Government (Railways)]**



*Presented in Lok Sabha on 22.8.1984*

*Laid in Rajya Sabha on 22.8.1984*

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

*August, 1984 [Sravana, 1906 (Saka)]*

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ACCOUNTS COMMITTEE (SEVENTH LOK SABHA)

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### PART II\*

Minutes of the sittings of the Public  
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3.2.1984 (F.N.)

7.8.1984 (A.N.)

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**(1984-85)**

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## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 223rd Report of the Public Accounts Committee (Seventh Lok Sabha) on Paragraph 16 of the Advance Report of Comptroller & Auditor General of India for the year 1981-82, Union Government (Railways) regarding claims outstanding against a collaborator.'

2. The Advance Report of the Comptroller and Auditor General of India for the year 1981-82, Union Government (Railways) was laid on the Table of the House on 4 April, 1983.

3. In September 1967, the Railway Board decided to manufacture AC electric mixed type (ACMT) BG locomotives and for these locomotives it was decided to adopt the traction motors to a design offered by a foreign firm M/s Alsthom. The selected design of the firm was not in use in any other country. Between February 1968 and January 1972, orders were placed for import of 200 traction motors and 336 armatures from the firm. The Chittaranjan Locomotive Works also commenced production of traction motors and armatures of ACMT locomotives to the design supplied by the firm. After September 1971, i.e., within a short time of the locomotives being brought into use, large scale failures of traction motors and armatures, both manufactured by Chittaranjan Locomotive Works and those supplied by the firm started occurring, rendering inoperative a large number of ACMT locomotives on South Eastern Railway. The firm had supplied 297 traction motors and Chittaranjan Locomotive Works had manufactured 122 traction motors. While the collaborators, as per settlement reached in September 1972 after a joint investigation of the defects by the firm's representatives and Railway Board engineers, agreed to pay the incidence of transport, insurance charges and repair of armatures built by them in their works in France under warranty obligation, claim for re-imbursement of expenditure of Rs. 82.16 lakhs incurred by CLW towards repair/rectification of the locally built traction motors had been disowned by them.

(vi)

The Committee have pointed out that cumulatively, the failures in this case such as (i) absence of extensive field trials before entering into collaboration agreement; (ii) execution of defective agreement without covering clearly the warranty obligations of the collaborators; (iii) insufficient care in accepting supplies from the collaborators; (iv) negligent negotiations with the collaborators in not urging upon them their responsibility to make good the losses in the local manufacture; and (v) the delay in preferring and pursuing the claims have added upto a situation that becomes intolerable. The Committee have desired that the case calls for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future.

4. The Public Accounts Committee (1983-84) examined the Audit Paragraph at their sitting held on 3 February, 1984(FN).

5. The Public Accounts Committee (1984-85) considered and finalised this Report at their sitting held on 7 August, 1984 (AN). The Minutes of the sitting form Part II\* of the Report.

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

7. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1983-84) in taking evidence and obtaining information for the Report.

8. The Committee would like to express their thanks to the officers of the Ministry of Railways (Railway Board) for the cooperation extended by them in giving information to the Committee.

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

NEW DELHI;  
*August 13, 1984*  
*Sravana 22, 1906(S)*

SUNIL MAITRA  
*Chairman,*  
*Public Accounts Committee.*

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## **REPORT**

1.1 Para 16 of the Advance Report of the Comptroller and Auditor General of India for the year 1981-82—Union Government (Railways) relating to 'Claims outstanding against a Collaborator' reproduced as Appendix I to the Report.

1.2 A gist of Paragraph 10 of the Comptroller and Auditor General of India's Report (Railways) for 1972-73 referred in audit paragraph is given below :

"The Ministry of Railways (Railway Board) entered into a collaboration agreement with a foreign consortium (called group) in November, 1962 for indigenous production of AC freight-type (ACFT) locomotives for a period of eight years. Production was established in Chittaranjan Locomotive Works (CLW) in December, 1963.

Between December 1968 and October 1967, 82 Locomotives were produced by Chittaranjan Locomotive Works and Commissioned on South Eastern Railway. They developed major defects in traction motors shortly after commissioning and had to be withdrawn. The cost of rectification was Rs. 1.41 crores—10% of cost of manufacture.

In September, 1967, the Railway Board decided to 'stop production of AC freight type (ACFT) locomotives and instead decided to manufacture AC mixed type (ACMT) locomotives. For these locomotives it was decided to adopt the traction motors offered by Group. The selected design (of the Group) was not in use in any other country. The collaboration agreement was extended to cover the production of traction motors of the new design upto 2nd November, 1975. Between February 1968 and January, 1972, orders were placed for import of 200 traction motors and 336 armatures. Production of mixed type locomotives commenced from February, 1971.

After September, 1971 i.e. within a short time of locomotives being brought into use, the traction motors developed

defects resulting in large scale immobilisation of locomotives. Investigations jointly by the Group's representatives and Railway engineers disclosed that motor failures were due to failure of both imported and locally built armatures due to bad workmanship and large number of overspeed tests undertaken to prove their soundness.

After investigation of the defects the firm agreed that a new design of the armatures would be developed by them and all the armatures supplied by them would be rehabilitated according to new design at their cost and also that the firm would render assistance to Chittaranjan Locomotive Works in establishing manufacture of armatures to the new design.

The Chittaranjan Locomotive Works estimated the 20 locally built armatures of the old design would have to be rehabilitated at an estimated cost of Rs. 24 lakhs.

The failure of traction motors led to immobilisation of a large number of mixed type locomotives on South Eastern Railway. But for the stabling of these locomotives additional goods traffic could have been moved under electric traction and to that extent haulage under costlier steam traction could have been reduced."

1.3 The Public Accounts Committee (1976-77) examined this issue. The Committee in their 224th Report (Fifth Lok Sabha) *inter-alia* observed/recommended as under :

"The failure of the imported traction motors fitted on these locomotives from December 1969 onwards due to breakage of shafts and pinions is indicative of the fact that the design and capability of the traction motor had not been selected with the requisite care and prudence. While the Committee note that these traction motors have since been replaced by the collaborators at their own expends at a cost of over Rs. 1 crore, the fact remains that a very large number of ACFT Locomotives were rendered in operative thereby denying the Railways the use of these costly locomotives for hauling goods traffic on

electric traction at competitive costs. The Committee would like the Ministry of Railways to constitute a high level enquiry into both the matters referred to above, namely inadequacy of the design for the ACFT Locomotives and large scale failure of shafts and pinions of the traction motors which rendered the locomotives in operative for long periods."

[Para 1.47]

".....It was the bounden duty of the Railway Board to ensure that the specifications were properly laid down and the armature motors were put to realistic field tests to determine the suitability for the ACMT electric locomotives for Indian conditions."

[Para 1.49]

"Had the Railway Board either selected in 1967, the traction motors of the Group design after proper tests and trials especially when the motor of this design were not in use in any other country on purchased traction motors of proved design against open tender as they did in 1973, the ACMT Locomotives would not have been rendered in operative for such long periods."

[Para 1.51]

"The Committee have already in paragraph 1.47, asked for an enquiry to be made to fix the responsibility for the inadequacy of design of ACFT Locomotives. They would like this enquiry to cover also the manufacturing programme for ACMT mixed type electric locomotives with special reference to the specifications for traction motors/indigenous manufacture with this country."

[Para 1.52]

1.4 In pursuance of the Public Accounts Committee's recommendation the Railway Board had appointed a Technical Committee for enquiring into defects in failure of ACFT and ACMT electric locomotives. This enquiry Committee had come to the following conclusion :

"There were a few inadequacies in the detailed design of a few components (viz. armatures, shafts and some bogie components

of ACFT locomotives and armature coils of ACMT Locomotives) but such inadequacies were of a type which are considered inevitable in a new design."

1.5 While accepting the failures, the Collaborators stated that the failures had been precipitated by large number of special over speed tests which had been undertaken on every one of the armatures and that the real problem had come because of having manufactured 300 armatures without sufficient experience of the armatures in service and that they would be changing the design to ensure reliability of operation in service. M/s. Group had supplied 297 traction motors and Chittaranjan Locomotives Works had manufactured 122 traction motors to the old design which were to be rehabilitated and changed to new design. A settlement was reached with the Group in September, 1972 under which they agreed to renew/rehabilitate the armatures supplied by them at their cost. A review in audit of the follow up action taken in respect of cost of rectification of defective traction motors revealed that while the collaborators had agreed to lay the incidence of transport insurance, changes, and repair of armatures built by them in their workshops in France under warranty obligations, claims for reimbursement of expenditure of Rs. 82.16 lakhs incurred by Chittaranjan Locomotive Works towards repair/rectification of the locally built traction motors had remained (September 1982) unrealised by them.

1.6 The Committee asked the Ministry of Railways (Railway Board) to explain in detail the terms of settlement reached with the Group in September 1972. The Ministry of Railways (Railway Board) have furnished a copy of the Minutes of the meeting held in Board's office on 10-9-1972 between Indian Railway's and M/s. Alsthom/France—Appendix II. The terms of settlement reached with the Group (M/s. Alsthom) have been spelt out in para 4 of the minutes.

1.7 During the meeting held on 10-9-1972, the representative of the Group expressed the following views as the cause for the failure of the traction motors and the solution to the problem :

- (i) It was true that a number of armatures had shown signs of distress in service, some even immediately on receipt in India, and a number of armatures were of course still in service in good condition. While inadequacy of workmanship has been

a contributory factor in their final opinion the failures had been precipitated by a large number of special over speed tests which they had undertaken to do on everyone of these armatures to prove their soundness.

- (ii) M/s. Alsthom (Group) were satisfied about the design of the motor. However, to make it easier to produce armatures and ensure the reliability of their operation in service, it was desirable to make certain improvements.
- (iii) A new design which will give a cent per cent satisfaction is possible and M/s. Alsthom have already started working on it. Essentially the new design will involve a change only in respect of the dimensions of the copper conductors for the main winding and the arrangement with 12 conductors in coil will be replaced by 4 conductors.
- (iv) All the armatures supplied by M/s. Alsthom so far to the Indian Railways will be taken back by them, rehabilitated on the lines indicated in (iii) above and returned to India.
- (v) All future TAO 659 armatures to be supplied by M/s. Alsthom against contracts including the outstanding 39 numbers against order No. 124 and 177 will be completed to the new design.
- (vi) M/s. Alsthom will render all assistance to CLW in establishing quickly manufacture of armatures as per the design in (iii) above.

1.8 The offer made by the representative of group was accepted by the Railway Board. Among other things, the representative of the group agreed that :

- (i) An armatures winding export would be placed at the disposal of Chittaranjan Locomotive Works from December, 1972 onwards for attending to quality productions of the new design.
- (ii) All the rehabilitated armatures would be covered by a fresh warranty of 24 months from the date of commissioning in

India or 32 months from the date of shipment ex Tarbes—whichever is earlier. The extended warranty period will be covered by suitable extensions to the bank guarantee.

1.9 The Committee enquired whether it was not an established fact that the failure of the traction motors was due to defective design and the Group had to change the design to suit local conditions. The Ministry of Railways (Railway Board) have in a note submitted to the Committee stated :

“The defective design angle is not to be ruled out since some of the Traction Motors had not been able completely to withstand the special repeated overspeed tests and some changes in design had been effected later during the course of the re-winding of all armatures. However, the firm did not agree that the original design was defective although they did agree to incorporate one of the changes in design suggested by the RDSO—which, the firm said, was with a view to making it easier to produce the armatures and to ensure the reliability of the armatures.”

In this context a reference is invited to para 3 of the minutes of the meeting held in the Board's office on 10-9-72 that M/s. Alsthom made the following observations :

- “(i) It was true that a number of armatures had shown signs of distress in service, some even immediately on receipt in India and a number of armatures were of course still in service in good condition. While inadequacy of workmanship has been a contributory factor, in their final opinion the failure had been precipitated by large number of special overspeed tests which they had undertaken to do on everyone of these armatures to prove their soundness.
- (ii) M/s. Alsthom were satisfied about the design of the motor. However, to make it easier to produce armatures and ensure the reliability of their operation in service, it was desirable to make certain improvements.”

However, it could not be established beyond doubt that the failure of the traction motors were definitely due to defective design, for the following reasons :

- (a) The motors had passed all tests according to IEC (International Electrotechnical Commission) specifications. There were no failures during the special overspeed tests which were beyond the specifications. But failures occurred in service.
- (b) All the motors did not fail. While some motors did fail in service, many were withdrawn from service for re-winding as a measure of abundant caution and as a preventive measure.
- (c) The only change in design detail relates to the number and size of armature conductors, keeping the overall cross-section unchanged. This change in conductor design arose out of the acceptance by Alsthom of one of the 7 recommendations for design changes proposed by RDSO. While making this change Alsthom did not accept that the original design was defective.
- (d) Indian Railways entered into a Technical Collaboration with M/s. Alsthom precisely because Indian Railways did not have the requisite design and manufacturing know-how. It was in this background that Indian Railways could not prove or otherwise Alsthom's claim of there being no design defect."

1.10 When asked whether at any point of time, the collaborators had agreed that the design was defective : the Advisor (Electrical), Railway Board, stated :

"They did not agree."

1.11 In reply to another question the witness explained :

"We call it a design inadequacy in the sense because it was difficult to manufacture. The firm said that the failure was caused basically because of the overspeed tests and defective workmanship."

1.12 The witness added :

"The Railway Board has not said that the design is defective. But at one stage, the RDSO felt that from the point of view of manufacturing facility it is inadequate and it is better to have these four conductors instead of 12 conductors."

1.13 In reply to a further question regarding general defects in the armatures, the witness replied :

"There are probably about thirty to forty different types of defects. There can be bad insulation, there can be short circuit, open circuit, shaft breakage, a bearing may fail. Like that there are so many components and one of them may fail.....What was done when 297 armatures were repaired that they removed the winding completely and re-wound the armature completely. This time they said with improved workmanship they have changed the dimension of the conductors."

1.14 The Committee enquired whether the design which was accepted for mixed type locomotive was the choice of the Railway Board, the witness stated :

"This design which is now under production started in 1971 and is still continuing. They are totally designed by Research, Designs and Standard Organisation (RDSO) of Railways, whereas the earlier AC freight locomotives was an imported design. The latest design which started in November 1971 was by RDSO. Only electric equipments were of imported design. The armatures were imported from Group initially. Later under the collaboration agreement it was manufactured by Chittaranjan Locomotive Works."

1.15 To a question whether the traction motors and armatures in question were in use in any country at the time the agreement was entered into, the witness replied :

"Exactly identical type of traction motors and armatures were probably not in service. Most of the traction motors which are the hearts of the locomotives depend on the local conditions,

speed, gradient and soon. Generally traction motors are designed according to the custom and to each application."

1.16 In a note the Ministry of Railways (Railway Board) have added :

"An identical type of motor was not in use in any other country. It is generally not possible to locate an identical motor already in use elsewhere, totally satisfying the requirements of a new design of locomotives, since the detailed design of the traction motor is conditioned by the specified speeds, loads, motor voltage, dimensional constraints etc, which vary from country to country. However, the new designs do draw upon the design philosophy and technology already proven by the manufacturers. Indian Railways were manufacturing at that time a more complex traction motor of 1580 Horse Power, the design and manufacturing technique of which were supplied by the same manufacturer, i.e. M/s. Alsthom under the collaboration agreement of 1962. The performance of this High expected Power motor had been satisfactory and therefore it was expected that the second design for a motor of lower horse-power (770) would also not present any problems in service."

1.17 The Committee wanted to know the purpose of importing particular motors when they were not tried anywhere else in the world. The Chairman, Railway Board stated :

"We have had an excellent experience about the earlier traction motor purchased. Here is the group of firms of world repute who have been manufacturing motors. The other series had been tried by us earlier without any problem."

1.18 In reply to a question, the Advisor (Electrical), Railway Board clarified :

"After the order was placed and before accepting the motors our representative did go for carrying out the prototype tests, acceptance tests. Our regular representative was permanently there in Paris inspecting so many other items and he also inspected this item."

1.19 The Committee enquired whether it was not a fact that M/s Group had never manufactured traction motors of this design earlier. The Ministry have in a note submitted to the Committee stated :

“Though it is a fact that M/s. Group had not manufactured Traction Motors of this particular design earlier, they had considerable experience in the field of design and manufacture of traction motors and were reputed manufacturers in the world. The design philosophy, insulation system, manufacturing practices and the type of materials adopted in this design are similar to those of other motors manufactured by them at that time.”

1.20 The Committee enquired whether it was a fact that before purchase and adoption for bulk manufacture, the traction motors were not subjected to field trials in India. In reply, the Chairman, Railway Board stated :

“That is correct. But the bench trials and bench tests were there.”

1.21 The Advisor (Electrical), Railway Board, added :

“Identical designs were not field tested. All we can say is that the orders were placed with firms whose design philosophy and whose design in similar railways was tested.”

1.22 The Committee enquired whether it was not desirable that before purchase and adoption for bulk manufacture, the traction motors in question should first have been subjected to field trials in India particularly as an identical type of motor was not in use in any other country. The Ministry of Railways, (Railway Board) have in a note submitted to the Committee *inter-alia* stated :

“It is generally desirable to have field trials of any new equipment before adoption for bulk application. However, in this particular case field trials were not insisted on account of the following compelling reasons :

- (i) Production of ACFT Locomotives, for which CLW was also manufacturing MG-1580 Traction Motors at that time, was stopped and a new design of AC MT Locomotives was to be started. Had field trials of traction motor been insis-

ted upon, production of ACMT Locomotives would have to be postponed for about one year. This step was not desirable as electric locomotives were required for working traffic in electrified sections. The other alternative would have been to import complete electric locomotives or more traction motors.

- (ii) The earlier design of traction motor type MG-1580 had worked successfully on Indian Railways and manufacture was successfully established in collaboration with the same firms i.e. M/s. Alsthom. Considering the situation indicated in (i) above and the fact that the earlier design of the same firm had worked satisfactorily, field trials were not insisted upon."

1.23 When further questioned in evidence, the Chairman, Railway Board stated :

".....Previously we had done the field test/trials and then we entered into a collaboration agreement. The same practice should have been followed also in the second case."

1.24 In reply to another question, the witness conceded that there was no justification for not doing that field trials.

1.25 In a written reply the Ministry of Railways (Railway Board) have stated :

".....The problem of the magnitude that was finally manifest would not have arisen in the normal course if a limited number of motors had been initially manufactured by M/s. Alsthom and tried out under service conditions before undertaking the bulk manufacture. Obviously, M/s. Alsthom were fully confident of success based on past experience in manufacture of similar motors ....."

1.26 The Committee desired to know whether traction motors of proven design and performance alongwith their technology could not be obtained from some other source, and also the level at which the decision to go in for the motors from M/s. Alsthom was taken. The Ministry of Railways (Railway Board) have in a note stated :

"It was possible to procure traction motors from other sources as well. However, it was decided to obtain the new traction motor from the same firm on account of the following reasons :

- (i) Infrastructure already developed for manufacture of MG-1580 type could be profitably utilised for the new traction motor as the basic design philosophy and insulation system of the new motor was similar to earlier design. For a new design from other source certain new facilities would have to be created involving substantial amount.
- (ii) Indigenous substitution programme had been developed for the earlier design of motors which could be profitably used for the new motor also. For an absolutely new type of design indigenous substitution would have to be started afresh, which would have resulted in a higher outgo of foreign exchange.
- (iii) A balance amount of DM 2.0 lakhs out of DM 7.5 lakhs already paid in advance to Group on account of royalty for the earlier locomotives was available, which could be utilised against this contract.

The decision to go in for the traction motors from 'M/s. Alsthom, France was taken at Board's level."

1.27 The Committee desired to know whether the motors had been manufactured as per specifications given by the Indian Railways. They also wanted to know as to what was the main defect in the motors and how it came to the notice. In reply, the Chairman, Railway Board stated :

"With regard to the design, the motors were not manufactured to the specifications as had been asked for by the Indian Railway. They did not use in each of the lot 12 thin core conductors. Now in the case of service it was found they were swelling and carrying out and bursting the bank and creating this problem. There had been 9 field failures of these traction motors which first come into light in the South Eastern Railway after the locomotive covered 60,000 km. or six months. We consi-

dered that 9 failures are fairly high even though there were about 200—300 traction motors in service at that time because it was not normal. After discussion it was considered by them that if these 12 thin conductors are replaced by 4 thick conductors the problem will be overcome. So in the armatures then we went in for the four thicker conductor type instead of the 12 thinner conductor type which was then current. This was found to be able to withstand the various fires which may come up in the field. It was with this modification that all the armatures which did not even fail at that time were examined and wherever there was a small swelling noticed, as a matter of abundant caution they were stopped and all of them were replaced by these 4 thick conductors. This was the same action which was taken after examining simultaneously the CLW motors which have been commissioned without going into the question of design. There are still 12000 motors with the same 12 thin core running. It was under these circumstances that High Power Committee consisting of Chairman, Railway Board the Financial Commissioner, and others discussed with the company in 1972 and they decided that there was specifically no case of any bad design but that there was certainly scope for improvement of the design because that particular design has proved that the 12 thin core conductors is not functioning."

1.28 The Advisor (Electrical), Railway Board added :

"For the first six months between November, April, nine motors failed and out of two hundred in service. The nine motors failure out of 200 was considered abnormal and therefore investigations were started by our engineers. We also called their engineers, to have a joint examination and it was pointed out to them that failure of nine machines out of two hundred within a period of six months is abnormal and as such there is need to investigate the problem thoroughly. After this meeting in Board's of ice, a decision was taken in which their topman was also there and he admitted in the meeting that these failures are due to two things—first they had done some overspeed tests in their works and secondly there was bad workmanship in their own workshop. Then the armatures were checked and some

signs of bad workmanship were noticed during the joint inspection. As a result of this, an agreement was reached that they will take back not only those which have failed so far but in order to avoid future failures. They said they will take back everything that has been manufactured so far and they will repair the whole thing and on that ground all those armatures were sent back and received back over a period of two or three years."

In reply to a question, the witness added :

"In the interest of maintaining the goodwill, in the interest of continuing collaboration for specific period they may have come forward to give improved design free of cost for all these replacements."

When pointed out by the Committee that all these difficulties would not have come at all, had in the first instance, the representatives of RDSO and BHEL were associated by the Railways when the evaluation tests were made, the Chairman, Railway Board stated :

"It is only probable and not positive."

1.29 As to the nature of tests conducted in France and the technical competence of the official who had conducted the tests. The Advisor (Electrical), Railway Board added :

"The tests which were carried out in France in the manufacturer's works are extensive and they were specified when we purchased the traction motors. There is an international specification. Now that test merely amounts to putting the motor on a test bench, leave it to deliver the required horse-power and running it at the required speed and measuring whether the traction motor is becoming very hot or not and some electrical and mechanical measurements are made on the traction motors. This is on a sort of instrument where the traction motor is mounted. This was the only test which was made there. Now for the purpose of making this test no particular person was sent from here. We have a system in Europe. We have a Deputy Railway Adviser whose job is to inspect the various equipments and components that the Railways purchase in

Europe, whether it is wheels, axles or traction motors. He was one Deputy Railway Adviser posted in Paris who was inspecting many other things and this is one of his jobs. His job is to go and witness and see physically that the tests are carried out.....Technically he was very well qualified to carry out the tests and also to see that the tests are carried out properly.....But what was tested in the bench is the horsepower, its speed and such other things."

1.30 In reply to a question, the witness clarified :

"No field test was made. That is a fact. What was made only a Laboratory test."

1.31 The Committee desired to know the reasons for not associating the RDSO/BHEL who had some technical knowledge and know-how in the matter while the evaluation tests conducted in France. In a note, the Ministry of Railways (Railway Board) have stated :

"It is understood that 'evaluation tests' mentioned in this question refer to 'prototype and routine tests' according to specifications in the manufacturers' works before acceptance and despatch of traction motors. It is confirmed that such tests were inspected by an engineer of Indian Railways who was stationed at that time in France. This officer was designated as Deputy Railway Adviser, Paris and was responsible for inspecting other Railway materials also imported from France and some other countries in addition to these traction motors. His work was supervised by another senior Railway Officer posted in U.K and designated as Railway Adviser. There was no system of associating RDSO at that time in such tests. However, the test scheme itself was finalised by RDSO, and the duty of the inspecting officer was to certify that the test results conformed to the specifications laid down in the test scheme. The representatives of BHEL or any other organisation were not associated with such tests, as the officers of RDSO and Indian Railways were fully competent to discharge such duties."

1.32 The Committee enquired whether the Ministry agreed that there was something wanting in the initial design of the traction motors

given by the collaborators, particularly in the safety margin and the reliability of its operation in service. The Ministry of Railways (Railway Board) have, in a note, stated :

"The Ministry do not agree that there was something wanting in the initial design of the traction motor as the traction motor design was made available by one of the very reputed and well-known manufacturers of traction motors. But in actual operation of the traction motor, it was considered necessary to improve the safety margin and to increase the intrinsic reliability and to that end some change were effected in the numbers and sizes of conductors whereby 12 numbers of thinner conductors were replaced by 4 numbers of thicker conductors along with the improvements in the standards of workmanship both at the collaborator's works as well as at the CLW."

1.33 The Committee desired to know the number of traction motors and armatures and other equipments which had been imported from the firm M/s Group and whether these were now in use. The Advisor (Electrical), Railway Board stated :

"200 traction motors and 326 armatures were imported. They are all in service."

1.34 The collaboration agreement was entered into on 3rd November, 1962 between the Ministry of Railways (Railway Board) and M/s Group. Extracts of collaboration Agreement relating to services to be rendered by the Group is given below :

#### ' III Services to be rendered by the Group.

(f) Supply technical information and design calculations, manufacturing drawings and data and manufacturing instructions sheets for the electrical equipment and guarantee that all drawings, specifications and other documents furnished under this Agreement will be complete and in strict accordance with those used for the manufacture in their own workshops, and further undertake that the information and assistance rendered by them shall be such that if it is followed it should enable the

Government to establish indigenous production of electrical equipment similar in standard and performance to that manufactured by the Group in fulfilment of contract No. R/2294/416/60 of 7.4.61 as expeditiously and economically as possible. The Group shall not, however, assume any liability with regard to the quantity of the equipment produced."

1.35 In respect of the traction motors ordered on M/s Group the firm had given warranty. Extract of warranty clause of the relevant contract is reproduced below :

"The contractor also guarantees that the armatures shall be free from faulty design defects in materials and workmanship, provided that their liabilities in this respect shall be limited to the furnishing of replacement parts or repair of the defective part free of charges, to the exclusion of any indirect or consequential damages. All replacement parts shall be shipped by the contractor C.I.F. Indian Port from which point the Indian Railways shall clear them through customers and deliver at their expenses to the place of final destination....."

1.36 In July 1972, while reviewing the behaviour of traction motors, the Ministry of Railways (Railway Board) decided that the Collaborators's warranty obligations for the failure of CLW built traction motors should be gone into by the General Manager, Chittaranjan Locomotive Works and settled with their (Board's) concurrence. The minutes of the relevant meeting did not show that this aspect had figured specifically in the settlement arrived at regarding the failures of the traction motors in discussions (Sept. 1972) with the collaborators by the Ministry of Railways (Railway Board) and C.L.W. According to the agreement of September 1972, the collaborator agreed to rehabilitate at their (collaborator's) cost all the armatures already supplied by them to a new design but their liability in respect of C.L.W. built armatures was confined to furnishing a new design rendering assistance to CLW in establishing quick manufacture of armatures of the new design

1.37 The Committee enquired whether the traction motors built in India to the design given by Group were also covered by the Warranty given by the Group in clause III f) of the Collaboration Agreement.

In a written note, the Ministry of Railways (Railway Board) have stated :

“Clause III(f) of the Collaboration Agreement of November, 1962 states that technical information furnished under the agreement would be complete and in strict accordance with that used in Alsthom’s own workshops. It also gives an undertaking that the information and assistance given would be such as to enable the Government to establish indigenous production of equipment similar in standard and performance to that manufactured by Alsthom.

It will be seen that clause III(f) does not cover traction motors built elsewhere to the design given by the Group, with regard to the manufacturing defect/deficiencies.

M/s Alsthom had expressed the view that the failures were due to defects in workmanship and it could not be established that the failures were due to defects in design.

M/s Alsthom did place at the disposal of CLW from December 1972, onwards an armature winding expert for assisting in improving and sustaining the quality production to design.”

1.38 If the provisions of clause III(f) of the agreement were not attracted in the case, the Committee desired to know the circumstances in which the above clause could be invoked. In a written note, the Ministry have replied :

“No. This clause can be invoked only if the firm refuses to furnish adequate technical information for establishing the manufacture in India.”

1.39 In reply to a question whether the Ministry agreed that the initial agreement was defective, the Chairman, Railway Board conceded :

“I would agree to this.”

1.40 The Committee desired to know categorically whether the specific question of the collaborator’s warranty obligation for the failure

of the CLW built traction motor was taken up with the collaborators at the meeting held on 10.9.72 and if not the reasons therefor. In a written reply the Ministry have stated :

“It is not known at this point of time as to what was discussed in that said meeting on 10.9.1972, in addition to what is recorded in the minutes of the meeting. It is possible that the CLW-built armatures would have also been discussed as the minutes include certain decisions in para 4 (viii) of the minutes in regard to CLW-built armatures. It is quite possible that Board were aware of the weakness of Railways position in this regard on account of the absence of any provision in the collaboration agreement in regard to warranty obligations of the firm for CLW built armatures, in the event of their failures.”

1.41 The Committee asked as to why the Railway Board did not think it prudent to obtain a warranty obligation for CLW built motors also as they were built to the design and standards of Group. In a written reply, the Ministry have stated :

“Normally such a provision is not included in technical collaboration agreement for locally built products. The foreign collaborators also do not normally agree to accept any responsibility for manufacturing defects or deficiencies in the product manufactured in India, because this would involve them in unknown and unquantifiable risks on account of quality of local labour and supervision. In case, such a clause is insisted upon the technical collaboration fee is likely to be much higher and the collaborator is likely to insist on supervision of the work by their staff, provision of certain portion of skilled labour from their works and complete say in material procurement and approval of vendors. Such an arrangement, besides being very costly, would imply their participation in management to a certain extent.”

1.42 In July, 1972 while reviewing the behaviour of traction motors, the Ministry of Railways (Railway Board) decided that the collaborator's warranty obligations for the failure of CLW built traction motors should be gone into by the General Manager, CLW and settled with their (Board's) concurrence. More than five years later in January

1978, the CLW advised the Ministry of Railways (Railway Board) that expenditure incurred on repairs/rectification of traction motors/armatures built locally according to the old design was reimbursible by the collaborator and proposed to put forward the claim to them through the statement of consultancy fees payable by CLW under the Collaboration Agreement. With the approval of the Ministry (February 1978) a claim on the collaborator for reimbursement of repair/rectification charges of Rs. 25.63 lakhs incurred till then indicating that the total expenditure on this account would be advised on completion of re-winding/repair of all the 122 armatures built by CLW to the old design.

1.43 The collaborator intimated CLW (May 1978) that as to the cost of rewinding the armatures "an agreement has been reached by CLW and the Group as recorded in the minutes of the meeting with the (Railway) Board of September 1972 and the agreement has been entirely performed." The CLW again addressed (September 1978) the collaborator reiterating their claim for reimbursement of charges for repair of traction motors/armatures necessitated by the defects in the original design. The collaborator in turn repudiated (February 1979) the claim stating that the proposal made by their representative in the meeting held in September 1972 was a package offer which had been accepted by the Ministry of Railways (Railway Board) in full settlement of the problems relating to the failure of the traction motors.

[The Collaboration Agreement was in force only upto 2.11.1975].

1.44 The Committee desired to know the reasons for the delay in preferring claims on collaborator till February 1978 when the collaboration agreement had been extended upto 2nd November, 1975 only. The Committee also asked as to who was responsible for this delay and what action had been taken against the defaulter. The Ministry have in a note stated :

"The firm did not have any liability in regard to CLW built armatures in terms of collaboration agreements of 1962 and 1968. However, during 1977, when the question of releasing consultation fee, bank guarantee etc. to GROUP came up, all possible liabilities (even those which were doubtful) to be discharged by them were looked into afresh and this claim was preferred as a precautionary measure."

1.45 The Ministry have further stated :

"The Government Council has also opined (copy of legal opinion at Appendix III) after going through their reply that unless it could be shown specifically from the clauses of the agreement in question that M/s. Alsthom agreed to bear the cost of rewinding/repair of CLW built armatures, it cannot be claimed from them nor it could be deducted from the consultation fee. The matter was therefore not pursued thereafter."

1.46 In a further note submitted to the Committee, the Ministry added :

"The repairs to the CLW-built motors was being undertaken depending upon the receipt of traction motors from the Railways. The process started in 1973 and continued even till 1981 during which period these motors continued in service. The position of all the outstanding claims was reviewed at the time of finalisation of consultancy fee and it was decided to prefer this claim also at that time.

The collaborators had no liability towards CLW built armatures within the contractual provisions and the claim was preferred only as a precautionary measure. The delay in preferring the claim has therefore no significance."

1.47 When asked whether the Ministry of Railways (Railway Board) had no responsibility in the matter, the Ministry in a note have stated :

"No, there is no direct responsibility in the matter."

1.48 The Committee enquired whether the legal implications of preferring the claim belatedly were examined by the Railway Board. The Ministry in a note have stated :

"Based upon advice of Government Council Calcutta, Railway Board cleared the proposal of CLW for preferring the claim in this respect on GROUP. No other legal advice was sought for at Board's level."

1.49 Asked whether the Railway Board agreed with the view of the collaborators in this regard, the Ministry have stated :

“As clarified earlier, after considering the provisions in the collaboration agreement and the legal opinion obtained by CLW, Board consider that the firm has no liability in respect of CLW-built armatures.”

1.50 The Committee wanted to know the reasons for not referring the dispute to arbitration as suggested by the Council. In a note, the Ministry have stated :

“There has got to be adequate ground for going in for arbitration. Government council has advised that the Railways should not take any unilateral decision in this regard and if they have any doubt in this regard they should refer the dispute to arbitration. It has also been stated in the legal opinion that unless it could be shown specifically from the clause of the agreement in question that M/s Alsthom agreed to bear the cost of rewinding/repair of the CLW-built armatures, it cannot be claimed from them nor it could be deducted from the consultancy fee. In the light of the above advice it was not considered desirable to go in for arbitration.”

1.51 The Committee enquired whether all the armatures manufactured by CLW to the old design had been rehabilitated. The Committee also wanted to know the total cost of rectification. In a note furnished to the Committee, the Ministry have stated :

“Out of a total of 124 CLW-built armatures of old design, 112 armatures have been so far received from the Railways for rehabilitation; of these, 104 have been attended and returned to the Railways while 8 have been scrapped, as being not fit for rehabilitation. The direct cost of rectification of 104 armatures was Rs. 28 lakhs approximately.”

1.52 In evidence, the Advisor (Electrical), Railway Board, added :

“The direct cost was Rs. 28 lakhs; and if you add overheads, then it will come to Rs. 48 lakhs.”

1.53 The Committee enquired whether the Chittaranjan Locomotive Works was now in a position to manufacture traction motors to perfection. In evidence, the Chairman, Railway Board stated :

“They have been manufacturing 500 sets per year and they are working satisfactorily.”

1.54 In a note submitted to the Committee, the Ministry have added :

“CLW is able to manufacture these traction motors according to the manufacturing drawings and designs supplied by the collaborator. However, the technology has progressed very fast during the period and the present-day designs, insulating materials and manufacturing practices are superior to those which was employed by CLW as a part of this collaboration agreement. To this extent these old traction motors are not as reliable as would be possible with the adoption of new techniques and materials which are available now.”

1.55 The Committee asked as to what were the reasons for delay in carrying out the rectification and whether the delay had not resulted in unnecessary procurement of traction motors to keep the locomotives in line. The Ministry in a note have stated :

“There has been no delay in rectification. The policy was not to withdraw all the armatures at one time as repair capacity was limited and locos were required for service.

The policy of gradual withdrawal ensured adequate availability of locomotives in service and did not result in unnecessary procurement of traction motors ”

1.56 Asked whether the Railway Board had monitored the progress of rehabilitation of defective traction motors, the Ministry have, in a note, stated :

“Railway Board had monitored the progress in the past when the work was in execution at CLW as also abroad.”

1.57 According to the Audit Paragraph, the same collaborator (M/s Group) had overcharged prices of various materials supplied to Chittaranjan Locomotive Works. CLW's claim amounting to Rs. 1.66 crores on this account was pending before Joint arbitrators. [c.f. para 1.68 of 224th Report of PAC (Fifth Lok Sabha)].

1.58 In a note furnished to the Committee, the Ministry have stated :

“(a) CLW had to purchase a number of raw materials and components and these had to be imported in the initial stages.

In terms of collaboration Agreement, the Collaborator was required to arrange supplies of such materials, at a very reasonable handling charge of 5%.

Believing that the collaborator was acting correctly in the discharge of this obligation, CLW obtained all their requirements of imported materials from the Collaborator.

It was discovered by CLW in 1971, that the Collaborator was charging prices which were much higher than those allowed by the Collaboration Agreement.

(b) The amount claimed is approximately Rs. 1.62 crores plus interest at 18% upto the date of payment. The period to which this relates is from 1963 to 1971.

(c) Railway Board first noticed the overcharging in 1971.

(d) CLW preferred the claims for the overcharged amounts on 29.6.1974 and appointed an Arbitrator.

(e) The status of the Arbitration case is as follows :

Arbitration proceedings in respect of CLW's claim for over-charging prices of various materials have not yet been completed.

In February, 1981, Hon'ble (Retd.) Justice Sikri, the Umpire (to whom the case was referred due to dis-

agreement between the Joint arbitrators) stated in an order that he has come to the conclusion that there has been a breach of Clauses VIII(f) of the Agreement dated November, 1962, as amended by the Supplementary Agreement dated 9.2.1963 read with the various purchase contracts arising out of these Agreements.

On a suggestion from the Learned Umpire in July, 1981, that it would be better if the parties could come to an agreed settlement, exploratory discussions were held with the Group through the respective counsels. But, a mutually acceptable settlement could not be reached. Therefore, the matter was reported back to the Umpire in September 1982, for resuming the arbitration proceedings.

Concurrently, the allowed time for the arbitration having expired, an application was moved before the Delhi High Court for extension of the time. While this matter was under the consideration of the High Court, the opposite party, viz., M/s Alsthom-Atlantique, filed a separate petition before the same High Court praying for declaring the arbitration proceedings void *ab initio* or to revoke the authority of the Umpire and supersede the Arbitration. This is also being contested by CLW. The Court has not yet given decision on these issue.

The amount claimed by CLW is approximately Rs. 1.62 crores plus interest at 18% on the awarded sums till the date of payment by the respondents plus costs.

As the case is still under arbitration/legal proceedings the amount returned so far is nil."

1.59 During evidence, the Committee enquired whether it was a fact that an account of delay on the part of the Railway Board, the case had become time-barred. The Chairman, Railway Board stated :

"We have not allowed it to get time-barred. Now we have gone to the court."

1.60 In September 1967, the Railway Board decide to manufacture AC electric mixed type (ACMT) BG locomotives and for these locomotives it was decided to adopt the traction motors to a design offered by a foreign firm M/s Alstom. The selected design of the firm was not in use in any other country. Between February 1968 and January 1972, orders were placed for import of 200 traction motors and 336 armatures from the firm. The Chittaranjan Locomotive Works also commenced production of traction motors and armatures of ACMT locomotives to the design supplied by the firm. After September 1971, i.e. within a short time of the locomotives being brought into use, large scale failures of traction motors and armatures, both manufactured by Chittaranjan Locomotive Works and those supplied by the firm started occurring, rendering inoperative a large number of ACMT locomotives on South Eastern Railway. After a joint investigation of the defects by the firm's representatives and Railway Board engineers, a settlement was reached in September 1972, under which the firm agreed that a new design of the armatures would be developed by them, and all the armatures supplied by them would be rehabilitated according to the new design at their cost; also the firm would render assistance to Chittaranjan Locomotive Works establishing manufacture of armatures to the new design. The firm had supplied 297 traction motors and Chittaranjan Locomotives Works had manufactured 122 traction motors to the old design which were to be rehabilitated and changed to the new design. While the collaborators agreed to pay the incidence of transport, insurance charges and repair of armatures built by them in their works in France under warranty obligation, claim for re-imbursement of expenditure incurred by CLW towards repair/rectification of the locally built traction motors had been disowned by them.

1.61 Surprisingly the traction motors in question which were not in use in any country, were not subjected to field trials in India to determine their suitability in Indian conditions before purchase bulk production. What were carried out were only 'bench' or laboratory tests, i.e. 'prototype and routine tests' in the manufacturers' works before acceptance and despatch of traction motors. The main argument given by the Ministry for not conducting field trials of the traction motor was that the production of ACMT locomotives at Chittaranjan Locomotive Works would have to be postponed by about one year. The Committee do not see any force in the argument for, as even otherwise the production of mixed type locomotives could commence at CLW only from February

1971, instead of from 1969, as originally planned. Further as the traction motors started developing defects soon after they were put in use, there was large scale immobilisation of locomotives necessitating use of alternative costlier traction. The Committee observe that even after change in design the traction motors have not given a satisfactory performance. As against 1520 such motors in use on the South Eastern Railway in 1980-81, there were 246 failures; and as against 1776 such motors in use on that Railway in 1981-82 there were 339 failures. In a note furnished to the Committee, the Ministry have now belatedly conceded that "the problem of the magnitude that was finally manifest would not have arisen in the normal course if a limited number of motors had been initially manufactured by M/s. Alstom and tried out under service conditions before undertaking bulk manufacture." In evidence, the Chairman, Railway Board also conceded, "Certainly it would pin point one thing. Previously (in the case of indigenous manufacture of AC Freight type locomotives) we had done the field trials and then we entered into a collaboration agreement. The same practice should have been followed in the second case (the present case)." The Committee consider it a serious lapse entailing heavy losses which cannot be condoned.

1.62 The Committee find that the traction motors in France were inspected and certified as satisfactory by an engineer of Indian Railways stationed at that time in Paris, designated as Deputy Railway Advisor, Paris. In the opinion of the Committee, the Research, Designs and Standards Organisation (who had already designed traction motors on their own) and Bharat Heavy Electricals (a public sector undertaking) who were already manufacturing traction motors for DC electric locomotives, should have been closely associated in evaluating the performance of the traction motors/armatures. Asked why the representatives of the Bharat Heavy Electricals were not associated with evaluation tests of the traction motors in question, the reply of the Ministry of Railways was that this was not done "as the officers of Research, Designs and Standards Organisation and the Indian Railways were fully competent to discharge such duties." If so, the Committee enquired why the Research, Designs and Standards Organisation were not associated with the evaluation tests of the traction motors. Their reply was "There was no system of associating RDSO at that time in such tests." The Committee are surprised at this explanation. If, as conceded by the Ministry of Railways, the officers of

the RDSO were fully competent to carry out evaluation tests, the Committee fail to understand why they were not associated with such tests. Nor are the Committee satisfied with the explanation of the Ministry for not associating the Bharat Heavy Electricals with such tests. As already observed by the Committee in their 24th Report (Fifth Lok Sabha), had there been a meaningful dialogue between these agencies in the public sector and critical evaluation of the traction motors and armatures which were available in the world market, it should have been possible to lay down more suitable specifications and undertake the import/manufacture of the more suitable armature motors for the ACMT locomotive programme from the very inception. The Committee trust that the Ministry of Railways will bear this in mind while entering into such transactions in future.

1.63 As regards the question whether the failure of traction motors could be ascribed primarily to defective design, the Ministry of Railways have stated that although the defective design angle is not to be ruled out since some of the traction motors had not been able completely to withstand the special repeated overspeed tests and some changes in design had to be effected later, the firm did not agree that the original design was defective. The very fact that the collaborators had to evolve a new design to ensure the reliability of its operation in service and to improve the safety margin indicates that there were inadequacies in the original design of traction motors supplied by them. Further, similar defects had been noticed in the traction motors built both by them and the CLW. Such similarity could not be explained as due to bad workmanship at both the works but could only be due to inadequacies in the original design. Further, the Technical Committee appointed by the Railway Board in pursuance of an earlier recommendation of the PAC, had also opined that there were inadequacies in the armature coils. The Committee are surprised that in the face of such clear evidence, the Railway Board were not able to tell the collaborators assertively that the failure of the traction motor was primarily due to an inadequacy in their design.

1.64 The Committee note that while the collaborators had agreed to rehabilitate all the armatures built by them in their works in France at their own cost in the case of armatures built at CLW they had agreed only to render technical assistance to help the CLW. It stands to reason that as the rehabilitation of the CLW-built armatures was necessitated by

inadequacies in the original design supplied by the collaborators, the cost of rehabilitation of such armatures should have also been borne by them. But, from the minutes of the meeting held on 10.9.1972 between the Indian Railways and M/s. Alsthom, France the Committee find that while the question of failure of CLW-built traction motors did crop up at the meeting, there is no indication that the specific question of the collaborators' obligation to compensate the CLW for the failure of CLW-built traction motors was raised. The Ministry, who were requested to clearly indicate whether the question was specifically raised at the meeting, have stated that "it is not known at this point of time what was discussed in that said meeting in addition to what is recorded in the minutes of the meeting" and that "it is quite possible that the Board were aware of the weakness of the Railways position in this regard on account of the absence of any provision in the collaborations agreement in regard to warranty obligations of the firm for CLW-built armatures in the event of their failure." The Committee are surprised at this explanation for, the Ministry of Railways had earlier asked the CLW that the collaborators' warranty obligation for the failures of CLW-built traction motors should be gone into and settled with their concurrence. The Committee are led to the conclusion that at the meeting the representatives of Railways failed to safeguard the financial interest of the Railways.

1.65 It was in July, 1972 that the Ministry of Railways had decided that the collaborators' warranty obligation for the failures of the CLW-built traction motors should be gone into by the General Manager, CLW and settled with their (the Board's) concurrence. The Chittaranjan Locomotive Works however advised the Ministry of Railways (Railway Board) in January 1978, i.e., more than two years after the expiry of the agreement, that the expenditure incurred on repairs/rectification of traction motors armatures built locally according to the old design was re-imbursible by the collaborators and proposed to put forward the claim to them through the statement of consultancy fees payable by the CLW under the collaboration agreement. With the approval of the Ministry of Railways, CLW preferred, in February, 1978, a claim on the collaborators for re-imburement of repair/rectification charges of Rs. 25.63 lakhs incurred till then indicating that the total expenditure on the account would be advised on completion of re-winding/repair of all the 122 armatures built by CLW to the old

design. The collaborators, in turn, repudiated the claim, stating that the proposal made by their representative in the meeting held in September, 1972 was a package offer which had been accepted by the Ministry of Railways in full settlement of the problem relating to the failures of traction motors. The Committee have little doubt that with such belated and half-hearted attempt on the part of the Railway authorities to enforce their claim the result could not have been otherwise. As the position stands today, claims for re-imbursement of expenditure of Rs. 82.16 lakhs incurred by CLW towards repair/rectification of the locally built traction motors remain without any hope of realisation.

1.66 The Committee are given to understand that the collaborators' dues from CLW on account of consultancy fees amount to Rs. 37.86 lakhs only. Having regard to the heavy expenditure incurred by the CLW on repair/rehabilitation of CLW-built armatures necessitated by inadequacy in the design supplied by the collaborators, whether any consultancy fees would at all be admissible to collaborators had not yet been decided by the Ministry of Railways (Railway Board). The Committee would like the Ministry to come to an early decision in the matter under intimation to the Committee.

1.67 Clause III(f) of the Collaboration Agreement which relates to manufacture of traction motors and armatures at CLW states that technical information furnished under the agreement would be complete and in strict accordance with that used in Alsthom's own workshop. It also gives an undertaking that the information and assistance given would be such as to enable Government to establish indigenous production of equipment similar in standard and performance to that manufactured by Alsthom, but there is no mention in this clause of warranty against defect/deficiencies found in the designs supplied by the collaborator. As admitted by the Chairman, Railway Board, 'to that extent the initial agreement was defective'. The Ministry have however explained that normally such a provision is not included in technical collaboration agreements for locally-built products. The Committee are not convinced by this explanation. The Committee strongly feel that once design defect is established, the collaborators ought to be bound to recoup losses in the manufacture of defective products even locally. They hope that suitable safeguards would be built into such collaboration agreements in future.

1.68 The Committee are unhappy over the manner in which the Ministry of Railways had proceeded in the matter of their claim for overcharged prices. It was discovered by CLW that the collaborators were charging much higher prices for materials supplied during the period 1963 to 1971. The CLW's claim on this account came to Rs. 1.62 crores *plus* interest charges at 18% upto the date of payment. The overcharge first came to the notice of the CLW in 1971. The CLW preferred their claim for the overcharge on 29-6-1974. Ever since, the matter had been under arbitration/legal action. There are many depressing aspects of the case. The overcharge went on practically from the very beginning, but eight years elapsed before the CLW could notice it and it took three years more to prefer the claim. Thereafter, the matter had been allowed to drag on for nearly seven years. In February 1981, Umpire Justice Sikri concluded that there was a breach of clause VIII (f) of the Agreement of November 1962, as amended by the Supplementary Agreement of February 1968. In July 1981, he suggested mutual settlement, but the CLW took more than a year to report back, requesting the Umpire to resume arbitration following failure of settlement. By this time, the period allowed for arbitration had expired. While an application has since been filed by the CLW in the High Court for extension of time for arbitration, a petition has also been filed by the collaborators in the High Court to declare the arbitration proceedings void *ab initio* and to revoke the authority of the Umpire. Both the petitions are pending in the High Court; and as against the CLW's claim of Rs. 1.62 crores *plus* interest charges for the materials overcharged 13 to 21 years back, the amount recovered to date is nil. While the Committee would like to watch the outcome of the two petitions pending in the High Court, they cannot help deplore the lackadaisical manner in which the CLW authorities had all along acted in this case. Clearly, there has been a failure on the part of the CLW to safeguard the financial interests of Railways.

1.69 Cumulatively, the failures in this case such as (i) absence of extensive field trials before entering into collaboration agreement; (ii) execution of defective agreement without covering clearly the warranty obligations of the collaborator; (iii) insufficient care in accepting supplies from the collaborators; (iv) negligent negotiations with the collaborators in not urging upon them their responsibility to make good the losses in the local manufacture; and (v) the delay in

preferring and pursuing the claims add up to a situation that becomes intolerable. The Committee therefore desire that the case calls for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. They would also like to know whether there were any manufacturing defects in the CLW-built traction motors other than those ascribable to the inadequacies in the original design. The Committee would await the results of the investigation and the action taken on the basis thereof.

NEW DELHI;  
*August 13, 1984*  
*Srayana 22, 1906 (S)*

SUNIL MAITRA  
*Chairman,*  
*Public Accounts Committee.*

## **APPENDIX I**

*(Vide Para 1.1)*

### ***Audit Para***

#### **Claims outstanding against a collaborator**

In paragraph 10 of Comptroller and Auditor General of India's Report (Railways) for 1972-73 mention was made, *inter alia*, of the large scale failure of the traction motors manufactured by Chittaranjan Locomotive Works (CLW) according to a design given by their Collaborator (Group) as also of those imported from the latter due to design deficiencies. It was also mentioned that efforts were being made to rehabilitate them by changing the design.

While accepting the failures the collaborators stated that the failures had been precipitated by large number of special overspeed test which had been undertaken on everyone of the armatures and that the real problem had come because of having manufactured 300 armatures without sufficient experience of the armatures in service and that they would be changing the design to ensure reliability of operation in service. M/s Group had supplied 297 traction motors and CLW had manufactured 122 traction motors to the old design which were to be rehabilitated and change to new design. A settlement was reached with the Group in September 1972 under which they agreed to renew/rehabilitate the armatures supplied by them at their cost. A review in audit of the follow up action taken in respect of cost of rectification of defective traction motors revealed that while the collaborators had agreed to pay the incidence of transport, insurance charges and repair of armatures build by them in their works in Finance under warranty obligation, claims, for re-imbursment of expenditure of Rs. 82.16 lakhs incurred by CLW towards repair/rectification of the locally built traction motors had remained (September 1982) unrealised from them.

The terms of agreement with M/s Group stipulated that M/s Group would guarantee that all drawings, specifications and other documents

under the agreement would be complete and strictly in accordance with those used for the manufacture in their own workshops and "further undertake that the information and assistance rendered by them shall be such that if it is followed it should enable the Government to establish indigenous production of electrical equipment similar in standard and performance to that manufactured by the Group".

In July 1972, while reviewing the behaviour of traction motors the Ministry of Railways (Railway Board) had decided that the collaborator's warranty obligations for the failures of CLW-built traction motors should be gone into by the General Manager, CLW and settled with their (the Board's) concurrence. This aspect had not figured specifically in the settlement arrived at regarding the failures of the traction motors, in discussions (September 1972) with the collaborator by the Ministry of Railways (Railway Board) and CLW. According to the agreement of September 1972 the collaborator agreed to rehabilitate at their (the collaborator's) cost all the armatures already supplied by them to a new design but their liability in respect of CLW-built armatures was confined to furnishing a new design, rendering assistance to CLW in establishing quick manufacture of armatures of the new design.

More than five years later, in January 1978, the CLW advised the Ministry of Railways (Railway Board) that expenditure incurred on repairs/rectification of traction motors/armatures built locally according to the old design was reimbursable by the collaborator and proposed to put forward the claim to them through the statement of consultancy fees payable by CLW under the collaboration agreement. With the approval of the Ministry of Railways (Railway Board), CLW preferred (February 1978) a claim on the collaborator for reimbursement of repair/rectification charges of Rs. 25.63 lakhs incurred till then, indicating that the total expenditure on this account would be advised on completion of rewinding/repair of all the 122 armatures built by CLW to the old design.

The collaborator intimated (May 1978) CLW that as to the cost of rewinding the armatures, "an agreement has been reached by CLW and the Group as recorded in minutes of the meeting with the Board of September 1972 and the agreement has been entirely performed". The CLW again addressed (September 1978) the collaborator reiterating their claim for reimbursement of charges for repair of the

traction motors/armatures necessitated by the defects in the original design. The collaborator in turn repudiated (February 1979) the claim stating that the proposal made by their representative in the meeting held in September 1972 was a package offer which had been accepted by the Ministry of Railways (Railway Board) in full settlement of the problems of relating to the failures of the traction motors.

The failure to take up during negotiations with M/s Group the matter regarding their liability in respect of cost of rectification of CLW-built traction motors manufactured to their design under the guarantee terms of the collaboration agreement had resulted in repudiation of the claim by the Group. Further, there was delay in bringing up the matter in as much as the claim was put forward only in February 1978, the agreement having expired in November 1975.

In the absence of any tangible action being taken after February 1979 for resolving the dispute, the repair/rectification charges amounting to Rs. 82.16 lakhs incurred by CLW in respect of armature (122 nos) built by it to the old defective design have remained unrealised (September 1982) from the collaborator, while the latter's dues from CLW on account of consultancy fees amount to Rs. 37.86 lakhs only. In view of the deficiencies/defects in the traction motor design necessitating costly repair/rectification of CLW-built armatures, whether any consultancy fees in respect thereof would at all be admissible to the collaborator has not also been decided by the Ministry of Railways (Railway Board) so far (September 1982).

It may be mentioned that the same collaborator had overcharged prices of various materials supplied to CLW. CLW's claim amounting to about Rs. 1.66 crores on this account is pending before joint arbitrators [cf. para 1.68 224th Report of Public Accounts Committee (Fifth Lok Sabha)].

The case was referred to CLW and the Ministry of Railways (Railway Board) in July and October 1981 respectively; their reply is still awaited (November 1982).

## **APPENDIX II**

*(Vide para 1.6)*

*Minutes of meeting held in the Board's office on 10.9.72 between  
Indian Railways and Messrs Alsthom, France*

### **PRESENT**

#### **Railway Board**

**Shri B.S.D. Baliga, *Chairman Railway Board.***

**Shri K.S. Sundara Rajan, *Financial Commissioner.***

**Shri H.M. Chatterjee, *Member Mechanical.***

**Shri J. Matthan, *O.S.D. (P & PU).***

**Shri J.D. Malhotra, *Director Railway Electrification.***

**Shri V.S. Gupta, *Director Electrical Engineering.***

**Shri K.S.A. Padmanabhan, *Director Finance.***

**Shri V.C. Paranjape, *Director Railway Stores.***

**Shri G.P. Dodeja, *Jt. Director Electrical Engineering.***

**Shri S.K. Ahluwalia, *Dy. Director Railway Stores (F).***

#### **Research, Design and Standards Organisation**

**Shri R.L. Mitra, *Director Standards (Elec).***

**Shri J.C. Gupta, *Jt. Director Standards (Elec).***

#### **Chittaranjan Locomotive Works**

**Shri A.L. Kochar, *General Manager.***

**Shri R. Kanan, *Financial Advisor & Chief Accounts Officer.***

**Shri M.B. Subramaniam, *Controller of Stores.***

**Shri M.L. Khullar, *Chief Electrical Engineer.***

**Shri S. Natarajan, *Dy. Chief Electrical Engineer.***

**S.E. Railway**

**Shri K C. Priyadarshee, *Chief Electrical Engineer.***

**Central Railway**

**Shri K.P. Padiyar, *Dy. Chief Electrical Engineer.***

**Messrs. Alsthom**

**M.R. Chalvon-Demersay**

**M.F. Nouvion**

**M. Jouy**

**M.R. Jucla**

**M.R. Bergart**

**Mr. L.M. Adeshra, *Group's representative in New Delhi.***

1. Chairman, Railway Board extended a hearty welcome to Mr. Chalvon and his party on behalf of the Indian Railways, particularly in taking interest in solving the difficult problem of the failures of TAO 659 traction motors. The Chairman, pointed out that a large fleet of locomotives has been immobilised and production at Chittaranjan has been seriously affected as a result of failures of these traction motors. He was confident that Messrs. Alsthom having vast experience in the technology of design and manufacture of traction motors of various types would be in a position to find a satisfactory solution and render all possible assistance in implementing the same. Chairman stated that now that Mr. Chalvon has visited Chittaranjan and detailed investigations had been carried out by his experts, he (CRB) would now like to hear from them the basic cause of the problem and the solution that they have to offer.

2. Mr. Chalvon stated that this problem had received their careful attention. As a result of the tests and investigations conducted it has been possible for them to come to definite conclusions. He was thankful to the Indian Railways for all the assistance rendered for conducting these investigations. His proposals would take care of—

- (i) A technical solution with a view to improving for safety margin and reliability of the traction motors.

- (ii) Manufacturing problem and the necessity to evolve a design which would lend itself to easier manufacture, particularly in CLW.
- (iii) The necessity to keep as many locos as possible in service on S.E. Railway.
- (iv) The need to restore as quickly as possible the tempo of production of electric locomotives in CLW, which has received a set-back on account of the above problem.

3. Mr. Chalvon considered that in the overall context this was a very difficult problem for M/s. Alsthom. However, fully realising and appreciating the difficulties from the side of the Indian Railways, he proposed the following solution in the true spirit of the Collaboration between the two organisations :

- (i) It was true that a number of armatures had shown signs of distress in service, some even immediately on receipt in India and a number of armatures were of course still in service in good condition. While inadequacy of workmanship has been a contributory factor, in their final opinion the failures had been precipitated by large number of special overspeed tests which they had undertaken to do on everyone of these armatures to prove their soundness.
- (ii) M/s. Alsthom were satisfied about the design of the motor. However, to make it easier to produce armatures and ensure the reliability of their operation in service, it was desirable to make certain improvements.
- (iii) A new design which will give cent per cent satisfaction is possible and M/s. Alsthom have already started working on it. Essentially, the new design will involve a change only in respect of the dimensions of the copper conductors for the main winding and the arrangement with 12 conductors in a coil will be replaced by 4 conductors.
- (iv) All the armatures supplied by M/s. Alsthom so far to the Indian Railways will be taken back by them, rehabilitated on the lines indicated in (iii) above and returned to India.

- (v) All future TAO 659 armatures to be supplied by M/s. Alsthom against contracts including the outstanding 39 Nos. against orders Nos. 124 and 177 will be completed to the new design.
- (vi) M/s. Alsthom will render all assistance to CLW in establishing quickly manufacture of armatures as per the design in (iii) above.

4. The offer made by Mr. Chalvon was accepted by the Railway Board. After detailed discussions, the following decisions were reached :

- (i) M/s. Alsthom agreed that all Alsthom built armatures of TAO 659 would be renewed/rehabilitated to the new design at their works in tarbes in France at their cost.
- (ii) Alsthom will change the design of the armature coils, in so far as the conductor size is concerned, to make them stronger, safer and easier to manufacture. There would, however, be no change in other components of the armatures, Asbestos covered copper conductors presently used for armature coils could be used for equaliser coils in future production.
- (iii) Alsthom assured that the details of the new design would be finalised expeditiously.
- (iv) Simultaneously Alsthom would also take further necessary steps for procurement of new conductors and modifications of the coil forming fixtures so that production of armatures to revised design could be speeded up, both at tarbes and at CLW.
- (v) Alsthom also desired that 2 armatures (AT 311 & AT 22) now at CLW should be flown immediately to the works at Tarbes at their cost, for detailed investigation.
- (vi) Alsthom also desired that one of the armatures coil forming fixtures available at CLW be flown immediately to their works at their cost for modification to meet the new design. The modified fixture would be got ready by end of Nov./beginning December '72 and flown back to India at their cost.

- (vii) Alsthom built armatures would be rehabilitated to the new design on the following terms :
- (a) The Railways will arrange to despatch the defective armatures in convenient batches. Defective armatures would be identified in consultation with Alsthom Engineers who would shortly be stationed in India for the purpose. Alsthom would bear all expenses ex Calcutta Port to Tarbes and back, including the cost of rehabilitation, freight and insurance and deliver the rehabilitated armatures on c.i.f. Indian Port basis.
  - (b) Alsthom would furnish an Indemnity bond to indemnify the Railways on account of temporary custody of the Railways armatures with them.
  - (c) Alsthom suggested that selected armatures in India could be used in service by Indian Railways to tide over their operational problems at Alsthom's responsibility for complete replacement in the event of failures. During the period of rehabilitation, the maximum current will be limited to 840 Amps, which is the continuous rating per motor. For this purpose M/s. Alsthom would send during Sept. 1972 an Engineer who would help in selecting such armatures at CLW and on S.E. Railway and who will check the adjustment of the overload relays. Alsthom suggested that in any case, it is necessary to provide the locomotive with the anti-slipping device suggested by Alsthom (short circuiting of armature) as soon as possible.
  - (d) Alsthom agreed to carry out the renewal/rehabilitation of all the 297 armatures so far supplied by them on highest priority, if necessary, by re-scheduling their production schedules at Tarbes. They would also furnish clear indications of their programme for completing the rehabilitation of these armatures.
- (viii) In order to assist CLW to take parallel action for rehabilitation of armatures built by CLW, Alsthom agreed to assist in the following manner :
- (a) Asbestos covered copper conductors to the revised design would be supplied by Alsthom to CLW for 10 armatures.

- (b) An armatures winding expert would be placed at the disposal of CLW from December '72 onwards for attending to quality production of the new design.
- (ix) Alsthom agreed that all future supplies of armatures would be to new design. As suggested by the Railways Mr. Chalvon agreed to examine if he can expedite delivery of the 39 armatures outstanding against previous orders.
- (x) With regard to the supply of 200 armatures due against order No.214, Mr. Chalvon agreed that he is rephasing his scheduling at Tarbes and arrangements are under way to speed up their deliveries. He expected that accelerated deliveries of these armatures to materialise in the early part of 1973 and thus help the Indian Railways to complete larger number of locos next year.
- (xi) Alsthom also agreed that the material due on the various supply orders and affected by redesigning of the coils/banding viz. copper conductors and the banding wire, would be supplied to the new design. Alsthom also agreed to persuade M/s. FIM DELLE of France to make suitable adjustment to ensure supply of the copper conductors to the revised design in response to CLW direct orders for the previous types of copper conductors.
- (xii) Alsthom agreed that all the rehabilitated armatures would be covered by a fresh warranty of 24 months from the date of commissioning in India or 32 months from the date of shipment ex Tarbes, whichever is earlier. The extended warranty period will be covered by suitable extensions to the bank guarantee.
5. Shri Baliga thanked M. Chalvon and his team for the understanding and co-operation shown by them in resolving this matter, to the satisfaction of the parties.

Sd/-	Sd/-	Sd/-
(A L. Kochhar)	(H.M. Chatterjee)	R. Chalvon Demersay
GM/CLW	MM/Rly. Board	Alsthom
	Sd/-	
	(K.S. Sundara Rajan)	
	FC/Rly. Board.	

**APPENDIX III**

**(Vide Para 1.45)**

**COPY**

**ANNEXURE A**

**S.K. Mitra, M.A. LL.B  
Central Government Advocate  
Calcutta-1,**

**Dated the 19th July 1978.**

**Shri K.C. Bose,  
FA & CAO,  
Chittaranjan Locomotive Works,  
Chittaranjan (West Bengal).**

**Dear Sir,**

**In the matter of Messrs Alsthom-Atlantique**

**Ref : Advice No. 3565/77-Adv (Cal) dated 28-12-77.**

**Please refer to your letter No. AC/Contract/0/3 Pt. I dated 14-6-78.**

**Pursuant to your instruction, I briefed Shri Ajit Sengupta, Government Counsel, for his valuable opinion and the same has been received today.**

**I am enclosing herewith the opinion of Shri Ajit Sengupta, Barrister-at-Law, for your perusal and necessary action.**

**Yours faithfully,  
Sd/-**

**S.K. Mitra**

**Encl : As above. (See Annexure)**

**Central Government Advocate.**

### **ANNEXURE TO APPENDIX III**

**Re : Chittaranjan Locomotive Works  
In the matter of M/s. Alsthom  
Atlantique**

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**3. The third question relates to the cost of rewinding/repair of CLW-built TAO 659 armatures. Clause VIII of the agreement dated 10th September 1972 provides as follows :**

**"In order to assist CLW to take parallel action for rehabilitation of armatures built by CLW, Alsthom agreed to assist in the following manner :**

- (a) Asbestos covered copper conductors to the revised design would be supplied by Alsthom to CLW for armatures.**
- (b) An armature winding expert would be placed at the disposal of CLW from December 1972 onwards for attending to quality production of the new design."**

The said agreement does not provide for any cost of rewinding/repair to the said CLW-built TAO 659 armatures being borne by Messrs. Alsthom. It is not quite clear to me how the cost of re-winding/repair charges to the said CLW-built TAO 659 armatures is a matter which is inter-linked with the payment of consultation fee on account of technical services rendered. It is not also known what type of expenses were incurred in connection with the re-winding/repair of CLW built TAO 659 armatures. If CLW have any doubt with regard to the aspect of the matter, they should refer the dispute to the Arbitration. They should not take any unilateral decision in this regard. Unless it could be shown specifically from the clauses of the agreement in question that Messrs. Alsthom agreed to bear the cost of re-winding/repair of the CLW-built TAO 659 armatures, it cannot be claimed from them nor it could be deducted from the consultation fee. The officer concerned may discuss this matter with me, if necessary.

**Sd/-**

**Ajit Sengupta  
Barristar-at-Law.  
July 19, 1979.**

## APPENDIX IV

### *Statement of Observations and Recommendations*

Sl. No.	Para No.	Min./Deptt. Concerned	Observations and Recommendations
1	2	3	4
1.	1.60	Railways	In September 1967, the Railway Board decide to manufacture AC electric mixed type (ACMT) BG locomotives and for these locomotives it was decided to adopt the traction motors to a design offered by a foreign firm M/s. Alsthom. The selected design of the firm was not in use in any other country. Between February 1968 and January 1972, orders were placed for import of 200 traction motors and 336 armatures from the firm. The Chittaranjan Locomotive Works also commenced production of traction motors and armatures of ACMT locomotives to the design supplied by the firm. After September 1971, i.e., within a short time of the locomotives being brought into use, large scale failures of traction motors and armatures, both manufactured by Chittaranjan Locomotive Works and those supplied by the firm started occurring,

rendering inoperative a large number of ACMT locomotives on South Eastern Railway. After a joint investigation of the defects by the firm's representatives and Railway Board engineers, a settlement was reached in September 1972, under which the firm agreed that a new design of the armatures would be developed by them, and all the armatures supplied by by them would be rehabilitated according to the new design at their cost; also the firm would render assistance to Chittaranjan Locomotives Works establishing manufacture of armatures to the new design. The firm had supplied 297 traction motors and Chittaranjan Locomotive Works had manufactured 122 traction motors to the old design which were to be rehabilitated and changed to the new design. While the collaborators agreed to pay the incidence of transport, insurance charges and repair of armatures built by them in their works in France under warranty obligation, claim for re-imbursement of expenditure incurred by CLW towards repair/rectification of the locally built traction motors had been disowned by them.

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1.61

Railways

Surprisingly the traction motors in question which were not in use in any country, were not subjected to field trials in India to determine their suitability in Indian conditions before purchase/bulk production. What were carried out were only 'bench' or laboratory tests, i.e. 'prototype and routine tests' in the manufactures' works before acceptance and despatch of traction motors. The main argument given by the Ministry for not conducting field trials of

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the traction motor was that the production of ACMT locomotives at Chittaranjan Locomotive Works would have to be postponed by about one year. The Committee do not see any force in the argument for, as even otherwise the production of mixed type locomotives could commence at CLW only from February 1971, instead of from 1969, as originally planned. Further as the traction motors started developing defects soon after they were put in use, there was large scale immobilisation of locomotives necessitating use of alternative costlier traction. The Committee observe that even after change in design the traction motors have not given a satisfactory performance. As against 1520 such motors in use on the South Eastern Railway in 1980-81, there were 246 failures; and as against 1776 such motors in use on that Railway in 1981-82 there were 339 failures. In a note furnished to the Committee, the Ministry have now belatedly conceded that "the problem of the magnitude that was finally manifest would not have arisen in the normal course if a limited number of motors had been initially manufactured by M/s. Alsthom and tried out under service conditions before undertaking bulk manufacture." In evidence, the Chairman, Railway Board also conceded, "Certainly it would pinpoint one thing. Previously (in the case of indigenous manufacture of AC Freight type locomotives) we had done the field trials and

then we entered into a collaboration agreement. The same practice should have been followed in the second case (the present case)." The Committee consider it a serious lapse entailing heavy losses which cannot be condoned.

3.

1.62

### Railways

The Committee find that the traction motors in France were inspected and certified as satisfactory by an engineer of Indian Railways stationed at that time in Paris, designated as Deputy Railway Advisor, Paris. In the opinion of the Committee, the Research, Designs and Standards Organisation (who had already designed traction motors on their own) and Bharat Heavy Electricals (a public sector undertaking) who were already manufacturing traction motors for DC electric locomotives, should have been closely associated in evaluating the performance of the traction motors/armatures. Asked why the representatives of the Bharat Heavy Electricals were not associated with evaluation tests of the traction motors in question, the reply of the Ministry of Railways was that this was not done "as the officers of Research, Designs and Standards Organisation and the Indian Railways were fully competent to discharge such duties." If so, the Committee enquired why the Research, Designs and Standards Organisation were not associated with the evaluation tests of the traction motors. Their reply was "There was no system of associating RDSO at that time in such tests." The Committee are surprised at this explanation. If, as conceded by the Ministry of Railways, the officers

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of the RDSO were fully competent to carry out evaluation tests, the Committee fail to understand why they were not associated with such tests. Nor are the Committee satisfied with the explanation of the Ministry for not associating the Bharat Heavy Electricals with such tests. As already observed by the Committee in their 224th Report (Fifth Lok Sabha), had there been a meaningful dialogue between these agencies in the public sector and critical evaluation of the traction motors and armatures which were available in the world market, it should have been possible to lay down more suitable specifications and undertake the import/manufacture of the more suitable armature motors for the ACMT locomotive programme from the very inception. The Committee trust that the Ministry of Railways will bear this in mind while entering into such transactions in future.

**4.****1.63****Railways**

As regards the question whether the failure of traction motors could be ascribed primarily to defective design, the Ministry of Railways have stated that although the defective design angle is not to be ruled out since some of the traction motors had not been able completely to withstand the special repeated overspeed tests and some changes in design had to be effected later, the firm did not agree that the original design was defective. The very fact that the collaborators had to evolve a new design to ensure the

reliability of its operation in service and to improve the safety margin indicates that there were inadequacies in the original design of traction motors supplied by them. Further, similar defects had been noticed in the traction motors built both by them and the CLW. Such similarity could not be explained as due to bad workmanship at both the works but could only be due to inadequacies in the original design. Further, the Technical Committee appointed by the Railway Board in pursuance of an earlier recommendation of the PAC, had also opined that there were inadequacies in the armature coils. The Committee are surprised that in the face of such clear evidence, the Railway Board were not able to tell the collaborators assertively that the failure of the traction motor was primarily due to an inadequacy in their design.

5.

1.64

### **Railways**

The Committee note that while the collaborators had agreed to rehabilitate all the armatures built by them in their works in France at their own cost, in the case of armatures built at CLW they had agreed only to render technical assistance to help the CLW. It stands to reason that as the rehabilitation of the CLW-built armatures was necessitated by inadequacies in the original design supplied by the collaborators, the cost of rehabilitation of such armatures should have also been borne by them. But, from the minutes of the meeting held on 10-9-1972 between the Indian Railways and M/s. Alsthom, France the Committee find that

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while the question of failure of CLW-built traction motors did crop up at the meeting, there is no indication that the specific question of the collaborators' obligation to compensate the CLW for the failure of CLW-built traction motors was raised. The Ministry, who were requested to clearly indicate whether the question was specifically raised at the meeting, have stated that "it is not known at this point of time what was discussed in that said meeting in addition to what is recorded in the minutes of the meeting" and that "it is quite possible that the Board were aware of the weakness of the Railways position in this regard on account of the absence of any provision in the collaboration agreement in regard to warranty obligations of the firm for CLW-built armatures in the event of their failure." The Committee are surprised at this explanation for the Ministry of Railways had earlier asked the CLW that the collaborators' warranty obligation for the failures of CLW-built traction motors should be gone into and settled with their concurrence. The Committee are led to the conclusion that at the meeting the representatives of Railways failed to safeguard the financial interest of the Railways.

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Railways

It was in July 1972 that the Ministry of Railways had decided that the collaborators' warranty obligation for the failures of

the CLW-built traction motors should be gone into by the General Manager, CLW and settled with their (the Board's) concurrence. The Chittaranjan Locomotive Works however advised the Ministry of Railways (Railway Board) in January 1978, i.e., more than two years after the expiry of the agreement, that the expenditure incurred on repairs/rectification of traction motors/armatures built locally according to the old design was re-imbursible by the collaborators and proposed to put forward the claim to them through the statement of consultancy fees payable by the CLW under the collaboration agreement. With the approval of the Ministry of Railways, CLW preferred, in February 1973, a claim on the collaborators for re-imburement of repair/rectification charges of Rs. 25.63 lakhs incurred till then indicating that the total expenditure on the account would be advised on completion of re-winding/repair of all the 122 armatures built by CLW to the old design. The collaborators, in turn, repudiated the claim, stating that the proposal made by their representative in the meeting held in September 1972 was a package offer which had been accepted by the Ministry of Railways in full settlement of the problem relating to the failures of traction motors. The Committee have little doubt that with such belated and half-hearted attempt on the part of the Railway authorities to enforce their claim the result could not have been otherwise. As the position stands today, claims for re-imburement of expenditure of Rs. 82.16 lakhs incurred by CLW

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			towards repair/rectification of the locally built traction motors remain without any hope of realisation.
7	1.66	Railways	<p>The Committee are given to understand that the collaborators' dues from CLW on account of consultancy fees amount to Rs. 37.86 lakhs only. Having regard to the heavy expenditure incurred by the CLW on repair/rehabilitation of CLW-built armatures necessitated by inadequacy in the design supplied by the collaborators, whether any consultancy fees would at all be admissible to collaborators had not yet been decided by the Ministry of Railways (Railway Board). The Committee would like the Ministry to come to an early decision the matter, under intimation to the Committee.</p>
8	1.67	Railways	<p>Clause III(f) of the Collaboration Agreement which relates to manufacture of traction motors and armatures at CLW states that technical information furnished under the agreement would be complete and in strict accordance with that used in Alsthom's own workshop. It also gives an undertaking that the information and assistance given would be such as to enable Government to establish indigenous production of equipment similar in standard and performance to that manufactured by Alsthom, but there is no mention in this clause of warranty against defects/deficiencies found in the</p>

designs supplied by the collaborator. As admitted by the Chairman, Railway Board, 'to that extent the initial agreement was defective'. The Ministry have however explained that normally such a provision is not included in technical collaboration agreements for locally-built products. The Committee are not convinced by this explanation. The Committee strongly feel that once design defect is established, the collaborators ought to be bound to recoup losses in the manufacture of defective products even locally. They hope that suitable safeguards would be built into such collaboration agreements in future.

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1.68

Railways

The Committee are unhappy over the manner in which the Ministry of Railways had proceeded in the matter of their claim for overcharged prices. It was discovered by CLW that the collaborators were charging much higher prices for materials supplied during the period 1963 to 1971. The CLW's claim on this account came to Rs. 1.62 crores *plus* interest charges at 18% upto the date of payment. The overcharge first came to the notice of the CLW in 1971. The CLW preferred their claim for the overcharge on 29.6.1974. Ever since, the matter had been under arbitration/legal action. There are many depressing aspects of the case. The overcharge went on practically from the very beginning, but eight years elapsed before the CLW could notice it and it took three years more to prefer the claim. Thereafter, the matter had been allowed to drag on for nearly seven years. In February 1981, Umpire

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Justice Sikri concluded that there was a breach of clause VIII(f) of the Agreement of November 1962, as amended by the Supplementary Agreement of February 1968. In July 1981, he suggested mutual settlement, but the CLW took more than a year to report back, requesting the Umpire to resume arbitration following failure of settlement. By this time, the period allowed for arbitration had expired. While an application has since been filed by the CLW in the High Court for extension of time for arbitration, a petition has also been filed by the collaborators in the High Court to declare the arbitration proceedings void *ab initio* and to revoke the authority of the Umpire. Both the petitions are pending in the High Court; and as against the CLW's claim of Rs. 1.62 crores *plus* interest charges for the materials overcharged 13 to 21 years back, the amount recovered to date is nil. While the Committee would like to watch the outcome of the two petitions pending in the High Court, they cannot help deplore the lackadaisical manner in which the CLW authorities had all along acted in this case. Clearly, there has been a failure on the part of the CLW to safeguard the financial interests of Railways.

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10                      1.69                      Railways

Comulatively, the failures in this case such as (i) absence of extensive field trials before entering into collaboration agreement; (ii) execution of defective agreement without covering clearly the

warranty obligations of the collaborator (iii) insufficient care in accepting supplies from the collaborators; (iv) negligent negotiations with the collaborators in not urging upon them their responsibility to make good the losses in the local manufacture; and (v) the delay in preferring and pursuing the claims add up to a situation that becomes intolerable. The Committee therefore desire that the case calls for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. They would also like to know whether there were any manufacturing defects in the CLW-built traction motors other than those ascribable to the inadequacies in the original design. The Committee would await the results of the investigation and the action taken on the basis thereof :

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