

**AVOIDABLE OR WASTEFUL IMPORTS**

**MINISTRY OF RAILWAYS**

**PUBLIC ACCOUNTS  
COMMITTEE  
1997-98**

**ELEVENTH LOK SABHA**

**EIGHTEENTH REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(1997-98)**

**(ELEVENTH LOK SABHA)**

**AVOIDABLE OR WASTEFUL IMPORTS**

**MINISTRY OF RAILWAYS**

*Action Taken on 101st Report of Public Accounts Committee  
(10th Lok Sabha)*



*Presented to Lok Sabha on 20.11.1997  
Laid in Rajya Sabha on.....*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*November, 1997/Kartika, 1919 (Saka)*

*Price:* Rs. 30.00

**PARLIAMENT LIBRARY  
Central Govt. Publications**

**Acc. No. RC 98212 (1c)**  
**Date 2-4/11/99**

© 1997 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of  
Business in Lok Sabha (Eighth Edition) and Printed by the Manager,  
P.L. Unit, Governments of India Press, Minto Road, New Delhi.

## CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1997-98)	(iii)
INTRODUCTION .....	(v)
CHAPTER I Report.....	1
CHAPTER II Recommendations/observations which have been accepted by Government.....	11
CHAPTER III Recommendations/observations which the Com- mittee do not desire to pursue in the light of the replies received from Government .....	24
CHAPTER IV Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration .....	37
CHAPTER V Recommendations/observations in respect of which Government have furnished interim replies/ no replies.....	51

### APPENDIX

Conclusions and Recommendations.....	65
--------------------------------------	----

### PART II

Minutes of the Sitting of Public Accounts Committee (1997-98) held on 23.10.1997 .....	71
---	----

## COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1997-98)

Dr. Murli Manohar Joshi—*Chairman*

### MEMBERS

#### *Lok Sabha*

2. Shri Anandrao Vithoba Adsul
3. Shri Nirmal Kanti Chatterjee
4. Shri Ramesh Chennithala
5. Shri Prithviraj D. Chavan
6. Shri N.S.V. Chitthan
7. Smt. Meira Kumar
8. Smt. Sumitra Mahajan
9. Prof. Ajit Kumar Mehta
10. Shri Suresh Prabhu
11. Shri Ganga Charan Rajput
12. Shri V.V. Raghavan
13. Dr. T. Subbarami Reddy
14. Shri B.L. Shankar
15. Shri Ishwar Dayal Swami

#### *Rajya Sabha*

16. Shri Ramdas Agarwal
17. Shri R.K. Kumar
- \*18. Shri N. Giri Prasad
- \*\*19. Smt. Kamla Sinha
20. Smt. Margaret Alva
21. Shri Surinder Kumar Singla
22. Shri Vayalar Ravi

### SECRETARIAT

- |                       |   |                             |
|-----------------------|---|-----------------------------|
| 1. Dr. A.K. Pandey    | — | <i>Additional Secretary</i> |
| 2. Shri P.D.T. Achary | — | <i>Joint Secretary</i>      |
| 3. Shri P. Sreedharan | — | <i>Deputy Secretary</i>     |
| 4. Shri Rajeev Sharma | — | <i>Under Secretary</i>      |

---

\* Expired on 24 May, 1997.

\*\* Ceased to be member of the Committee on her appointment as Minister of State w.e.f. 3.6.1997.

## INTRODUCTION

I, the Chairman, Public Accounts Committee having been authorised by the Committee, do present on their behalf, this Eighteenth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 101st Report (10th Lok Sabha) on Avoidable or Wasteful Imports.

2. This Report was considered and finalised by the Public Accounts Committee at their sitting held on 23 October, 1997. Minutes of the sitting form Part II of the Report.

3. For facility of reference and convenience, the 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 to the Report.

4. The Committee 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;  
4 November, 1997

---

13 Kartika, 1919 (*Saka*)

DR. MURLI MANOHAR JOSHI,  
*Chairman,*  
*Public Accounts Committee.*

## **CHAPTER I**

### **REPORT**

1.1 This Report of the Committee deals with the action taken by the Government on the Committee's recommendations and observations contained in their 101st Report (Tenth Lok Sabha) on paragraph 3.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993 (No. 10 of 1994), Union Government (Railways) relating to "Avoidable or Wasteful Imports".

1.2 The 101st Report which was presented to Lok Sabha on 28 April 1995 contained 24 recommendations/observations. Action taken notes have been received in respect of all the recommendations/observations and these have been categorised as follows:

- (i) Recommendations and Observations that have been accepted by the Government:  
Sl. Nos. 1, 7, 10, 11, 13, 15, 16, 17 and 23
- (ii) Recommendations and Observations which the Committee do not desire to pursue in the light of the replies received from the Government:  
Sl. Nos. 8, 9, 20 and 22
- (iii) Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration:  
Sl. Nos. 2 to 6, 12, 14, 18 and 24
- (iv) Recommendations and Observations in respect of which the Government have furnished interim replies:  
Sl. Nos. 19 and 21

1.3 The Committee are extremely unhappy to note that the Ministry of Commerce, Department of Supply are yet to furnish their final replies in respect of the recommendations of the Committee contained in Paragraph Nos. 170 and 172 of the Report, despite a lapse of more than two years' period. The Committee deplore the same and desire that the final replies duly vetted by Audit should be furnished within a period of three months from the presentation of this Report.

#### **Avoidable or Wasteful Imports**

1.4 Indian Railways have been importing certain components and materials for their requirements through three processing agencies viz. Railway Board, Zonal Railways/Production Units and Director General of Supplies and Disposals (DGS&D). An elaborate procedure is in existence in the Railways for purchase of goods by these agencies from abroad.

Action for import is to be started well in advance after the need for import is established on the basis of the assessment of the requirements.

1.5 In their 101st Report (10th Lok Sabha), the Committee had examined specific cases brought out in the Audit paragraph, which had revealed instances where Railways had made wasteful, unnecessary and costly imports involving a total amount of Rs. 35 crore. The specific transactions which the Committee had thoroughly examined and had made observations/recommendations in their Original Report *inter alia* included extra expenditure on procurement of wheelsets, wasteful import of 14 tonne MG wheelsets, failure of Railways to take action penal or otherwise against the suppliers for violation of contractual obligations, failure to arrange over requisite insurance cover imported materials, import of wrong spare part involving infructuous expenditure and unjustified long delay in the commencement of the operation of imported machine. The Committee's examination had also revealed that the management of the import contracts by Railway authorities was poor.

1.6 The various observations/recommendations made by the Committee and the Action Taken Note furnished by the Government thereon have been reproduced in the relevant subsequent chapters of this Report. The Committee will however, deal with the action taken by the Government on some of their recommendations and observations which the Committee would like to reiterate in view of the unsatisfactory replies of the Government.

**Extra expenditure on Import of wheelsets  
(Sl. Nos. 2—5—Paragraphs 28 to 31)**

1.7 One major case of "Avoidable or wasteful imports by Railways" which the Committee had examined in their Original Report had revealed the lapses/irregularities on the part of Railways broadly on the following aspects in respect of import of BG wheelsets for use in wagon production:—

- (i) Delay in initiation of procurement action (Paragraph 28).
- (ii) Questionable decision to import at a higher rate (Paragraph 29).
- (iii) Failure in precisely estimating the requirements (Paragraph 30).
- (iv) Extra expenditure of Rs. 10.71 crore on procurement due to delay in placement of order (Paragraph 31).

The Committee after detailed examination of the case particularly the above aspects had noted the following major points indicating the lapses/irregularities on the part of Railways:

The Railways had invited a global tender No. GP-154 only in April 1989 for import of 7500 numbers of 22.9 tonne BG wheelsets for their wagon production requirement during 1989-90. The quantum of shortfall in the requirements of wheelsets upto 31 March, 1990

was very well known to the Railway Board in February 1988 when they had themselves computed the same at 15,673 numbers. The subsequent review in July 1988 had also reinforced the shortfall. The procurement action was started only after the production year 1989-90 had commenced and there was no time left to further delay the procurement of wheelsets during that year.

(Para 28)

The tender GP-154 had stipulated delivery requirements for 7,500 wheelsets as "commencement of delivery in two months of placement of order/LC and completion in five months thereafter at the rate of atleast 1,500 wheelsets per month". The lowest offer was received from the firm located in Poland\*. Due to strict delivery schedule, the required quantity could not be imported from the lowest bidder. The Committee had observed that the stricter delivery terms stipulated in the tender deprived the Ministry at that stage of the lowest price advantage offered by the Polish firm and they had to take a decision to import from two other sources in Japan\*\* and France\*\*\* at a substantially higher rate. The Committee had opined that had the Railways taken advance planning action in the case and floated tender earlier, the situation would have been different with relaxed delivery requirements.

(Para 29)

The Railway Board in November 1989 had further reviewed their requirements of wheelsets to be imported in the light of their decision to increase the production of wagons during the year 1990-91 and had decided to increase ordering of import from 12,500 wheelsets as was decided in July 1989 to 15,300 wheelsets. Consequently, orders were placed at higher price. The Committee had observed that the Ministry of Railways had failed to precisely estimate their requirements of wheelsets in advance and kept on increasing the quantity of wheelsets to be imported under tender GP-154 under one pretext or the other resulting in import at higher rates by paying precious foreign exchange.

(Para 30)

Three different orders for supply of 5000 wheelsets were placed on the Japanese firm between 16 March, 1990 and 12 June, 1990 at their quoted FOB price of Yen which on conversion was equal to Rs. 26,752 at the time of opening of tenders on 13 June, 1989 which increased to Rs. 28,724 on 31 July, 1989 when negotiated

---

\* M/s. Kolmex, Poland.

\*\* M/s. Sumitomo Corporation, Japan.

\*\*\* M/s. Ascometal Valdunes, France.

offers were received. But the actual payment made was Rs. 32,000 as against the cost of Rs. 19,078.50 and Rs. 22,103.00 paid to the Polish and Romanian Suppliers respectively. Thus the import resulted in incurrence of an extra expenditure of Rs. 10.71 crore by Railways due to delayed placement of orders on Romanian and Japanese firms.

(Para 31)

1.8 In their Action Taken Note, The Ministry of Railways *inter alia* stated that it was only after the need for import of wheelsets was established beyond doubt that the Global Tender GP-154 was floated in April, 1989 for 7500 wheelsets for use in 1989-90 productions. Regarding the delivery terms stipulated in the tender, the Railways stated that since the supply from the Polish and Romanian firms together was not adequate to meet the requirements of wagon production fully, the part requirements had to be ordered on the Japanese firm to avoid depletion of stocks. The Ministry also stated that it was only as a result of the critical reviews that the quantity to be tendered for 1988-90 production requirements could be brought down to 7500 nos. In regard to estimating the precise requirements, the Railways stated that after calling the tender (GP-154) for 7500 wheelsets  $\pm 30\%$  (plus minus 30%), the quantity was increased to 12500 Nos.  $\pm 30\%$  by clubbing the 1990-91 requirements also to take advantage of the lowest offer from the Polish Supplier. The final quantity of 15,300 which was ordered against tender GP-154 based on November 1989 review was within limits of the revised quantity of  $12500 \pm 30\%$ . Regarding extra expenditure of Rs. 10.71 crore, the Railways have stated that the Polish and the Romanian Suppliers were not in a position to meet the Indian Railways requirements of 1989-90 fully and in view of the delivery position of Polish firm, the contention of extra expenditure incurred for ordering on the other sources was not tenable. The Ministry further stated that ordering on other sources was fully justified by the circumstance then prevailing.

1.9 The Committee note that the shortfall of BG wheelsets for use by Indian Railways in wagon production was clearly established in February, 1988 itself and as such the procurement process should have been initiated immediately thereafter. The review conducted in July 1988 only reinforced the shortfall. The plea of Railways that it was after critical review in July 1988, the procurement process was started does not therefore, hold good. Further, the tender GP-154 for 7500 wheelsets was floated in April, 1989 i.e. after a delay of nine months. The tender was opened on 13 June, 1989. The contract was awarded to the Polish firm on 3 November, 1989 i.e. near about five months after opening of the tender. Thus the matter was not only initially delayed but also the delay was allowed to occur at all stages. The review was a continuous process and the quantity of requirements for

---

\* M/s. Mecano export-import, Romania.

import varied with each review. The procurement action should therefore not have been withheld on account of frequent review one after another within a short span of period particularly when the contract for import used to contain a provision of plus minus 30 per cent variation in the quantity ordered. The Committee are of the firm opinion that the procurement action for import of BG wheelsets was delayed and the Ministry of Railways have unsuccessfully attempted to use the reviews conducted at different times as a shield to defend themselves against the delay caused by them in the initiation of procurement action for import of wheelsets. The Committee are, therefore, of the opinion that the Ministry of Railways instead of providing the excuses for undue delay caused by them in the initiation of procurement action for import of wheelsets should undertake review of the entire system of processing of import requirements and also should evolve a mechanism whereby the accountability could be fixed on the officers responsible for such delays.

1.10 The Committee are not convinced by the logic advanced by the Ministry of Railways for justifying their decision to import the wheelsets at a higher price from the Japanese firm. The Ministry themselves have admitted in clear terms that they were fully aware of the capacity limitation of the Polish firm on the basis of past performance of that firm. In such a situation, the Railways should have taken prompt decision regarding the import of the wheelsets. It was only because of the delay in the initiation of procurement action by Railways that very little time was left to meet the entire requirements. The Committee are of the view that the Railways by delaying the procurement action pushed the matter to such an end where no option was left except to import the wheelsets at higher costs.

1.11 The Committee further note that the Railways right from the very beginning could not precisely estimate their exact or near exact requirements of imports despite frequent reviews. The Railways could not maximise the orders on Rupee Payment Agreement (RPA) source and precious foreign exchange was paid at a time when the country was experiencing serious foreign exchange crunch. Further, order for import of major part of the additional quantity was placed with sources other than the lowest bidder (Polish firm). Contrary to their claims, the Railways could not garner much advantage of the lowest offer from the Polish supplier. The Committee therefore reiterate their recommendation that the Ministry of Railways must strengthen their planning process which could enable them to consider all possible aspects of the requirements well in advance.

1.12 The Committee also note that the two lowest offers were from the firms located in Poland and Romania. Even if the Committee accept the contention of the Railway that the lowest tenderer had some problem to meet the delivery schedule, the Railways have no explanation as to why the imports were not maximised with Romanian firm which also made the next lowest offer. The Committee feel that had the Railways taken timely action for procurement and explored all possible means to reduce the cost, the

extra expenditure of Rs. 10.71 crore could certainly have been substantially reduced, if not eliminated fully. The Committee would, therefore, like the Railways to exercise extra care and caution in such matters in future.

**Streamlining the procedure of procurement of store**  
(Sl.No. 6—Paragraph 32)

1.13 The Committee had noted that the Ministry of Railways would take suitable note of the lessons learnt from the experience in respect of evaluation of requirements and procurement of wheelsets. The Committee had advised the Railways to streamline the procedure for assessment and procurement of store in a more timely, systematic and cost effective manner.

1.14 In their Action Taken Note, the Ministry of Railways stated that balancing import was needed only where requirements were not expected to be met fully from indigenous sources. Periodic review in case of requirements of imports is required because the production plan assumed at the time of initial assessment of requirements of wheelsets is tentative and it is finalised only about 2/3 months before the commencement of the year. The Railways expressed their apprehension that any departure from this procedure could lead to a situation of excessive imports.

1.15 The Committee note that the Railways have just enumerated the procedure involved in the process of making assessment. The Committee are fully aware of such procedure. The point the Committee is trying to drive home is that the Railways, knowing full well the various implications of delayed action for procurement, should have respected the spirit of the procedure and should not have allowed themselves to be swayed by mere technicalities adversely affecting the nation's economy. Using "frequent reviews" as a pretext for delay, non-consideration of foreign exchange constraint, non-application of various advantageous parameters to maximise imports on RPA (Rupee Payment Agreement) sources and ignorance of some crucial provisions are certainly not the desirable aspects of the functioning of Railways. The Committee, therefore, strongly feel and reiterate that the existing procedures, must be streamlined so that not only the procurement process but also other activities associated with it are toned up to minimise the cost of transactions.

**Undesirable step by the Railways to act as an Intermediary between a foreign firm and its Indian agent**

(Sl. No. 12—Para 115)

1.16 The Committee had noted that the Railways acted as an Intermediary between a foreign company\* and its Indian subsidiary\*\* in three different contracts signed in 1981 and 1982 for supply of fabricated tap changers and air circuit breakers. In the light of the fact that both the tap changers and air circuit breakers had single source of supply at the

---

\* M/s. BBC Ltd., Switzerland.

\*\* M/s. HBB, Baroda.

relevant time, the Committee had opined that the course of action by Railways to act as an intermediary was also guided by other considerations. The Committee had desired that the Railway Board should investigate the matter and furnish the complete details in this regard.

1.17 In their Action Taken Note, the Ministry of Railways *inter alia* stated that because of elaborate licensing and custom clearance procedure, Chittaranjan Locomotive Works (CLW) as a Government Agency was in a better position to arrange for these clearances. Since CLW was fully competent in the matter, the Railway Board was not consulted. The Ministry further stated that the Railways have not acted as an intermediary since 1986.

1.18 The Committee are not satisfied with the Action Taken reply of the Ministry. The procedure of licensing and custom clearance being cumbersome is no reason for the Railways to act as an intermediary between a foreign firm and its Indian subsidiary. The Committee are also shocked to observe the comments of Audit which is appended to ATN of the Ministry wherein Audit has specifically mentioned that whether the Indian subsidiary or their foreign principal was the only source of supply could not be verified by them as the CLW could not supply the relevant file to them. The Committee feel that such an action on the part of Railways brings the entire transaction under suspicion. The Committee thus do not find the submission of the Railways as convincing and therefore, reiterate, that the matter should be thoroughly looked into afresh to find out the precise circumstances necessitating such an unusual decision. The Committee would like to be apprised of the action taken in this regard.

**Failure of Railway to take penal action against the foreign supplier and its Indian subsidiary for their contractual violations**  
(Sl. No. 14—Paragraph 117)

1.19 The Committee had noted that the Railways had considered it not “practicable” to take any action against the foreign supplier for the shortages noticed in the consignments evidently because these components had a single source of supply. The company had failed to supply the fabricated tap changers to the Railways within the contractual period and the Railways had to import 20 complete tap changers directly from the foreign supplier at a cost of Rs. 1.17 crore to maintain the continuity of the locomotive production. The Committee had also noted that the levy of the liquidated damages recoverable from the Indian supplier for delayed delivery was also waived by the Railways. The Committee expressing its concern over the matter had firmly observed that necessary action against the foreign principal and its Indian subsidiary for their contractual violations, under the penalty clauses in the relevant contracts should have been taken as otherwise it negated the very logic of Insertion of such clauses.

1.20 The Ministry of Railways, in their Action Taken Note, repeated the same argument that since the company was the sole supplier of tap changers, it had not been considered feasible to take penal action against them or their foreign principal because any such action would have been detrimental to the interest of the Railways.

1.21 The Committee find it very difficult to accept the arguments of the Railways which are not more than what they had earlier submitted and the Committee had already considered them in its original Report. The Committee are of the firm view that being a monopolist does not mean that the firm had been conferred with unfettered freedom to violate whatever clauses of the contract they found inconvenient to them and thus making a mockery of the different clauses of the contract. The Railways acted apparently in the belief that being the sole supplier, the company had every right to function in whatever manner they desired. The Committee would therefore, reiterate their earlier observations and further advise the Railways to improve the management of import contracts.

**Infructuous expenditure of Rs. 21.37 lakh due to import of wrong spare part**

(Sl. No. 18—Paragraph 129)

1.22 The Committee had noted that the entire expenditure of Rs. 21.37 lakh incurred had become infructuous as wrong sized spare part No. GM Pt. 7451295 had been imported by the Railways instead of buying the correct part No. GM Pt. 7451293. The Committee had observed that indifference and negligence were displayed by the Railway authorities at different levels and therefore, the Committee had recommended for the enforcement of suitable pecuniary liabilities against the erring officials after finalising the enquiry. The Committee had also recommended action against the supervisory officers.

1.23 In their Action Taken Note, the Ministry of Railways stated that the mistake was committed by two officials responsible for checking and compiling the import indents and penalty of reduction in pay in the time scale by two stages for a period of one year without cumulative effect had been imposed on them. The Railways further stated that actual cross checking of each and every time at supervisory level being quite difficult, Railways did not consider it appropriate to hold any supervisory officers responsible for the lapse.

1.24 The Committee reject the submission of the Railways that the supervisory officers cannot be held responsible for such a serious lapse. The item imported in the question was specifically manufactured by the supplier for the Railways and this item had very limited use. Moreover, the item was costly enough involving expenditure of Rs. 21.37 lakh. The officers of the Railways who put the indent of such a costly item in the sample-check category should also be held responsible for loss. The Committee strongly feel that the supervisory officers are expected to exercise due care and caution while scrutinising the indents for imports. Keeping in view the

peculiarities involved in the indents of race outers—such as special manufacturing of the item, its single use, high value of Rs. 21.37 lakh, the supervisory officers should have taken extra care to ensure that the item with correct specifications was ordered for import. The supervisory officers apparently failed in their duties and therefore, they cannot absolve themselves of the responsibilities. The Committee, therefore strongly recommend suitable action against officers at supervisory levels and also against those officers who decided to put such an indent in sample-check category knowing full well the cost implications. The Committee may be kept informed of the precise action taken against the erring officials at higher levels.

#### **Remedial measures to avoid wasteful imports (Sl. No. 24—Paragraph 176)**

1.25 Summing up their earlier Report, the Committee had noted that certain glaring shortcomings/inadequacies/irregularities were found in the import of material and components by Railways resulting in avoidable expenditure of a sizeable magnitude. There were clear instances where the Railways had woefully failed in making timely and proper assessment of their requirements. There were also cases where the costly imported equipment could not be put to effective use for one reason or other and the Railways had failed to enforce contractual obligations on defaulting suppliers. The Committee had recommended to the Railways to thoroughly go into all the cases with a view to streamlining the procedure and preventing avoidable and wasteful imports.

1.26 The Ministry of Railways in their Action Taken Note *inter alia* stated as under:—

“Railways has taken a conscious decision to avoid, as far as possible, the import of sophisticated equipment, if an alternate and indigenously manufactured equivalent is available and in case the same is unavailable, then the supplier having well developed servicing and back up facilities will be preferred. However, to plug the shortcomings/inadequacies etc. in dealing with the import cases, including insurance, import clearance, commissioning of machine etc., the procedure has been streamlined by the Railways and strict instructions issued to the concerned departments.”

1.27 The Committee note that the Railways have initiated certain measures for streamlining the procedure. But the Railways have not implemented many of the recommendations of the Committee. In majority of the cases, they have put forth excuses to defend the lapses on their part which the Committee do not consider a healthy practice. Inordinate delay in initiating procurement action for imports, inability to precisely estimate the requirements, import of wheelsets at a higher rate, wasteful import of 14 tonne MG wheelsets despite announcement of unigauge policy and thus involving infructuous expenditure of Rs. 9.98 crore, delay in commissioning

of the "Laminated Spring Line" plants, functioning by the Railways as intermediary, failure to take penal action against the supplier for contractual violations, import of wrong spare part rendering entire expenditure of Rs. 21.37 lakh as infructuous, unjustified delay in operation of X-Ray Machine, failure to take action against erring officials etc. are areas where the Railways miserably failed to rise to the occasion to initiate preventive/punitive action.

1.28 The Committee, therefore, desire that the Railways should streamline the system making it much more responsive to the possible contingencies and also having inbuilt mechanism to avoid the recurrences of not only the cases dealt within the Report of the Committee but also other cases of similar nature in future. The Committee also desire that penal action against the erring officials may be expeditiously taken by the Railways. The Committee would like to be kept informed of the precise action taken by the Railways in the matter.

## **CHAPTER II**

### **RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT**

#### **Recommendation**

Indian Railways have been importing certain components and materials for their requirement through three procuring agencies viz. Railway Board, Zonal Railways/Production Units and DGS&D (Director General of Supplies and Disposals). An elaborate procedure is in existence in the Railways for purchase of goods by these agencies from abroad. This procedure involves, among other things, an examination by the tender Committee of the tender requirements, specifications, delivery schedule, responsiveness of the bid, reasonableness of the price quoted by the lowest Bidders etc. The tender Committee has to make recommendations taking into account all aspects of tenders and their recommendations involve a review of the quantity tendered; the need for negotiations, if any; and the proposal for ordering. The recommendations of the tender committee for import require approval of the competent authority depending on the value of purchases involved. The Committee's examination of the specific cases brought in Audit Paragraph has, however, revealed that there were instances where Railways made wasteful, unnecessary and costly imports involving a total amount of Rs. 35 crores. In addition, the Committee have also noticed certain cases where the management of the import contracts by Railway authorities was poor. The various shortcomings and the disquieting features observed by the Committee during their examination of the subject are dealt with in the succeeding paragraphs.

[S. No. 1, Appendix III, Para No. 5 of 101st Report of PAC (10th Lok Sabha)]

#### **Action Taken**

The above recommendation is a sort of summary of the subsequent recommendations and is very general in nature. Since detailed Action Taken Notes on subsequent recommendations have been submitted, no Action Taken Note on the above recommendation is proposed.

[Ministry of Railways (Rly. Bd.)'s case No. 95-BC-PAC/X/101.]

### **Recommendation**

The Ministry of Railways floated another global tender No. GP-167 in 1991 for import of 12,000 numbers of 22.9 tonne wheelsets to bridge the shortfall in the indigenous availability of wheelsets for wagon production during 1992-93. Anticipating utilisation of the provisions of retro-active financing available in the expected World Bank Loan then being negotiated, the Ministry of Railways invited this tender under the conditions of World Bank funding. In accordance with the World Bank guidelines, the tender conditions stipulated that the "prices should be stated only in one currency and should be either in the currency of the manufacturer's country or in US dollars". The lowest offer at FOB price of US dollars 900 per wheelset was received from a firm in Romania—a country with whom India was having Rupee Payment Agreement. This offer was accepted by the Ministry of Railways and the offer of acceptance was conveyed to the firm on 4.3.1992. The Ministry of Railways also, simultaneously, decided to release foreign exchange for the procurement initially under free foreign exchange (FFE) on the basis of their requirements projected in the FFE Budget to the Ministry of Finance. Since the World Bank Loan had not materialised by that time and there was a possibility of procurement of wheelsets being made outside World Bank financing, the Ministry of Railways made a reference to the Ministry of Finance (DEA) who advised on 6.5.1992 that all payments should be made in non-convertible Indian Rupees in view of Indo-Romanian Trade and Payment Agreement being in force. The Ministry of Railways, accordingly took up the matter with Romanian firm which is stated to have agreed to accept the offer being considered under Indo-Romanian Trade and Payment Agreement provided that the payments were effected in Indian Rupees at the "market rate" of exchange prevailing on the dates of respective bills of lading. This proposal was accepted by the Ministry of Railways.

[S. No. 7, Appendix III, Para 44 of 101st Report of PAC 10th Lok Sabha]

### **Action Taken**

This para gives only the brief history and procedures adopted in dealing with the Tender No. GP-167. No specific issue has been raised by PAC in this para. hence, no reply has been furnished.

This ATN has been seen and vetted by Audit *vide* their U.O.I. No. 164-Rly/WDP/12-253/92-Vol. II, dated 23.2.96.

[M/o Railways Board)'s O.M. No. 95-BC-PAC-X/101]

### **Recommendation**

(i) The Committee have been informed that based on a review undertaken on 04.2.1992, the requirement of MG wheelsets was assessed at 2000 numbers. After obtaining the approval of the Minister for Railways, the acceptance of offer was issued to Polish Supplier on 13.3.1992 and a formal contract for supply of 2000 MG wheelsets made on 13.5.1992. The supplier is stated to have manufactured the entire quantity in May, 1992 and after inspection shipped the same to India on 17.9.1992. However, Railways having decided to stop production of meter gauge wagons in July, 1992, the procurement of these wheelsets proved unnecessary and the entire expenditure of Rs. 9.98 crores involving foreign exchange was rendered infructuous. Although the Railways are stated to be proposing alternate use of these wheelsets by up-grading MG rolling stock for Lumbding-Badarpur section which is not slated for gauge conversion, yet the facts remain that these wheelsets will remain unutilised for considerably longer period and that the cost of matching equipments for retrofitment of these wheelsets will be Rs. 4 crores. The Committee cannot but express their unhappiness at this heavy extra expenditure due to inaccurate conception in the Ministry of Railways planning and requirements. They also desire the Ministry of Railways to do introspection with a view to streamlining their procurement of equipments strictly in accordance with their precise requirements.

[Sl. No. 10, Appendix-III- Para No. 61 of 101st Report of PAC 10th Lok Sabha]

### **Action taken**

The advance acceptance of offer was issued against the tender on 13-3-92 after approval of the purchase by MR on 10-3-92. This advance acceptance contained the stipulation that "the contract stands concluded with the issue of this letter of Acceptance", and a binding contract came into force on 13.3.92.

Moreover, an irrevocable letter of credit was established on 19.5.92 which was valid for shipment till 20.9.92 and for negotiation till 05.10.92. Therefore, there was no possibility of cancelling the letter of credit and stop the shipment of these 2000 MG wheelsets.

Imports of wheelsets for wagon production is now being initiated well in time after taking into account the indigenous availability, if any, the requirement of wagon production as per production plan as well as the lead time for import. This will again be critically reviewed at the time of

finalisation of tender and only those quantities will be imported which cannot be met indigenously. In such procurement, the latest changes incorporated in the production programme will also be taken into account.

2000 numbers 14T axle load wheelsets which could not be utilised due to stoppage of production of MG wagons were proposed to be utilised for retrofitment of 500 MG wagons for up-gradation of MG rolling stock for Lumding-Badarpur Section. This retrofitment was approved in the rolling stock programme of the Railways for 1956-96 at an estimated cost of Rs. 3.76 crores. There are already 133 MG wagons with 14 T Axle load plying on Indian Railway system which are allotted to NFR. Efforts are in hand to move all these wagons for utilisation on Lumding-Badarpur Section. 51 wagons have already been moved. Earnest efforts are being made to move the remaining wagons to this section also. However, due to break of guage at present, the movement of wagons is causing some problem.

A project to retrofit 67 MG wagons with 14T Axle load wheels is also in hand at Dibrugarh Workshop of NFR, out of which 48 wagons have already been retrofitted upto Aug. '96. The idea was to give the available MG wagons with 14T Axle load and roller bearings extensive field trials in Close Circuit on Lumding-Badarpur Section and evaluate their actual achievements before going in for the retrofitment project of further 500 MG wagons. This section of NFR is heavily graded and poses serious operational problems and it was considered prudent to have the evaluation done with the available wagons before going for bulk retrofitment. A conscious decision was, therefore, taken to defer the work of retrofitment of 14T Axle load with roller bearings on 500 MG wagons approved in RSP 1995-96 and take it in hand only at a suitable time when the results of extensive field trials are available.

Now the Lumding-Silchar Section has been approved for conversion to BG in the 1996-97 Railway Budget. We, therefore, do not intend to invest further in upgradation of MG freight stock for this Section and the retrofitment project at Dibrugarh Workshop is being limited to 60 wagons and the project for retrofitment of 500 MG wagons is being pended. Possibilities will be explored to sell the surplus 14T wheel sets to other countries where MG system is still available.

The Audit to whom the above ATN was submitted for vetting have observed as "No Comments" *vide* their U.O.I. No. 1330-Rly/WDP/12-235/92 Vol.II, dated 24.12.96.

Ministry of Railways(Railway Board's) case No.95-BC-PAC/X/101 Name of the Ministry/Ministry of Railways (Railway Board) Deptt.

### **Recommendation**

The Committee find that the Railway Board decided to import three "Laminated Spring Line" plants with a view to improving the manufacturing process of laminated springs in Lilluah. However, a decision was subsequently taken to change the location of these imported plants from Kota and Lilluah workshops to Perambur and Jhansi Workshops. The order for import of these three plants was placed on 25.02.88 and these machines arrived in May, June and September of 1989 at Jhansi, Jagadhari and Perambur respectively. The Committee, however, regret to note that after receipt of the plant at Jhansi in May, 1989, there was a rethinking in the Railways to move the plant to Rail Spring Karkhana at Sithouli for manufacture of parabolic springs. Since that particular product was not taken up at Sithouli, the Railway Board gave clearance to Central Railway for installation of the plant at Jhansi only in December, 1990 *i.e.* after a lapse of more than 18 months after the plant had arrived in Jhansi. Although the foundations for the plant were made ready in August, 1991, the Committee are amazed to find that this machine is yet to be commissioned. To the utter dismay of the Committee, there were also considerable delays in commissioning of the other two plants. While the plant at Jagadhari was the first to be commissioned in May, 1992 *i.e.*, approximately after three years of its arrival, the plant at Perambur could be put to effective use only in August, 1994 when a period of approximately five years had lapsed since the plant arrived at this workshop. Although the Railway Board are stated to have penalized the firm for the delay in commissioning of a machine. The Committee are in no doubt that the Railways failed to take concrete measures against the supplier or his agent with a view to avoiding delay in commissioning of these plants costing Rs. 7.43 crores. From the facts enumerated above, the Committee gain the impression that the Railways in this case have displayed not only waivering attitude in selection of workshops even after the plants have arrived but also their inability to prevail upon the supplier to commission these three plants within a reasonable time frame. The Committee hope that the Railways would at least now earnestly take up the matter with the supplier to put the plant at Jhansi to effective use at the earliest. The Committee also trust that the penalties leviable in this case would be enforced against the supplier or his agent. The Committee would like to be apprised of the progress made in the matter.

[S.No. 11, Appendix-III, Para 70 of the 101st Report of PAC (10th Lok Sabha)]

### **Action Taken**

Laminated Springs are vital fittings on the rolling stocks of Indian Railways. These springs were being manufactured in Railways Workshops but for want of adequate quality, the springs were giving trouble and there was a continuous effort to improve their reliability in service. The problem

was discussed in a seminar held at Integral Coach Factory in April'85 and later in Chief Workshop Engineers' Conference held at Railway Board's office July'85. In order to improve the quality and service reliability of Laminated Bearing Springs and have quality in built-in-process, it was decided to set up "Laminated Spring Manufacturing Line" at Jagadhari, Kota and Lilluah. However, a decision was subsequently taken to change location of imported plants for Kota & Lilluah to Perambur and Jhansi workshops respectively to meet the regional demands of springs. This change in location of two plants was made before the placement of the order. The order for import of these three plants was placed on 25.02.88 and machines arrived in May, June and September of 1989 at Jhansi, Jagadhari and Perambur respectively.

The plant of Jagadhari was commissioned in May' 92 despite a regular follow-up from the side of the Railways with the firm for early commissioning of the plant. For this delay in commissioning of Jagadhari plant, the maximum penalty of 5% amounting to Rs. 2,19,430 + Pounds 17114.07 has already been imposed on the firm. The Perambur plant could be commissioned in August' 94 by the same team of the firm as the firm could only muster one team of service engineers to commission the plants. The maximum, penalty of 5% amounting to Pounds 17114.07 has already been imposed on foreign portion of the plant. As regard the indigenous portion of the plant, maximum penalty of 5% amounting to Rs. 2,19,430 will be recovered from the balance 10% still due to firm when it submits the bills of COFMOW.

The foundations for the Jhansi plant were made ready in August, 1991. Since then the firm was chased for commissioning of the plant but they could start the work in April, 1993, due to their only commissioning team being busy with Jagadhari & Perambur plants. The installation was completed in January, 1994. During the commissioning process a number of technical problems like furnances not generating enough heat, change in the type fo fuel, structures modifcation to ensure better protection of the machine, etc., were tackled and all machines except Induction Heater were put in working order by October' 94. The Induction Heater has also since been put in working order in March' 95 thereby completing the work of the Jhansi Plant. No penalty has been imposed on the foreign portion in respect of this plant as the site was not available to the firm while in respect of indigenous portion, the maximum penalty of 5% amounting to Rs. 2,19,430/- will be levied on submission of bills by the firm.

The average monthly out-turn figures of LB Springs top plates from Jan' 95 to Dec' 95 of the three plants are as under:

	(In Nos.)	
Jagadhari	1166	33%
Perambur	1705	47%
Jhansi	2521	70%

Taking 3600 plates per month as theoretical target with single shift working.

The utilisation of plant has been lower due to reduction in workload owing to gradual condemnation of old stock with LB Springs and the replacement with new design of stock which has predominantly coil springs. However, the old stock will continue in service with IR for 10/15 years more till it is replaced completely with new design, ensuring utilisation of the plants during this period.

From the above it will be seen that all the three plants have been now put into effective use. The delay in commissioning of the plants was mainly due to technical reasons and the other major contributory factor being the availability of only one service team with the Indian Agents of the foreign supplier. A major portion of the total delay was due to sequential commissioning of the plants though these had arrived almost together.

Railways have also taken action to rationalise the manufacture of top plates on centralised basis at these plant locations on regional basis. This step has been taken to ensure better utilisation of the plants.

Summarising:

(i) The decision for changing the location of the two plants was taken prior to placement of order.

(ii) Regular follow-up was done with the firm for early commissioning of the plants.

(iii) Jhansi plant has been put into complete working order in March '95.

(iv) Penalty for late commissioning of Jagadhari has already been imposed and similar penalties are being imposed for Perambur & Jhansi plants.

The Audit to whom the above ATN was submitted for vetting have observed as 'No Comments', *vide* their U.O.I. No. 1330-Rly./WDP/12-235/92 Vol. II, dated 24.12.96.

[Ministry of Railways (Rly. Board)'s Case No. 95-BC-PAC/X/101.]

### **Recommendation**

According to the terms of the Contract, the Railways were to take open insurance cover for imported components upto consignee's godowns. In addition, the Indian subsidiary (M/s. HBB) were to take a second insurance cover for the landed cost + 15 value to cover the period upto the stage of erection, commissioning and despatch. The Indian subsidiary was to report transit damages and losses to CLW who was to lodge claims with insurance company within the stipulated period. The Committee's examination has, however, revealed that there were delays in all the cases in reporting the damages/shortages by the Indian subsidiary. While none of the claims is stated to have been rejected on this account by the Insurance Company in the case of contract relating to tap changers, the claims for the deficient items in the case of air blast circuit breakers were turned down being time barred. The Committee have been informed that the insurance claims for shortages/damages could not be lodged by the Railways in time because M/s. HBB opened the consignment much after the packages were received by them and thus failed to report shortages/damages to Railways in time. M/s. HBB also failed to fulfil their requirements of the contract for taking second insurance cover till the final delivery of tap-changers. Considering these facts, the Committee are of firm view that the Indian subsidiary would not have acted in such an irresponsible manner had the Railway asked them to arrange the imports themselves directly from their foreign principal as is generally done in cases of this nature.

[S.No. 13, Appendix III, Para No. 116 of 101st Report of PAC  
(10th Lok Sabha)]

### **Action Taken**

The observations that the Indian Subsidiary would not have acted in irresponsible manner if they were to arrange the import themselves from their principals directly are accepted. However, the Railways had to accept these conditions due to the fact that HBB were the sole supplier of Tap Changers and insisted on these conditions due to difficulties faced by them.

The Audit have seen and vetted this ATN *vide* their U.O.I. NO. 164-Rly./WDP/12-253/92 Vol-II, dated 23.2.96.

[M/o Railways (Railway Board's) O.M.No. 95-BC-PAC/X-101.]

### **Recommendation**

The Committee have also been informed that CLW withheld an amount of Rs. 57 lakhs from the bills of M/s. HBB on account of non-availability of specific items in time. Consequently, the supplier requested for appointment of an arbitrator to settle the dispute. Accordingly, Chief Electrical Engineer, CLW was appointed sole arbitrator in this case. The Railways while presenting their case before the arbitrator raised counter claims to the extent of Rs. 2.66 crores for tap changers and Rs. 78 lakhs

for air circuit breakers. The Railways are also stated to have placed before the arbitrator the facts of certain contractual violations by the supplier. The Committee, are however, concerned to note that the sole arbitrator gave a "non-speaking award" in this case. While he directed CLW to release payment of Rs. 57 lakhs to the supplier, he awarded a claim for only Rs. 6.69 lakhs in favour of Railways in respect of direct losses on account of tap changers contract and Rs. 7.83 lakhs in the case of contract relating to air circuit breakers. The Committee have been informed by the Ministry of Railways that the arbitrator is not bound to give "speaking award" since no such provisions exists in the Arbitration Act. The Committee consider it a precarious situation where it is not obligatory for a sole arbitrator to give a "speaking award." At this stage, the Committee can only express their unhappiness over the fact that Railways having known the legal provisions appointed an arbitrator from their organisation and not preferred to appoint a retired judge or somebody from outside or from the panel maintained by Indian Council of Arbitration to arbitrate this matter.

[S.No. 15, Appendix III, Para No. 118 of 101st Report of PAC (10th Lok Sabha)]

#### **Action Taken**

The unhappiness expressed in not appointing a retired judge or somebody from outside or from the panel maintained by Indian Council of Arbitration is noted. The practice followed has been to appoint the arbitrator from the panel framed by the Railways themselves. This practice has been found to give satisfactory result.

The Audit have seen and vetted the above ATN *vide* their U.O.I. No. 164-Rly./WDP/12-253/92 Vol-II, dated 23.2.96.

[M/o Railways (Railway Board)'s O.M. No. 95-BC-PAC/X-101.]

#### **Recommendation**

The Committee are perturbed to find that instead of buying the race outers of correct specification No. GM pt.7451295 required for diesel locomotives, the Railways placed an order for import of wrong sized part No. GM pt. 7451295 with the result that the entire expenditure of Rs. 21.37 lakhs incurred on this account became infructuous. The Committee have been informed that one of the two Railways units which indented for this part had indicated the last digit of the part number wrongly. However, the fact remains that the other authorities in Railways while placing the order for import of this item had not only failed to exercise due check to verify the correctness of the two different indents furnished by the Railway units concerned but also negligently chose to place import order for incorrect spare part. The Committee take a very serious view of the indifference and negligence displayed in this case by the railway authorities at different levels.

[S.No. 16, Appendix III, Para No. 127 of 101st Report of PAC (10th Lok Sabha)]

### **Action Taken**

In this case a large number of items were being procured and one digit of 7-digit part number, of one of the items was incorrect. The mistake was committed by two officials responsible for checking and compiling the import indents. The error in the part number was not known till the material was received in the depot for use on locomotives. However, as soon as, it was found that the outer races could not be used every effort was made to get it replaced from the manufacturer as indicated below:

(i) General Motors (GM) were requested by senior Divisional Mechanical Engineer/N.Rly. to replace incorrect material.

(ii) GM replied that they have supplied as per order & quote.

(iii) Telex was sent by Chief Motive Power Engineer, Northern Railway to GM pointing out that GM was aware that the material shipped will not suit WDM-4 locomotives.

(iv) GM replied after two reminders that if Northern Rly. would like to return these items then Northern Rly. will be responsible for all charges associated with return i.e. freight, shipping, customs etc. apart from restocking fee.

(v) Deputy Controller of Stores (Diesel) sent telex to GM that N.Rly. is prepared to pay freight, customs etc. with a request to GM to indicate the restocking charges.

(vi) After repeated reminders GM/USA replied that they had effected supplies as per orders which is their valid part numbers. They further mentioned that the supply effected had very limited use and was specially made to order and the item has no service requirements.

However, to avoid recurrence of such lapses in future following remedial measures have been taken.

(i) All tenderers when quoting for material for the WDM-4 locomotives will have to certify that the material being ordered, is suitable for this loco.

(ii) Spares being procured, would be categorised as per their value and indents scrutinised at designated levels of supervisors and officers depending upon the value of the indent.

(iii) Invoice receipt from the suppliers will be subjected to scrutiny at appropriate level to ensure that material being shipped is as per requirement.

The Audit have seen and vetted the above Action Taken Note *vide* their U.O.I No. 164-Rly./WDP/12-253/92 Vol.II, dated 23.2.96

[Ministry of Railways (Railway Board)'s O.M. No. 95-BC-PAC/X / 101]

**Name of Ministry / Department: M/o Railways (Railway Board)**

**Recommendation**

What has disturbed the Committee more is fact that despite receipt of the race outers of wrong specifications in December, 1991, the Railways have not so far been able to order enquiry against the two officials who have been held responsible and charge sheeted in the instant case. Keeping in view the importance of avoiding delay in the investigation of any loss of Government money due to negligence etc., the Committee recommended that enquiry in this case should be expeditiously finalised and suitable pecuniary liabilities enforced against the officials found responsible for this costly lapse.

[S. No. 17, Appendix III, Para No. 120 of 101st Report of PAC  
(10th Lok Sabha)]

**Action Taken**

Two officials were held as responsible for this lapse and D&AR proceedings were initiated against them, chargesheets were issued & D&AR action against them were finalised by the competent authority. These were reviewed once again at the Railway Board Level during 1995 and it was decided to impose penalty on both the employees of reduction in pay in the time scale Rs. 2000-3500 by two stages from 3500 to 3800 for a period of one year without cumulative effect, the orders of Railway Board were served on Sh. S.C. sharma on 27.9.1995 and Sh. B.K. Arora on 16.8.95 and were implemented forth with. Since the officials were given adequate opportunity at every stage to present their case before the disciplinary authority, there was some delay in finalisation of the penalty.

The Audit to whom the above ATN was submitted for vetting have observed as "No Comments", vide their U.O.I. No. 1330-Rly. / WDP / 12-235 / 92 Vol. II, dated 24.12.96.

[M/o Railways (Railway Board)'s O.M. No. 95-BC-PAC/X/101.]

**Name of the Ministry / Department: M/o Railways (Railway Board)**

**Recommendation**

The Committee are also concerned to note that an imported X-Ray machine costing Rs.19.08 lakhs is lying unused since March 1988 after its transformer developed fault. Although the Ministry of Railways have sought to explain various steps taken by the Railways to get the machine repaired, the Committee's examination has revealed that none of these steps have resulted in tangible results. The Committee find themselves unable to appreciate the long unjustified delay in the instant case and they desire that immediate steps be taken to get the machine operational.

[S. No. 23, Appendix III, Para No. 174 of 101st Report of PAC  
(10th Lok Sabha)]

### Action Taken

One imported 800 M.A. X-Ray Unit with Voltage specifications of 380 Volts was indented on 7.6.85 & received in April '86 at a cost of Rs. 19.08 lakhs for Railway Hospital, Lucknow for more specialised and better Radiographic examination and to reduce radiation hazards to the X-Ray Staff. There were some initial delay in the operation of the machine even though the mechanical installation by the firm was completed in Jan., '87, as the Power supply in the Railway Hospital was in the range of 430 to 460 Volts. However, the machine was commissioned by installing a Voltage Stabiliser of proper rating to make the unit functional but the same continued to give frequent trouble and became inoperative in March, '89 due to defect of in-built regulated transformer. An In-built Transformer was indigenously fabricated by the Railway Workshop with alteration /modification at the expenditure of Rs. 19,525 /- as suggested by the firm, M/s. Philips Medical Services, and was successfully fitted in the Unit as the cost of original imported component was exorbitant. This indigenous fabrication of the Transformer took abnormally long period of time as the Machine was of sophisticated nature and technical know-how was not readily available in the country. Also initially the firm did not co-operate due to some pending dispute of the Railway with them. Finally the firm had agreed to commission the machine with indigenous in-built Transformer after due testing of the vital components, like, X-Ray Tubes, Image Intensifier Tubes and H.T. Tanks to prelude the possibility of blowing up of machine and irreparable damage to it. The X-Ray, machine was found to be working satisfactorily after conducting 'No Load' test. However on operation with 'load on' some deficiencies were observed and thereafter the components which were found defective were purchased locally and replaced in March '95.

Since then the Engineers of M/s. Philips Medical Services have visited Lucknow a number of times to repair the X-Ray machine and have found some more electronic components defective. After replacement of these defective parts, the machine has since been made functional and is working satisfactorily since 20.5.96.

It is factually correct that an amount of Rs. 44,000/- had been paid to the firm for their visits to the hospital between Sept. 94 and Mar. 95 in connection with carrying out repair/commissioning of X-Ray machines.

Reasons for abnormal delay in commissioning of X-Ray machines, may however be summarised as follows:—

- (i) The machine was procured with incorrect voltage specifications necessitating fabrication of voltage stabilizer locally.
- (ii) Fabrication of in-built transformer indigenously in Railway Electrical Workshop took abnormally long period as the technical

know-how was not readily available in the country as this was an imported electronically sophisticated item.

(iii) X-Ray machines fitted with indigenously built-in transformer took more time for being tested thoroughly by the representative of the firm. Any laxity in test would have resulted irreparable damage to the machine. However, with the replacement of the defective electronic components the machine has since been commissioned and working satisfactorily w.e.f. 20.5.96.

To avoid recurrence of procurement of machines with defective specification in future, steps have been taken to frame the specifications in consultation with Electrical and S&T Department and obtain the respective clearances before placement of indent/demand for procurement of such highly sophisticated machines involving hi-tech electronics.

The Audit to whom the above ATN was submitted for vetting have observed as "No comments" *vide* their U.O.I. No. 1330-Rly./WDP/12-235/92 Vol. II dated 24.12.96.

[M/o Railways' (Railway Boards') case No. 95-BC-PAC-X/101]

## **CHAPTER III**

### **RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT**

#### **Recommendation**

Explaining their position in respect of the extra expenditure of Rs. 3.60 crores as pointed out by Audit owing to the differences in market and official rates, the Ministry of Railways contended that the "official" exchange rate referred to in Audit paragraph has no relevance at that time as a Liberalised Exchange Rate Management System had come into force with effect from 1.3.1992 and that the Railways were required to meet all their payment liabilities at market rate in terms of Ministry of Finance instructions dated 12.3.1992 and further clarifications dated 3.4.1992. The Ministry of Railways have as such maintained that their decision to make payment to the Romanian firm "in non-convertible Indian Rupees as per market rate of exchange did not have any extra cost implication and the Ministry of Finance's requirement of making payments in non-convertible Indian Rupees was also satisfied". The Committee are not at all inclined to accept this argument of the Ministry of Railways because they understand from a close scrutiny of the instructions dated 12.3.1992 and 3.4.1992 that these instructions laid down the procedure to be followed by various Government Departments/agencies for procuring the foreign exchange only in cases where payments for imports or otherwise were to be effected in foreign exchange and thus were not at all relevant in the instant case where payments were required to be made in non-convertible Indian Rupees. Obviously, the Ministry of Railways failed to appreciate the substance of the aforesaid instructions in its right perspective and rather than seeking advice of the Ministry of Finance on this issue they acted with the sole aim to push the contract through with the Romanian supplier. In view of the foregoing, the Committee feel convinced that the decision of the Ministry of Railways to make payment to the Romanian firm in Indian Rupees at the market rate of exchange involved increased cost implications and the only satisfaction that the Ministry of Railways could draw in this case is that such payments were made in non-convertible Indian Rupees. At this stage, the Committee can only express their distress over the manner in which negotiations with the Romanian firm were conducted by the Ministry of Railways to the detriment of Government funds.

[S. No. 8, Appendix III, Para 45 of 101st report of PAC (10th Lok Sabha)]

### **Action Taken**

The point made earlier in the evidence furnished to the Public Accounts Committee regarding cost implications is clarified once again for proper appreciation by the Committee.

The purchase of wheelsets against Tender GP-167 was originally intended to be funded by the World Bank loan, and the Tender was called under conditions applicable to World Bank purchases. If the World Bank Loan had materialised, the payment to the Romanian firm would have had to be made in the quoted currency of US dollar. Also it has to be noted that with the introduction of Liberalised Exchange Rate Management System with effect from 1.3.1992, the total payment liability in Rupees to the Railways would have been determined as per market rate of exchange ruling at the time of payments (*i.e.* shipments in Contract GP-167). However in view of the non-availability of World Bank Loan, final decision to pay in non-convertible Indian Rupees was taken adopting market rate of exchange as ruling on the respective dates of Bills of Lading. This decision thus did not result in any extra cost implications to the Railways.

However, since the Committee had expressed its disinclination to accept this argument of Ministry of Railways, the Ministry of Finance has been consulted about the correctness of action taken by this Ministry. They also have endorsed the action of payments being made in non-convertible Indian Rupees on the basis of market rate of exchange under the circumstances then prevailing. Copies of this Ministry's O.M. dated 22.6.95 addressed to the Ministry of Finance and their reply *vide* O.M. dated 21.8.95 are enclosed for a reference at Annexure I & II respectively. Although, Ministry of Finance have indicated that Ministry of Railways should have consulted that Ministry/RBI before finalisation of the contract yet they have endorsed the decision of this Ministry being in accordance with the extant instructions of the Government.

This ATN has been seen and vetted by Audit *vide* their U.O.I. No. 164-Rly/WDP/12-325/92-Vol. II dated 23.2.96.

[Ministry of Railways (Railway Board)'s O.M. NO. 95-BC-PAC-X/101]

**ANNEXURE TO REPLY TO RECOMMENDATIONS NO. 45**

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

**NO. 95/RSF/50/2**

**New Delhi, dt. 26.6.95**

**OFFICE MEMORANDUM**

In October, 1991, the Ministry of Railways had floated a tender for procurement of wheelsets on the basis that purchase will be financed retro-actively by World Bank Loan. The Bidding Documents used for this had been approved by the World Bank. The Bidding Documents had the following stipulation regarding currency of prices:

“The prices should be stated only in one currency and should be either in the currency of the manufacturer’s country or in US dollars”.

2. The lowest evaluated bid in this tender was from a Romanian firm which had quoted in US dollars in accordance with the tender conditions. The advance acceptance of offer was issued to the firm on 04.03.92.

3. Later on anticipating non-materialisation of the World Bank Loan, it was decided to make payments in non-convertible Indian Rupees keeping in view the Indo-Romanian Trade and Payments Agreement. The Romanian firm, however, pressed for payment in US dollars and submitted the rock bottom price to be the lowest in the tender. After considerable discussions the firm agreed in June '92 to accept the offer being considered under Indo-Romanian Trade & Payments Agreement provided the payment were made in Indian Rupees at the market rate of exchange prevailing on the dates of respective Bills of Lading.

4. The Romanian firm’s offer as above was finally accepted and the contract was placed in July, 1992. The shipments against this contract were completed during September to July, 1993.

5. It may be recalled that the Liberalised Exchange Rate Management System had become effective from 1st March, 1992 *i.e.* even before the advance acceptance had been issued to the firm. Further the Ministry of Railways were required to meet their entire foreign exchange requirements at the market rate. The Ministry of Finance is requested to advise the correctness of the procedure followed by the Ministry of Railways in

allowing payments to the Romanian firm as per market rate of exchange ruling on the date of Bill of Lading.

Sd /-  
(Sushil Kumar)  
Director, Railway Stores (F),  
Railway Board.

Mrs. Jaya Balachandran,  
Deputy Secretary,  
Ministry of Finance,  
New Delhi.

**ANNEXURE-II**

**ANNEXURE TO REPLY TO RECOMMENDATION NO. 45**

**IMMEDIATE**

**F. No. 11/2/95-EEC. VI**

**GOVERNMENT OF INDIA**

**MINISTRY OF FINANCE**

**DEPARTMENT OF ECONOMIC AFFAIRS**

....

New Delhi, the 21st August, 95.

**OFFICE MEMORANDUM**

**Subject : Romania—Procurement of wheelsets—Allowing payments to Romanian firm in non-convertible Rupee at market rate—Correctness of the procedure—Reg.**

The undersigned is directed to refer to Ministry of Railway's O.M. No. 95/RSF/50/2 dated 26.06.95 on the subject cited above and to say that this Department has examined the case in consultation with RBI and the Ministry of Commerce and has no objection making payment to the Romanian Party in non-convertible Indian Rupees in the prevailing circumstances. However, it was necessary for the Railway authorities to approach Department of Economic Affairs/RBI before finalisation of the contract in non-convertible Rupees at market rate of exchange. This may kindly be born in mind in future.

Sd/-

(Sunil Tandon)

Deputy Secretary to the Government of India.

Ministry of Railways,  
Railway Board,  
(Shri Sushil Kumar),  
Director,  
Railway Stores (F),  
Rail Bhawan,  
NEW DELHI-110 001.

**Recommendation**

In yet another case of import of wheelsets, the Railways invited in 1991 a global tender GP-169 for meeting their production requirements of

14 tonne MG wheelsets during 1992-93. This tender was opened on 6.6.1991 and the acceptable offer against this tender as recommended by the Tender Committee was forwarded to Minister for Railways in October, 1991 for his approval. Subsequently, the Railways had also announced their uni-gauge policy in December, 1991. The case relating to tender GP-169 was accordingly remitted back for a review in the light of Minister for Railways directions dated 24.12.1991 that "MG Rolling Stock programme should be frozen and these resources utilised for uni-gauge programme." The Committee are concerned to find that despite this clear-cut direction of the Minister for Railways, the then Member (Traffic) in Railway Board approved procurement of 3400 MG wheelsets for requirements during 1992-93 and 800 wheelsets in 1993-94 on the basis of a review undertaken on 7.1.1992. While this review is stated to have considered that time had to be given for the production units for switching over from MG to BG production and also taken into account the aspect that inputs organised would result in idle inventory, the Committee are surprised to note the plea of the Ministry of Railways raised in their defence that the full scope and extend of uni-gauge policy was not known to them in January, 1992. In the opinion of the Committee, this plea of ignorance holds no ground in the light of the fact that the action plan under uni-gauge policy announced earlier in December, 1991 had clearly contemplated inclusion of 27 gauge conversion projects. Evidently, the facts enumerated above are a sad commentary on the functioning of such an important organisation as Railway Board insofar as they had completely known the implications of the uni-gauge policy in January, 1992 after having themselves worked out on the gauge conversion plans under the policy. The Committee therefore, conclude that the whole issue of assessment of requirement of MG wheelsets in the instant case was dealt with the Railway Board in a rather strange and inexplicable manner in utter disregard to the realities of the situation.

[S.No. 9 Appendix III, para 60 of 101st report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

After announcement of uni-gauge policy in Dec.'91, a review of the status of orders for M.G. wagons was undertaken on 7.1.92. In this review, the status of ordering of imports and the set-back that would be caused in the production units and consequent disruption etc. were considered. It was felt that a switch over time had to be given for the units to change over from MG to BG production. The units included with two railway workshops and one public sector unit. The aspect that imports organised would result in idle inventory was also considered. Thereafter a decision was taken on 28.1.92 by the Ministry of Railways for manufacture of 800 MBCs and 100 MBVGs in 1992-93 and 200 MBCs in 1993-94. The 1993-94 production was however, restricted to only Samastipur workshop.

Keeping in view the fact that manufacturing units required time to

switch over to BG production and stoppage of MG production would have rendered entire labour force and machinery idle, during the transition period, production of some MG stock was considered necessary.

This ATN has been seen and vetted by Audit *vide* their U.O.I. No. 164-Rly/WDP/12-253/92-Vol. II dated 23.2.96.

[M/o Railways (Railway Board)'s O.M. No. 95-BC-PAC-X-101]

### **Recommendation**

Another disturbing feature noticed in this case is that the consignment suffered extensive damages in transit with the result that two respirators could not be commissioned. The Railway have tried to put the blame on the Assistant Director Shipping, Bombay for his failure to provide adequate protection against damages when the consignment was despatched by train. The Committee find it difficult to accept this view since the stores were despatched by passenger train under clear R/R (Railway Receipt). On the other hand, the Committee hold Railways fully responsible for the loss incurred due to damages to the respirators mainly because they failed to meet their contractual obligation under clause 19(d) of the contract which clearly stipulated that the insurance was to be provided by the indenter *viz.*, Controller of Stores, South Central Railway. In this context the Committee have also been informed by the Railways during evidence that they had written to the DGS&D for arranging the necessary insurance cover and in the absence of any reply from them the Railways presumed that the insurance cover would have been provided. The Committee are not inclined to accept this plea of the Railways, since Para 60(iv) of Manual of General Instructions for Shipping and Clearance specifically enjoins that "no insurance cover will be undertaken by the port shipping officer of the DGS&D at the ports of entry and the Indentors/Importers/Consignees should themselves arrange insurance coverage with the concerned zonal unit of the General Insurance Corporation of India." The Railways have also tried to put blame on the DGS&D on the ground that there were three ultimate consignees and the packing should have been made consignee-wise whereas the stores were packed in one single lot. The Committee do not find any force even in this argument in view of the provisions contained in Para 27 of the General Instruction of shipping and clearance which clearly specify that "Distribution and contents by opening the packages will not be undertaken by the Director Supplies and Disposals at the ports" and that where the consignments "are required to be distributed to various consignees, the Indenter/Importer/Consignee should receive the consignments at one central place and arrange their distribution by themselves to various ultimate consignees." From the facts brought out in this paragraph, the Committee are convinced that the South Central Railway authorities concerned with this case displayed total lack of knowledge of the procedure required to be followed in this case of imports through the agency of DGS&D and they cannot absolve themselves of the

responsibility of loss incurred by Railways due to transit damages to the two imported respirators which could not be mitigated due to non provisioning of insurance coverage.

### **Recommendation**

The Committee are constrained to point out that as in the case of import of respirators brought out earlier in this Report, the Railways once again failed to arrange requisite insurance cover despite the fact that the Indian Agent had reminded the consignee/indenter thrice to carry out the insurance. The net result was that no claim could be lodged for the extensive damages to both the machines. What is more deplorable is the fact that the Railway authorities waited for about one and a half years to get the machines installed. Obviously, no earnest efforts were made by the authorities concerned to impress upon the supplier or the Indian Agent to get the machine installed at the earliest with the result that a long delay took place in advising the DGS&D to withhold the payment in this case. The Committee therefore, desire that the entire issue of import of Respirators and Image Intensifiers by the South Central Railway may be examined in depth with a view to pin pointing individual responsibility for the procedural lapses that had occurred in these two cases. The Committee would like to be apprised of the concrete action taken in the matter.

[S. No. 20 & 22 Appendix-III, Para No. 171 & 173 of 101st report of PAC (10th Lok Sabha)]

### **Action Taken**

DGS&D placed the contract for import of Four Respirators against S.C. Railways's indent, at the total cost of Rs. 20.10 lakh on M/s. Villa & Co., Italy on 2nd Sept., 1990. The procurement of such medical equipments through DGS&D which is the centralised procurement agency was done. The insurance coverage was to be arranged by the indenter/consignee as per Para 60(iv) of DGS&D Manual on General Instructions for shipping and clearance and Clause 19(d) of the contract. Due to lack of knowledge of the procedures regarding imports through DGS&D, the matter was referred by SC Railway to the AD (Shipping) for arranging insurance coverage. It came to light that the said communication was received by DGS&D but even a negative reply was not sent. In the absence of any response to the contrary from DGS&D, it was presumed that they would take care of the insurance coverage. As a result the consignment remained uninsured. Hence the failure was not for want of any action by SC Railway but by DGS&D not replying to communications of the Railways.

The imported consignments received at the Port were opened at the time of Custom Clearance by the Clearing Agent of DGS&D. The equipment were despatched without taking adequate precaution by way of re-packing in wooden boxes, on the advice of AD (Shipping), as a result, out of four Respirators two got damaged in transit. Although the despatch of the consignment was made to one of the consignee for arranging distribution

of the other consignees, by AD/Shipping as required but it was done without taking adequate precautions by way of re-packing of the equipments in the wooden boxes before despatch. The responsibility for the damage of the equipments during transit, therefore, squarely lay with AD/Shipping for not taking due precautions before despatch of the consignment.

Two Respirators, which got damaged, have since been replaced on 26.6.95 by the firm at the additional cost of Rs. 5 lakhs which would have been otherwise the cost of the spares, if these respirators were to be repaired. As such loss to the Railway Administration has been reduced to about Rs. 5 lakhs only.

S.C. Railway has pin-pointed the responsibility on Shri V.K. Krishnarao, ACO (Indent), for not arranging insurance coverage of the consignment by the Railway itself instead of asking DGS&D to do so. However, as the officer had retired on 31.7.92, no action could be taken against him. To avoid recurrence of such lapses in future, for dealing with import cases including import clearance etc., the procedure has been streamlined by the Railways and strict instructions issued (copy enclosed). Besides, import of sophisticated medical equipments on CIF contract basis is now being made directly by the Railways. These measures will prevent any such lapses in future.

Due to the fact that the contract was placed by DGS&D on FOB basis and insurance coverage was to be arranged by SC Railway who also failed to arrange insurance due to lack of knowledge of the procedures regarding import through DGS&D, as such the firms cannot be held responsible for damage of the equipments during transit Export to ultimate consignee. Therefore recovery from the firm for 2 respirators which got damaged in transit is not possible. Since DGS&D being a Central Purchase Organisation is only a purchasing agency on behalf of all ministries of Govt. of India and their attached and subordinate offices, recoveries of such losses is also not possible from DGS&D and has to be borne by respective indentors.

The Audit to whom the above ATN was submitted for vetting, observed as "No Comments" vide their U.O.I. No. 1330-Rly/WDP/12-235/92 Vol. II, dated 24.12.96.

[M/o Railways (Railway Board)'s case No. 95-BC-PAC-X/101]

Headquarters office  
Stores Branch,  
'RAIL NILAYAM'  
Secunderabad-500071

No. S. Dy. Sales. Misc. 95-96

Dated 18.10.1995

### NOTE

Sub: Check-list for dealing with the Import cases.

1. As instructed, a Check-list has been prepared based on the notes/lectures given during the Import Management Course attended by the undersigned from 19.09.95 to 22.09.95.
2. A Flow Chart of documents/steps required for Import clearance has been enclosed as Annexure 'A', Customs duty for some of the items required by Railways as Annexure 'B' and New terms connected with the international multi-modal transports with their full forms as Annexure 'C'.

Put up for kind information.

Sd/-  
Dy. C.O.S./Sales

### Check-list for dealing Import Cases

This Check-list has been prepared based on the notes/lectures given during the Import Management Course held at Baroda from 18.09.95 to 22.09.95. The Check-list also covers the changes brought out due to recent liberalisation; specially in the field of Import and Export.

In case of any doubt or differences from the conventions of the South Central Railway, the circulars may have to be referred.

Full powers for Import to Zonal Railways has been given, where sources of funding are other than World Bank/through Loan agreement generated from Railway Board. In cases of funding through loan on bilateral terms or World Bank, powers of purchasing is with the Board only.

For all other cases where source of funding is local, wherever Import content of the total purchase is above Rs. 2 Cr., Board's approval has to be taken.

- 1.1 Under the present Import Policy vide para 2.2, anybody can Import any items freely; other than those appearing in the Negative list. This means requirement of Import licence does not exist for these free items. Most of the items Railways are importing are not figuring in the negative list. Negative list is consisting of prohibited items like fat, mud and tallow; restricted items like insecticides, drugs, aircraft, natural rubber; and cannalised items like fertilisers etc.
- 1.2 Zonal Railways can invite tenders on ST/LT/global LT. Board's approval is not required for floating of global tenders. While floating tenders, following details should be also called for along with the standard details of the tender.
  - (a) FOB Price/C.I.F. separately and break-up of C, 1 & F;
  - (b) Clear payment terms;
  - (c) Pre-despatch inspection details;
  - (d) Performance/Guarantee Bond (to the extent of 10% Min.);
  - (e) Packing details, no. of packages;
  - (f) Approx. weight of the Consignment;
  - (g) Confirmation charges of third bank;
  - (h) Nomenclature and description to be worded carefully and in accordance with import tariff book, as this may affect Customs duty;
  - (i) Provision of LD to be made clear;
  - (j) Force Majeure Clause & Scope;
  - (k) Clauses need to be specified and spelt out clearly in issues related to Arbitration, country of origin, secrecy, jurisdiction of Court, changes in legislation and limitations of liability;
1. Agency commission if any and full details of the Agents to be called for.
2. Copies of Tender notice may be sent to the local Official representative of embassy/trade commission, specially in case of global tenders.
- 2.1 Issue of whether Tender to be floated to be Global or local or single is to be decided on the normal basis i.e. value of the Tender-*vis-a-vis* cost of Advertisement etc.
3. The Tender evaluation should be made in one currency only.
- 3.1 The conversion of currency should be done on the B.C. (Bill clearing) selling rate of the date of opening of the tender, released by SBI.

- 3.2 Evaluation to be made only on the basis of date of Tender Opening (Board's letter No. 92/F(FEX)/1/1 dt. 10.08.94)

**N.B.:** During the discussions which transpired, most of the Railways are evaluating various tenders on 2 dates: i.e. date of Opening and date of Tender Committee.

The above point being in variance with the Convention; the above referred Board's letter is to be seen.

4. For deciding the value of Tender and Tender competence, C.E.F. value is the criteria. (i.e. C.I.F. value to decide the level of Tender Committee)
5. All Import Contracts to be on F.O.B. or F.A.S. basis. (even for Air-transport).
6. Insurance of Consignment to be done in India through the operation of Railway Board's Open Cover Policy (Insurance Scheme for Import of Railway material after 31.3.95) is covered vide Board's letter No.95/FS/POL/IS/1 dt. 7.3.95).
- 6.1 Responsibility of insurance is on the Purchaser. "Insurance in all import cases is a must and for this reason, advance premium per quarter for the open cover on M/s. The Oriental Insurance is to be kept alive."
- 6.2 This clause should be added in the final contract/Purchase Order invariably for ensuring information to Insurance Companies. The Clause to read like this "Foreign suppliers (Name of the Co.) shall send details of Shipment/Closing particulars directly also to the Insurance Company (Name....) by Air-Mail, by telex/telegram if value of Shipment is above Rs. 5 lakhs.
7. Payment to be made only through Letter of Credit.
8. Agency Commission should be given only in Indian rupees at T.T. Buying rate of exchange, ruling on the date of placement of order.
- 8.1 No variation (on price) to be allowed on Agency Commission.
- 8.2 Quantum of Agency Commission to be determined carefully with reference to the nature of Import Stores, Country of Origin, etc.
  - (a) If commission is above 5%, specific approval of G.M. with Finance concurrence to be obtained;
  - (b) Negotiations on the reduction of Agency Commission aspects can be done;
  - (c) FA&CAO/C. Rly. informed that commission above 5% are quite frequent on their Railway.
9. It was communicated that COFMOW is following the policy of taking approval of Railway Board for air-lifting of material even in cases where air-lifting is economical. However, most of the Railways stated for air-lifting, GM's authority is sufficient for consignment upto 50

10. Purchase preference given to the domestic suppliers, duty paid price on imports has been withdrawn *vide* Railway Board's letter No. 95/RS(G)/768/1 dt. 07.08.95.
  11. Vessels selected for carrying goods should not be more than 15 years old. Shipping on that should not be permitted. This condition should be specified in the Contract/Tender conditions.
  12. Copies of the contract should invariably be marked to SSO/CMM Shipping.
  13. Close liaison with CMM/SSO Shipping to be maintained.
- Enclosed Annexure III, IV & V.

## **CHAPTER IV**

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

#### **Recommendation**

The Committee note that the Railways invited a global tender No. GP. 154 only in April, 1989 for import of 7500 numbers of 22.9 tonne B.G. wheel sets for their wagon production requirements during 1989-90. According to the Ministry of Railways the requirement for initiating timely procurement action for the wheel-sets was completely followed in the instant case and that the global tender was invited only after the requirements of balancing import was established clearly in February-March, 1989. The Ministry of Railways have also stated that the wagon production plan for 1989-90 was decided in December, 1987 and the requirements of wheel sets for wagon production during the year 1989-90 were reviewed periodically initially on 22.2.88 when it was felt that the entire requirement of 1989-90 could be met by Wheel and Axle Plant (WAP) and that there would be no need for arranging imports. A reassessment of the requirements of wheel sets was also made in July, 1988 when indications were given that the expected supply of the wheel sets during 1988-89 from WAP would be at a lower level than what was envisaged earlier. However, in view of the foreign exchange constraints and considering the latest finalisation of wagon production plan for 1989-90, a further review was felt necessary which was conducted in March, 1989 revealing the shortfall of wheel sets for 1989-90 at the level of 7500 numbers. The Committee do not find it as a convincing explanation for delay in initiating procurement action for import of wheel sets required for wagon production in 1989-90 in view of the fact that the quantum of shortfall in the requirements of wheel sets which at that time worked out 12,526 sets upto 31.3.90 was very well known to the Railway Board in February, 1988 when they had themselves computed the same at 15,673 Nos. Moreover, the subsequent review carried out by them in July, 1988 had also reinforced the fact of expected shortfall in the availability of wheel sets which at that time worked out 12, 526 numbers. Even after taking into account the factor of foreign exchange constraints in the country at that time, the Committee consider it shocking that the Railway Board at no stage took any action to make good the expected shortfall in availability of wheel sets for their requirements in 1989-90. Evidently, the Railway Board woke up only after the production year 1989-90 had commenced and there was no time left to further delay the procurement of wheel sets required during that year. Consequently, the Railway Board

had to stipulate stricter delivery schedule for import of wheel sets and the price advantage offered by lowest bidder in the instant case could not be exploited in favour of Government due to capacity limitations of that bidder in meeting Indian Railways' requirements as the facts brought out in the following paragraphs would reveal.

[S.No. 2 Appendix III, Para 28 of 101st report of PAC (10th Lok Sabha)]

#### **Action taken**

The action for initiating the procurement action for wheelsets was taken in time in this case. After the production programme for 1989-90 was decided in December 1987, the requirements of wheelsets were assessed in February, 1988 and it was felt that the entire requirements of 1989-90 could be met by WAP. The shortfall in the arrangements which was then assessed as 15,673 wheelsets (along with 6638 Nos. cancelled in an import contract) was covered through an order on WAP, Bangalore in June, 1988. Through a review in July, 1988 indicated that WAP would not be able to manufacture the required quantity of wheelsets as per earlier assessment, on account of severe power restrictions, sudden strike etc. a further critical review was considered necessary so as to keep the imports to the barest minimum in view of the severe foreign exchange constraints. It was only after the need for import of wheelsets was established beyond doubt that the global tender GP-154 was floated in April, 1989 for 7500 wheelsets for use in 1989-90 production. As brought out in detail in the reply on para 29, the delivery schedule as stipulated in Tender GP-154 was a normal schedule generally stipulated in such import tenders. However, the lowest bidder (Kolmex, Poland) had capacity limitations, as also referred to by the PAC in their report, and it was not in a position to meet Railways' delivery requirements. However, the price advantage offered the lowest bidder was fully exploited by ordering the requirements of wheelsets for 1990-91 production also against the same tender GP-154.

A total of 6600 wheelsets+30% option clause quantity were ordered on Kolmex, Poland. The fact that its capacity to supply wheelsets was more than fully exploited, is born out by the fact that the firm could complete the shipment of the original contract quantity of 6600 wheelsets only in August 1991, as against contractual delivery schedule for completion by September, 1990.

This ATN has been seen and vetted by Audit *vide* their U.O.I. No. 164-Rly/WDC/12-253/92-Vol. II, dated 23.2.96.

[Ministry of Railways (Railway Board)'s O.M. No. 95-BC-PAC-X/101]

### Recommendation

The Committee note that the Tender GP-154 stipulated delivery requirements for 7500 wheel-sets as "commencement of delivery in two months of placement of order/LC and completion in five months thereafter at the rate of at least 1500 wheel sets per month." This tender was opened on 13.6.1989 and a total of six offers were received. An analysis of the offers received in response to this tender reveals that the two lowest offers were received from the firms located in Poland and Romania—the two countries having Rupee Payment Agreement (RPA) with India. However, the delivery schedule offered by these firms for the supply of wheel sets was not matching requirements of the Railways. The third lower offer was from a firm in Japan which quoted in their currency of Yen but offered a delivery schedule which was meeting the delivery requirements of Railways. It is however, seen that there was substantial price difference among the three lower offers in equivalent Indian rupees as per exchange rate prevalent on the date of opening of the relevant tender. While the lowest offer of Polish firm was at Rs. 19078.50 per wheelset, the second and third lower offers from Romanian and Japanese firms were Rs. 26346 and Rs. 26752 per wheelset respectively.

Subsequently, the requirement of wheelsets for wagon production upto March, 1991 were also reviewed by Railways in July, 1989 and it was assessed that 14,000 wheelsets (8800 numbers for 1989-90 and 5200 numbers for 1990-91) were required to be imported. However, a decision was initially taken to restrict the order only to 12,500 wheelsets with an option to increase the quantity upto 30% during the currency of the contract. The Committee have further been informed that based on the recommendations made by the Tender Committee, it was decided by the Board that negotiations be held with all the six tenderers with a view to obtaining better delivery terms and reduction in prices and the total requirement of 12,500 wheelsets +30% for production needs till 31.3.1991 be also advised to all and the tenderers before calling them for negotiations. According to the Ministry of Railways these negotiations resulted in three firms from Romania, Italy and France reducing their prices and some of the firms offering better delivery terms. The Committee have been informed that the Ministry of Railways at that stage assessed that maximum 2000 wheelsets could become physically available in India from the lowest tenderer Kolmex, Poland till March, 1990 on the basis of delivery terms offered by them. For meeting balance requirement of 6,800 wheelsets for 1989-90, it was decided to order on two firms from Japan and France. Evidently, the stricter delivery terms stipulated in the tender

deprived the Ministry at that stage of the lowest price advantage offered by the Polish firm and they had to take a decision to import from two other sources in Japan and France at a substantially higher rate. The Committee feel that had the Railways taken advance planning action in the case and floated tender earlier, the situation would have been different with relaxed delivery requirements.

[S.No. 3, Appendix III, Para 29 of 101st report of PAC (10th Lok Sabha)]

#### **Action Taken**

The delivery terms stipulated in the tender (GP-154) were normal delivery terms which can be met by established manufacturers. The tender had stipulated "commencement of delivery in 2 months of placement of order/L.C and completion in 5 months thereafter @ at least 1500 wheelsets per month." As brought out in detail in the reply to para 28, the price advantage offered by the Polish firm (the lowest bidder) was fully exploited by ordering on requirements of 1990-91 also on this firm. It is relevant to point out that the Polish firm had capacity limitation as also referred to by the PAC in para 28 of their report. The firm did not have the capacity to supply 900 wheelsets per month as offered by them considering their performance against the earlier contract of 1984 (the last contract prior to GP-154 contract placed in November, 1989) when the average monthly rate of supply worked out to 428 wheelsets. This is vindicated by the actual performance also against GP-154 in as much as the average monthly rate of supply of 22.9 tonne wheelsets from the scheduled date of commencement till completion worked out to 373 wheelsets. Even in the past, the import requirements of wheelsets had to be ordered on sources other than the Polish firm in view of the capacity limitation of the Polish firm.

Before placing the orders on the Japanese firm the possibility of a reduction in the quoted prices was explored by holding negotiations with them as also other tenderers. The part requirements had to be ordered on the Japanese firm because the supplier from the Polish and Romanian firms together were not adequate to meet the requirements of wagon production fully.

It was clearly brought out in the reply submitted by the Ministry of Railways in December 1994 (in reference to the points arising out of the PAC's sitting held on 28.11.94) that non-placement of order on the Japanese source and ordering the corresponding quantity additionally on Polish source would have led to depletion of stocks and non-availability of wheelsets during 1990-91 and also major part of 1991-92 resulting in stabling of wagons in very large numbers.

Ministry of Railways is of the view that the action for planning the import was taken in time after fully examining the possibilities of keeping the imports to the minimum to avoid a situation of excessive quantity being obtained from the import. This is also clear from the fact that

through the shortfall in indigenous availability of wheelsets for meeting 1989-90 production requirements was assessed as 12526 Nos. in July, 1988, it was only as a result of the critical reviews that the quantity to be tendered for 1989-90 production requirements could be brought down to 7500 Nos.

This ATN has been seen and vetted by Audit *vide* their U.O.I. No. 164-Rly/WDC/12-253/92-Vol.II, dt. 23.2.96.

[Ministry of Railways (Railway Board)'s O.M. No. 95-BC-PAC-X/101]

### **Recommendation**

To the utter dismay of the Committee, the Railway Board in November, 1989 further reviewed their requirements of wheelsets to be imported in the light of their decision to increase the production of wagons during the year 1990-91 and decided to increase ordering of import from 12,500 wheelsets to 15,300 wheelsets. This necessitated consideration of placing of order, among others, on the Japanese and French firms who had quoted a higher price and that too in their currency in addition to the orders placed for supply of 10,300 wheelsets on Polish (6600) and the Romanian (3700) firms. Although the Ministry of Finance while releasing foreign exchange at regular intervals seem to have tried to maximise the orders on RPA sources, the Ministry of Railways justified the proposals for import of requirements of wheelsets from Japanese and French sources on the ground that it would improve the position of availability of wheelsets and the smooth production of wagons could be expected from August, 1990. Eventually, the order was placed on the Japanese firm. From these facts, it is abundantly clear that the Ministry of Railways failed to precisely estimate their requirements of wheelsets in advance and kept on increasing the quantity of wheelsets to be imported under tender GP-154 under one pre-text or the other. The net result was that the additional quantities of wheelsets had to be imported at higher rates by paying precious foreign exchange while the country was experiencing serious foreign exchange crunch. The Committee consider it deplorable and they desire the Ministry of Railways to strengthen their planning processes so as to avoid recurrence of such cases.

[Sl. No. 4, Appendix-III, Para No. 30 of 101st Report of PAC (10th Lok Sabha)]

### **Action Taken**

Requirement of balancing import of inputs for wagon production is assessed immediately after approval of production plan.

While making a review of the requirements of wheelsets, position of indigenous availability as projected at that time and the requirements for wagon production on the basis of production plan is taken into account. In

case, the review establishes the need for import, critical reviews at later stages and finally at the time of entering into commitment are considered desirable so that imports can be limited to the barest minimum quantity. After calling the tender (GP-154) for 7500 wheelsets  $\pm 30\%$ , the quantity was increased to 12500 nos.  $\pm 30\%$  by clubbing the 1990-91 requirements to avoid the need for a fresh tender for 1990-91 requirements, as also to take advantage of the lowest offer from the Polish Supplier. In other words, action taken for increasing the tendered quantity at this stage was in the Railways interest, as a fresh tender could have resulted in higher prices. The final quantity of 15,300 which was ordered against tender GP-154 based on Nov., 1989 review was within limits of the revised quantity of 12,500 nos.  $\pm 30\%$  which had been advised to the tenderers before negotiations. It may be noted that there was a definite justification for revising the tendered quantity so as to cover 1990-91 requirements fully as also to take advantage of the lowest offer from the Polish Supplier. The need for ordering on the Japanese source at higher price was unavoidable for reasons explained in reply to Para 29.

The procedure of final review of the requirements at the time of finalisation of the import tender is being followed to ensure that barest minimum quantity is ordered which cannot be made available from indigenous sources.

The Audit to whom the above ATN was submitted for vetting have observed as "No Comments" *vide* their U.O.I. No. 1330-Rly/WDP/12-235/92 Vol. II, dated 24.12.96.

[Ministry of Railways (Railway Board)'s case No. 95-BC-PAC/X/101]

### **Recommendation**

The Committee note that three different orders for supply of 5,000 wheelsets were placed on Sumitomo Corporation between 16.3.1990 and 12.6.1990 at their quoted FOB price of Yen 239,700. However, the information made available to the Committee revealed that the conversion of this FOB price Indian Rupees as per relevant exchange rate worked out to only Rs. 26,752 at the time of opening of tenders on 13.6.1989 which increased to Rs. 28,724 on 31.7.1989 when negotiated offers were received. What is more revealing is the fact that the total FOB payments of Rs. 16.00 crores made to the Sumitomo Corporation indicate that the FOB cost of each wheelset paid to this firm actually worked out to Rs. 32,000 as against the cost of Rs. 19,078.50 and Rs. 22,103.00 paid to the Polish and Romanian suppliers respectively. The Committee consider it unfortunate that the delay in placement of order resulted in an extra expenditure of Rs. 10.71 crores, as computed by Audit, on procurement of wheelsets.

[S.No. 5, Appendix III, Para 31 of 101st Report of PAC (10th Lok Sabha)]

### **Action Taken**

As brought out in the replies to the previous paras, the Polish as also the Romanian suppliers were not in a position to meet the Indian Railways' requirements of 1989-90 fully. Even an earlier placement of order would not have substantially changed this assessment. This is clear from the fact that against the order placed in November, 1989, the Polish firm could ship only 2462 Nos. in a period of 12 months after placement of the contract, and it took 1 year 10 months to complete the shipment of original contract quantity of 6600 wheelsets as against 10/11 months allowed in the contract. Under such circumstances, when the lowest tenderer is not in a position to meet the Railways' requirements fully and makes serious defaults in contract delivery, the contention of extra expenditure incurred for ordering on the other sources is not tenable. The stand taken by the Audit in regard to Kolmex's capability to meet IR's requirements of 1989-90 even in case of placement of order in advance is not vindicated by the firm's actual performance. The Ministry of Railways are of the view that ordering on other sources was fully justified by the circumstances then prevailing.

It was clearly brought out in the reply submitted by the Ministry of Railways in December 1994 (in reference to the points arising out of the PAC's sitting held on 28.11.94) that non-placement of order on the Japanese source and ordering the corresponding quantity additionally on Polish source would have led to depletion of stocks and non-availability of wheelsets during 1990-91 and also major part of 1991-92 resulting in stabling of wagons in very large numbers.

This ATN has been seen and vetted by Audit *vide* their U.O.I. No. 164-Rly/WDC/12-253/92/Vol.II dated 23.2.96.

[Ministry of Railways (Railway Board)'s O.M. No. 95-BC-PAC-X/101]

### **Recommendations**

The Committee trust that the Ministry of Railways would take suitable note of the lessons learnt from this experience in respect of evaluation of requirements and procurement of wheelsets and take suitable steps to streamline the procedure for assessment and procurement of stores in a more timely, systematic and cost-effective manner.

[Sl. No. 6 Appendix-III, Para No. 32 of 101st Report of PAC (10th Lok Sabha)]

### **Action Taken**

Ministry of Railways are of the view that a cautious approach in the matter of import of wheelsets is desirable so as to keep the imports to the barest minimum quantity and also avoid a situation of surplus stocks. Assessment of requirements of wheelsets takes into account various projections like indigenous availability of wheelsets and production plan for wagons. The production plan assumed at the time of initial assessment of

requirements of wheelsets is tentative, because the final plan allocations for a financial year finalised only about 2/3 months before the commencement of the year. It is in this background that the requirements of wheelsets in case of imports are reviewed periodically till final commitments are entered into so as to order only so much quantity on import as would just meet the wagon production requirements. Various inputs like wheelsets for wagon production — are planned after the approval of production plan. Railways are going in for balancing imports only where requirements are not expected to be met fully from indigenous sources. Assessment of requirement to be imported is being done in advance, to ensure availability during the period the material is required. Any departure from this procedure could lead to a situation of excessive imports.

It may be clarified that for 1989-90, the Global tender was floated only after the requirements of balancing import were established clearly in February/March, 1989 review. After the review of July, 1988 — which took into account the expected supply from Wheel and Axle Plant at a lower level than envisaged earlier — a further review was felt necessary in view of Foreign Exchange constraints, and considering the latest finalised wagon production plan for 1989-90.

The Audit to whom the above ATN was submitted for vetting have observed as "No Comments" *vide* their U.O.I. No. 1330-Rly/WDP/12-235/-92 Vol. II, dated 24.12.96.

[Ministry of Railways (Railway Board)'s case No. 95-BC-PAC/X/101]

#### **Recommendation**

The Committee are surprised to find that the Railways decided to act as an intermediary between a Foreign Company and its Indian subsidiary in three different contracts signed in 1981 and 1982 for supply of fabricated tap changers and air circuit breakers. According to the arrangements made in this regard, imports were to be paid for by Chittaranjan Locomotive Works (CLW) who was also to clear the imports from the docks at Bombay and despatch it to the Indian subsidiary's works at Vadodara for fabrication of the components and supply of the same to Railways. According to Ministry of Railways, this course of action to act as an intermediary was forced upon them because of customs clearance and foreign exchange release problems being faced by the Indian subsidiary. Keeping in view the inability of the Ministry of Railways to furnish the information regarding number of cases in which Railways or their agencies had agreed to become intermediary and also their subsequent discontinuance of this practice, the Committee are inclined to conclude that the recourse to act as an intermediary in these three contracts was perhaps, one of the rare instances where the Railways had agreed to adopt this unique method aimed only at facilitating procurement of foreign

exchange for the private party for the imports which were otherwise to be made by him for supply of specific components to Railways. In the light of the fact that both the tap changers and air circuit breakers had single source of supply at the relevant time, the Committee are in no doubt that this course of action by Railways to act as an intermediary was also guided by other considerations. They would, therefore, desire the Ministry of Railways to investigate the circumstances under which such an arrangement to act as an intermediary was worked out by CLW and whether the Railway Board was consulted in the matter. The Committee would like to be apprised of the complete details in this regard.

[Sl. No. 12 Appendix-III, Para No. 115 of 101st Report of PAC  
(10th Lok Sabha)]

### Action Taken

CLW placed contracts for manufacture and supply of Tap Changers on M/s. HBB, Baroda, which was a subsidiary of ABB, Switzerland from whom bulk of the components required for manufacture of Tap Changers were imported. An important feature of these contracts was that the imports were to be paid for by CLW, who were also to get the imports Custom cleared from the docks at Bombay and despatch it to the Indian subsidiary's works at Baroda for fabrication of the components and supply to the Railway.

It is a matter of fact that during the eighties, import procedure was very elaborate. Even most of OGL items required processing for DGTD clearance and import licence. As a Government Agency, CLW was in a better position to arrange for these clearances and also to organise release of Foreign Exchange, also customs clearance was easier through government units. This arrangement was in line with the Policy of the Government to arrange imports on FOB/FAS basis. This course was adopted by CLW since it involves much less problems in arranging Foreign Exchange, customs clearance etc. and enabled CLW to get their production line going.

Railway Board was not consulted by CLW in the matter viz. to act as an intermediary, as CLW was fully competent to take such a decision at its level. However, for release of foreign exchange, Rly. Board sanction which was essential, was obtained. In the Global Tenders invited earlier by CLW in 1973, 76, 77 & 78 no technically acceptable quotations were received from any source except from M/s. HBB and their Principals.

Zonal Railways were advised to collect details of similar cases. Only Diesel component Works, Patiala has reported that in a contract in Sept. 1985, it acted as an intermediary between a German Firm and the Indian Firm.

The Zonal Rlys. and other Units were not able to provide details of the cases where Rly. Deptt. had acted as an intermediary during the last 15

years since normal tender records and contract documents are stored only for a period of five years. The Rlys. have expressed their inability to locate such cases at this distant date.

However, liberalisation of economy lead to the easing of Foreign Exchange position and as such the Rlys. have not acted as an intermediary since 1986.

The comparative position of the price of a Complete Tap Changer from M/s. ABB and the cost of indigenously manufactured Tap Changer by M/s. HBB, Baroda is as under:—

Total Price of a part indigenously fabricated tap changer (inclusive of all duties & taxes)	Cost of a imported complete tap changer (inclusive of custom duty)
--	--

---

Rs. 8,10,588.30

---

Rs. 12,88,765.90

---

(The costs furnished earlier to the Audit were approximate figures.)

The Audit to whom the above ATN was submitted for vetting have desired *vide* their UOI 1330-Rly/WDP/12-235/82 Vol-II dt. 24-12-96, the following Audit comments to be incorporated in the ATN.

In their original Action Taken Note for this paragraph submitted by Railway Board dated 3/8-11-1995, the Board has stated that arrangement worked out by CLW based on the firm's quotation envisaged import of certain components on FOB basis and that the condition had to be accepted as there was no alternative being a single source.

In this connection it is stated that whether the Indian subsidiary or their foreign principal was the only source of supply could not be verified in Audit since the CLW Administration could not supply (February 1996) the tender file, only the contract file (kept separately from the tender file) was made available to Audit.

Accordingly, the above Audit comments have been incorporated in the ATN.

[Ministry of Railways (Railway Board)'s case No. 95-BC-PAC/X/101]

### **Recommendation**

The Committee have been informed that the exact cause of damages/shortages in the case of the tap changers could not be pinpointed even during surveys. Surveyer's Report expressed possibility of both short packing in respect of shortages and non compliance of packing conditions by the foreign company. Although the Railways took up the matter with the foreign supplier, they did not accept the responsibility. The Committee are concerned to note that the Railways considered it not "practicable" to take any action against the foreign supplier for the shortages noticed in the consignments evidently because these components had a single source of

supply. The Committee also note that M/s. HBB failed to supply the fabricated tap changers to the Railways within the contractual period and the Railways had to import 20 complete tap changers directly from the Foreign supplier at a cost of Rs. 1.17 crores to maintain the continuity of the locomotive production. Surprisingly, the levy of the liquidated damages recoverable from the Indian Supplier for delayed delivery was also waived by the Ministry of Railways *vide* an amendment issued in November, 1987. In the opinion of the Committee, both these instances are a sad commentary on the project management by the Railways. They are of firm belief that necessary action against the foreign principal and its Indian subsidiary for their contractual violations under the penalty clauses in the relevant contracts should have been taken for otherwise it negates the very logic of insertion of such clauses.

[S.No. 14, Appendix III. Para No. 117 of 101st report of PAC  
(10th Lok Sabha)]

### **Action Taken**

In view of the difficulties faced, the contract conditions making Railways responsible for import of components are now not being accepted. Since HBB was the sole supplier of Tap Changers, it was not considered feasible to take penal action against them or their foreign principals, supplier of imported components. Moreover, the contractor could not be held responsible for the delay in supply of Tap Changers, the supply of imported components being the responsibility of the Railways. The Railways had to meet its production target and any such action against the contractor would have been detrimental to the interest of the Railways.

The Audit have seen and vetted the above ATN *vide* their U.O.I. No. 164-Rly/WDP/12-253/92-Vol. II dated 23.2.96.

[Ministry of Railways (Railway Board)'s O.M. No. 95-BC-PAC/X/101].

### **Recommendation**

The Committee also feel that a new dimension has been added to this case by the revelation made by the Ministry of Railways on the role of supervisory officers in this case who are stated to be "expected to only carry out sample checks as a number of orders for procurement are issued and each order contains a large number of items". The Committee are not inclined to agree with this submission of the Ministry and they are of firm view that such officers should be made to share their part of responsibility in the instant case. The Committee would like to be apprised of the precise steps taken in this regard.

[Serial No. 18 Appendix-III Para No. 129 of 101 Report of PAC  
(10th Lok Sabha).]

### **Action Taken**

As was submitted earlier, the officers senior in the hierarchy and supervisory to these two persons are expected to carry out only sample checks as a number of orders for procurement of materials are issued and each order contains a large number of items. This makes actual cross checking of each and every item, at supervisory level, quite difficult. Since a large number of spares were being procured and the two officials were given the responsibility of checking and compiling the import indents, it is not considered a propriate to hold any supervisory officers responsible for this lapse. To prevent recurrence of such mistakes, instructions have been issued to all zonal Railways to procure these spares with due care. (Copy of the instructions is enclosed). It would be seen from the instructions issued that railways have been asked to categorise the spares being procured as per their value, and indents be scrutinised at designated levels of supervisors and officers depending upon the value of the indent. These instructions apply on procurement of all imported spares.

The Audit to whom the above ATN was submitted for vetting have observed as "No Comments", *vide* their U.O.I. No. 1330-Rly/WDP/12-235/92-Vol. II, dated 24.12.96.

[Ministry of Railways (Railway Board)'s case No. 95-BC-PAC/X/101]

GOVERNMENT OF INDIA  
MINISTRY OF RAILWAYS  
(RAILWAY BOARD)

No. 94/M(L):165/6

New Delhi, dt. 7.6.1995.

The General Manager,  
Northern Railway.  
Baroda House,  
New Delhi

Sub: *Procurement of Spares for WDM4 General  
Motors locomotives.*

Recently, while procuring imported material for WDM4 locomotives, wrong materials were received due to an error in Part no. mentioned in the indent. The Railways came under severe criticism for the wasteful imports from Hon'ble Public Accounts Committee.

Such an error can take place at the shed level or at the time of combining indents in Headquarters office. To avoid recurrence of such mistakes, the following action should be taken:—

1. All tenderers when quoting for material for the WDM-4 locomotives should be asked to certify that the material being ordered, is suitable for WDM-4 locomotives.

2. Spares being procured should be categorised as per their value and indents scrutinised at designated levels of supervisors and officers depending upon the value of the indent.

3. Invoice receipt from the suppliers should be scrutinized at appropriate level to ensure that material being shipped is a per requirement.

Sd/-  
(N.K. Jawa)

Dir. Mech. Engg.(Tr.)  
Railway Board

Copy to:—

1. The Chief Mechanical Engineers, (All Indian Railways) except Northern Railway.
2. The Chief Mechanical Engineers, DLW/Varanasi and DCW/Patiala.

They are requested to take similar steps for the materials being imported.

Vetted by Pr. DAE&S:A

### **Recommendation**

176. The facts stated above clearly reveal certain glaring shortcomings/inadequacies/irregularities in the import of material and components by Railways, resulting in avoidable expenditure of sizeable magnitude. There were clear instances where the Railways had woefully failed in making timely and proper assessment of their requirements. There were also cases where the costly imported equipments could not be put to effective use for one reason or the other and the Railways had failed to enforce contractual obligations on defaulting suppliers. The Ministry of Railways stated that they have advised the Zonal Railways in the matter so as to obviate such recurrences. The Committee cannot remain satisfied with this. They recommend that all the cases brought out in this Report should be thoroughly looked into with a view to streamlining the procedure and preventing avoidable and wasteful imports. Action should also be taken against various officials found responsible for the various lapses/omissions.

[S. No. 24 Appendix, I Para 176 of 101st Report of P.A.C.  
(10th Lok Sabha)]

### **Action Taken**

Manual for Shipping and Clearance clearly provides that it is for the Indentor/Consignee to arrange Insurance of goods, if they so desire. As per the existing policy, DGS&D does not insure goods. Contract placing authorities have, therefore, to be very specific in this regard by stipulating the required provisions in the contracts. The Circular No. 21 dated 8.6.1995 stated above mentions also the drill to be followed by the importers in this regard.

### **Observations made by Audit**

“No comments except that the Ministry of Railways who are concerned in the matter may be advised to prepare the Action Taken Note on the said recommendation of P.A.C. and get their replies vetted from the Railway Audit for its onward transmission to the P.A.C. Branch, Lok Sabha Secretariat”.

The above observations of the Audit have been communicated to the Min. of Railways for appropriate action.

[Department of Supply O.M. No. P. III-17(1)/94 dated 29.3.1996.]

## **CHAPTER V**

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

#### **Recommendation**

170. The Committee note that South Central Railway imported for respirators at a cost of Rs. 20.10 lakhs through the agency of DGS&D. The Committee are however, distressed to find that although the consignment of respirators had reached India in September, 1990, the same could be cleared only in February, 1991 after a delay of 5 months and on payment of Rs. 50,400 as warehousing charges. The examination of this case by the Committee revealed that the Railways were not made aware of the actual arrival of the consignment in time and they came to know of it only on 5.1.1991, when one of the representative of the Railway Medical Department visited Bombay in connection with some other consignments. The Railways accordingly, handed over the required documents to clearing agent on 21.1.1991 and the consignments was cleared on 6.2.1991. During his deposition before the Committee, the representative of the Department of Supply admitted that "there was a negligence on the part of our officer" when he did not try to link up papers on 13.11.1990 when one of the railway officials enquired about the arrival of the consignment. The Department of Supply also admitted in their subsequent reply to the Committee that there is no proper linking system of DGS&D A/Ts with the Shipping documents in the offices of Director of Supplies and Disposal/Assistant Director (Shipping). The Committee view this absence of proper linking system in the agencies of Department of Supply with grave concern. They therefore, recommended that Department of Supply should take suitable administrative measures so as to avoid recurrence of such cases in future.

[S. No. 19, Appendix, I Para 170 of 101st Report of P.A.C.  
(10th Lok Sabha)]

#### **Action Taken**

Manual of General Instructions for Shipping and Clearance gives comprehensive information on the procedure to be followed by the Port consignee and responsibilities of the contract placing authority as well as the Indenting Deptts. as also the Suppliers/shippers. All concerned agencies have been advised to follow the instructions stated there in highlighting in particular the responsibilities of each agency. A copy of the circular No. 21 dated 8.6.1995 as amended *vide* circular No. 11 dated 26.3.96 issued in this regard is enclosed. This circular also contains the system of maintenance of records by the Port Consignee and of proper

linkage with the imported consignments. The shipping activities are also being computerised. Action has also been initiated to revise the shipping Manual to remove the infirmities, if any. With the adoption of the above measures the recurrence of such cases may be avoided.

The stated negligence on the part of the officers in DGS&D is being investigated by the Vigilance Dte. and the findings thereof shall be communicated in the due course.

[Department of Supply O.M. No. P. III-17(1)/94 dated 29.3.1996.]

## DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS CDN DIRECTORATE

CIRCULAR No. 21

8-6-95

*Sub:* The system of maintenance of records by the Port Consignee and of proper linkage with the imported consignments.

In case relating to clearance of stores by the AD Shipping of DGS&D the PAC have adversely commented on the inordinate delay in the clearance of cargo by A.D. Shipping (Port Consignee) which have resulted in avoidable incurring of demurrages. The case study reveals that the delay in clearance of the cargo mainly occurred because of inadequate provisions in the contract, lack of clear instructions in the contracts on the responsibility of the shipper/supplier to provide the shipping documents and delay in providing documents by the Indentor.

2. The Manual of General Instructions for Shipping & Clearance gives a comprehensive details/information on the procedure to be followed for clearance of the cargo. All concerned are, therefore, expected to follow these instructions meticulously to avoid the instance of delay in clearance and consequent incurring of demurrages. All the contract placing authorities/Indentors are, therefore, advised that the contracts placed are explicit as to the responsibility of the shippers/suppliers/Indentors/importers and ensure that the shipping documents are also made available to the Port Consignee well in advance of the arrival of the cargo at the Port. For facilitating this, the following instructions are reiterated:—

- (a) The contract must specifically state as to the documents which are to be made available by the Shipper/Supplier/contract placing authority/Indentor. These are listed at page 3 to 13 of the manual (extracts enclosed).
- (b) The documents must be sent to the Port Consignee which are to reach 15 days in advance before the expected time of arrival of the cargo.

- (c) The supplier/shipper should make available the shipping documents, such as, bill of lading, airway bills, invoices, freight bill, packing list and catalogue/literature alongwith the detailed technical write-up explaining the materials of manufacture and end-use.
- (d) The Indentor/consignee/contract placing authority should make available to the Port Consignee purchase contracts including all amendments, import licence, custom permit/OGL declaration, as applicable, duty exemption certificate concession certificate and not manufactured in India certificate where the consignments are to be assessed duty free or on concessional rates, and all other certificates which are necessary, relevant for clearance of the consignment.
- (e) The contract placed must clearly indicate the name of the Port Consignee and clear instructions for despatch of goods by AD(Shipping) after clearance. As per the policy, DGS&D does not undertake Insurance and it is the responsibility of the Indentor to take insurance cover, if they so desire. The contract must indicate these provisions very clearly. Contract copies are despatched to AD(Shipping) by Regd. Post.
- (f) The Shipping Sections shall actively coordinate with the Clearing Agents and arrange clearance without any delay. The clearing Agents are expected to use their expertise and long experience of handling to prevail upon the authorities at the Ports and the Customs to get the consignments cleared based on whatever documents available and the facilities, if any, available for clearance of consignment on furnishing indemnity bonds/undertaking may be utilised as far as possible.
- (g) The contracts may also provide for that shippers/suppliers shall be responsible for demurrages and or any consequential extra expenditure incurred for delay in sending the shipping documents to the Port Consignee. The Port Consignee may bring such cases of delay to the notice of the contract placing authority for further necessary action including recoveries.
- (h) The Port Consignee (Shipping Section of DSD) must keep a proper record of the contracts assigned to them for clearance and establish proper linkage with the incoming imports. For this purpose, all the regional heads (Shipping Sections) may follow the following procedures:—
  - (i) All Shipping Sections may open a separate file for each contract —allocate a code No. (in the same manner as the Code is allotted for indent) allocation—as provided in the MOPSID.
  - (ii) This reference may be communicated to the contract placing authority as well as the supplier with a request that the same may be quoted in future correspondence.

- (iii) The responsibility to ensure that the contracts have been received has to lie with the contract placing authority and if they do not receive acknowledgement and the file reference allocated by the Shipping section of DSD, then they may ask for the same.
- (iv) The copy of this A/T may also be given by the DSD to the Clearing Agents.
- (v) Both the DS&D and the Clearing Agents must go through the contents of the A/T and ensure that the documentation required for clearance have been suitably incorporated and wherever anything is missing, the same may be clarified to the authority concerned.
- (vi) Some of the documents are to be made available by the contract placing authority, like, NMI certificate (not manufactured in India), Custom duty exemption certificate, Opening of Letter of Credit, clearance from deptt. of Electronics etc., Import Licence, if applicable. Such documents should be made available by the concerned authority alongwith the copy of the contract and if the same are not received by the Shipping Section of DS&D, the same should be called for.

Director in charge of Shipping activities will supervise all the operations to arrange timely clearance of the cargo and avoid paying demurrages. He will submit the following report to his Dy. DG on fortnightly basis as per the format given below:—

Sl. No.	Details of the consign-ment	Correspond- ing contract No. and date	Name of the authority issuing the contract	Date of landing of the consign- ment	Whether the consignment was cleared without demurrage
1	2	3	4	5	6
In case demurrage has been paid, the amount and the reason for the same and also whether any preventive measure was attempted inspite of which demurrage had to be paid					Other Remarks, if any
7					8

After getting the above fortnightly report, the DDGs would review the cases where demurrage had to be paid, discuss the same with Director as necessary and issue further directions in the matter as needed.

While scrutinising the fortnightly reports, if any personal DDG feels that

there is a need to amend any standard procedure/clause in connection with clearance of cargos, he will send his suggestions to DDG(CDN) at Hqrs., for further consideration.

The zonal Dy DGs would also send a consolidated report to IWSU at Hqrs. once in every three months of all such cases where demurrage had to be paid during that period—alongwith the amounts and reasons for the same. The report should also mention what preventive steps have been taken to avoid such situation in future. Such reports will be sent by 10th of the following month.

IWSU would use these reports for scrutiny, perusal and also for statistical purposes.

The above instructions are issued to all the Purchase Officers for compliance. A copy of this circular may also be sent by the Regional Directorates to the Indenting departments/Importers who are utilising the services of DGS&D with a request to follow the above stated instructions.

Sd/-  
(P.V. MATHEW)  
DY. DIRECTOR (CDN)

## **STANDARD DISTRIBUTION**

**FILE NO. CDN-5/9(1)/PAC/95/Rlys.**

### **I. SHIPPING INFORMATION AND SHIPPING DOCUMENTS**

#### **1. Shipment Advices:**

Shipment advices which are received from Shippers or from the Overseas Suppliers in the case of F.O.B./F.A.S./C.I.F./C&F contracts or from the I.S.M. London/Washington or from other Departments/ Undertaking who entrust their clearance work to the Directorate of Supplies & Disposals at the ports, should be entered in register maintained in the Shipping section for this purpose. The records in the Shipping Sections are maintained vesselwise and not consignee-wise. Therefore, any reference to the Shipping section should clearly mention the name of the vessel, Bill of lading Number and date to link up the shipment.

#### **2. Berthing Reports:**

A register showing the dates of berthing of the Vessels/Ships handled should be maintained by the Shipping Section. This information is collected from the berthing reports published daily by the concerned Port Trust.

### 3. Manifests:

Where the shipping advices are incomplete and do not give the full required details, the Dock staff of the Shipping Section will contact the Steamer Agents and get the complete manifest details. However, it is the responsibility of the Indentor/Consignee/Importer to furnish full particulars/documents to the concerned Director of Supplies and Disposals at the Port to initiate clearance action.

### 4. Documents required for clearance:

The purchase contracts placed on Overseas Suppliers should specifically indicate that it is the mandatory responsibility of the foreign supplier/shipper to send to the port consignee a shipment advice by cable or Air mail letter within 3 days of shipment indicating the name of the vessel, port of shipment, port of discharge, date of sailing from the port of shipment, expected time and arrival at the port of discharge, freight details etc.

The following documents should be sent by the supplier/shipper/Indentor/Importer to the concerned D.S. & D. at the port by Air Mail so as to reach him atleast 15 days in advance before the expected time of arrival of the vessel.

- (a) Original Bill of Lading—duly endorsed by the Authorities concerned in whose favour the same is drawn viz. Bank, Shipper, Importer in favour of the concerned D.S.&D. at the port.
- (b) Two copies of Bill of Lading showing the freight charges.
- (c) Three copies of freight memo showing the amount of freight paid in respect of freight pre-paid shipments.

Note: Where the freight is pre-paid, the Bill of Lading and freight receipt should clearly indicate the dead-weight or measurement weight on which the freight was collected before shipment and also the rate per unit (eg. rate per Cubic metre, per 1000 Kg., per Ton etc.).

- (d) Four copies of invoices (2 copies of which should be signed invoices) showing the complete description and individual value of each item, purchase order number, name of the port consignee and the name of the ultimate consignee. The invoices should be clearly indicate the nature/type of commissions/discount, if any, allowed so that there will not be any delay in arriving at the correct assessable value for the purpose of levying Customs Duty. The Invoices should be prepared in terms of Customs Tariff of the importing country, viz. India. Where no charge invoices are furnished (i.e. items supplied free of charge against warranty replacement), the values of such items for Customs purposes should be shown invariably to levy Customs Duty.
- (e) Five copies of country of origin certificate signed by the authorities concerned.

- (f) Five copies of Packing lists showing the individual dimension/measurements and weight of the packages with contents of each in details.
- (g) Insurance report (where stores are insured) showing the amount of premium or insurance Certificate showing the rate of insurance premium, if insured under open policy, local Insurance agents, upto which place the stores are insured, validity period of insurance etc.

**Note :** Insurance certificate showing the rate of premium if produced will help to include correct amount for the purpose of arriving at the real value purposes. Otherwise insurance charges at the flat rate of 1-1/8% of C&F value or at higher rate depending upon the nature of goods, as Customs authorities demand will have to be included which may result in higher payment of Customs Duty.

- (h) Catalogue/literature, and a detailed technical write-up explaining the material of manufacture and end-use.
- (i) **Specification of the goods:**

**Note 1 :** In case of shipments through I.S.M. Washington or London, Country of Origin Certificate and Literature/catalogue are not supplied by the Mission.

**Note 2 :** The freight and insurance details which at times are superscribed on the documents should be in ink, as pencil entries are not accepted by Customs.

- (j) Contracts are placed on the Overseas Suppliers for spares and spares kits. Spares and spares kits are assessable on merit of each item prescribed in the Tariff. Therefore, the Customs require value of each item for assessment purpose. Hence it is essential that the Suppliers should indicate in their invoices the value of each item and also declare the nomenclature of the same. In respect of spare kits, they should declare on the invoices the details of the items packed in the kit and their individual value. In respect of Ball bearings, they should declare the dismetre of each such items. Similarly, in respect of Gaskets and 'O' rings they should declare on the invoice whether they are made of Rubber or any other material.

Where the period of voyage is of short duration, as would be in respect of traffic originating from South East Middle East or East Asian ports, the Shipper/Supplier should arrange to transmit all the documents other than the Bill of Lading to the port consignee immediately after the vessel is nominated. Thereafter, when the cargo is put on board they should advise by cable the

Bill of lading number and date and also confirm that the consignments as shown in the invoice and packing list posted in advance were shipped. If there is any change, they should communicate by cable the details of packages shut-out or items short-shipped.

In addition to the above mentioned shipping documents, the Indentor/Consignee/Importer in India should make available the following documents to the port consignee 15 days in advance or sufficiently in advance before the expected time of arrival of the vessel.

- (i) Purchase contracts including all amendments, if any.
- (ii) Import Licence/Customs permit/OGL Declaration indicating the appendix number and the correct item under which exemption from Licensing formalities claimed under O.G.L.
- (iii) Duty Exemption Certificate/Concession Certificate and not Manufactured in India Certificate where consignments are to be assessed duty free at concessional rate.
- (iv) R&D Certificate where the stores are imported for research and development purposes.
- (v) Duty Exemption Certificate in respect of imports by WHO/ILO/UNICEF and other U.N. Organisations.
- (vi) Declaration signed by Donor and Recipient in respect of imports under Indo-UK Agreement clearly furnishing the serial number of the Donor Institute and the Recipient Institute.
- (vii) Approval from Department of Electronics in case the consignments imported are of Computers or parts/components for Computers.
- (viii) Approval from Controller of Explosives if the imported consignments are of gas or gas cylinders of Explosives.
- (ix) Where concessional/preferential/lower rate of Customs duty is to be claimed in respect of imports from preferential areas under Customs Notifications, Customs Notification number and date alongwith proper Country of Origin Certificate duly signed in ink by the supplier should be made available. It is a condition that claims should be made for such concessional or preferential or lower rate of assessment at the time of filing bills of Entry with Customs.
- (x) Where concessional rate of duty under project import is to be availed, the Project Bond number and date and which the project Contract has been originally registered with Customs should be furnished for claiming the concessional rate of duty.

**Note:** In case goods covered by specific Import Licence or Project Contract are landed at port or ports other than the port at which the Import Licence or Project contract is registered, the Importer/Consignee/Indentor should arrange transfer Release Advice/Transfer Release Order for the required CIF value of the consignment to be cleared from the customs of the port of registration to the Customs of the Port of clearance.

- (xi) I.T.C. number under which the assessment is claimed.
- (xii) The Consignee's/Importer's code number allotted by Customs.
- (xiii) Reserve Bank's permission to import Gold, if any, of the items mentioned in the contracts contained any element of Gold and its purity should be declared on the invoice as well as in the permission. The approval of the Bank is given in terms of Grams and therefore, the Suppliers should indicate in their invoices the weight of such items.
- (xiv) Copies, duly attested, of the bi-lateral agreements entered into between the Govt., of India and Overseas Govt. in respect of supplies effected on Govt. to Govt. basis. Attested copies of Govt. of India orders on the subject should also be sent.
- (xv) Project contracts should be registered with the Customs authorities by the Importers/Indentors/Consignees themselves in accordance with the Project contracts. Registration Rules as applicable at the time of importation and such registration should be made by them much before the arrival of vessels (commencement of arrival of the first consignment) and the details of Registration with the Customs should be intimated to the Asstt. Director (Shipping) at the port of arrival.

In case the above mentioned documents are not received within the stipulated period in respect of contracts directly placed by the Authorities, clearance may be undertaken by the concerned Director of Supplies and Disposals at the port in the absence of complete shipping documents and subject to customs allowing relaxation in the matter of production of some of the documents listed above for clearance. In all such cases, the Indentors/Consignees/Importers shall be solely responsible for any loss or consequences or infructuous expenditure/Demurrage charges or from any other cause etc. that may accrue due to delay in clearance. If customs do not allow relaxation, it shall be the responsibility of the Indentors/Importers/Consignees to comply with the customs requirements and any delay caused on this account shall be to their account and consequences shall have to be borne by them.

In cases of contracts placed by D.G.S.&D. or the Regional Offices of DGS&D or the ISM London/Washington, the fact of late receipt of documents should be reported to the purchaser for taking up the matter with the Shippers/Suppliers.

Besides the above documents, the Shippers/Suppliers should sent to the concerned Director of supplies and Disposals at the port, advance intimation of the arrival of over dimensional packages with complete details/dimensions with sketches (not to scale) to enable him to arrange for special type of trailers/wagons. For boxed cargo in square or rectangular shape the matter is simple as indication of maximum length,

width and height in the sketch should be sufficient. In the case of unprotected cargo like cranes, tractors, bulldozers and packages of odd sizes and configuration even in packed condition etc., profile sketches not to scale but showing exact measurement clearly bringing out the configuration and indicating dimensions at various levels are required. Ringes, base, Platforms, Protrusions/Projections and strappings should be taken into account while such measurements are indicated. It is obligatory on the part of suppliers/shipper to provide such sketches to the concerned Director of Supplies & Disposals at the port immediately after the stores are packed. In the case of unprotected cargo, they should do so long before the actual shipment. Where Indian Agents to the Foreign Suppliers are involved, they should also ensure that such sketches are posted by the Overseas Suppliers well before the actual shipment.

For contracts placed on CIF/C&F basis, the shipping documents should be sent to the concerned Director of Supplies and Disposals at the port by the Shippers/Suppliers.

In respect of contracts placed by ISM London on FOB basis, the following documents should be supplied by them to the landing officer/consignee for each shipment effected.

- (a) *Packing Account*: Two copies of the Packing Account containing Certificate of Origin and completely priced copy of the combined invoice-cum-shipping specification, Mech-I Form duly signed in ink by the suppliers showing F.O.B. value, freight and departmental charges should be despatched by Shipping Agents by Air Bag to the Landing Officer in India prior to or at the time of shipment from the final loading port for enabling him to arrange clearance. Another copy of packing account is despatched to the consignee for his information. If the consignment is not actually shipped by the vessel indicated in the Packing Account, immediate intimation is to be given to the Landing Officer by cable and this if followed by information about subsequent shipment arranged.
- (b) *Watching of return of Packing Account*: In the case of stores cleared by the Director of Supplies and Disposals, acknowledgement of the Ultimate Consignee will be obtained through *Form No. 1 Appendix 'D'* in accordance with the procedure indicated subsequently in *Chapter IV* instead to through the Packing Account as hitherto.
- (c) Immediately after the stores are booked or shipped on copy of the Negotiable Bill of Lading and two copies of Bill of Lading should be Air mailed to the Landing Officer to enable him to obtain delivery order from the Steamer Agents at the port of discharge.

Shipments of India Supply Mission, Washington are arranged through freight forwarders who distribute the following documents.

- (a) Bills of Lading

- (b) Invoices giving particulars of contract, description of stores, the unit value and the total value of the goods.
- (c) Packing List.

The insurance report where stores are insured has to be furnished by the Indentor/Importer/Ultimate consignee.

8. When Government Department/Public Sector Undertakings make their own purchase directly from abroad, but entrust the clearance work to DGS&D, they should arrange with the Suppliers/Shippers to ensure receipt of advance documents complete in all respects by the Landing Officer within the period specified in para 6 above to avoid hold up of clearance resulting in financial loss by way of demurrage, port rent etc. They should themselves also supply to the Landing Officer the documents mentioned in para 6 like purchase contract etc. sufficiently well in time.

When more than one shipment is expected against one bulk Import Licence, as far as possible split up subsidiary Licences for part values covering each consignment from the main licence should be obtained and forwarded to the Landing Officer in the interest of clearance of individual consignments so as to avoid unnecessary delay and consequential demurrage/port rent.

Gift consignments and those coming under Colombo Plan and other bilateral or Trade Agreements where Foreign Exchange or payment to foreign suppliers is not involved require Customs Clearance Permit. Customs Clearance Permit for such consignments should therefore, be applied for and obtained in time and before the date of shipment and forwarded to the Landing Officer.

**Note:** It may be noted that no Import Licence is required when the stores are procured through I.S.M. London, I.S.M. Washington, D.G.S.&D. or through the regional offices of DGS&D.

As per Import Policy 1985-88, para 127(1)(i), Govt. Departments can import capital goods, raw materials, consumables and spares under OGL on the basis of Foreign Exchange released by the Administrative Ministry concerned. In respect of restricted items like Ball Bearings of specific types, chemicals and limited permissible items as well as capital goods other than those specified under Appendix 1 Part 'B' of the policy, approval from the Directorate General of Technical Development is essential. In respect of Banned and Canalised items, Import Licence is essential.

Approval of the Department of Electronics is a pre-requisite and essential where imports of:—

- (i) Electronic equipment including facsimile equipment for a CIF value of Rs. 5 lakhs or more;
- (ii) Marine electronic equipment and parts irrespective of value; and
- (iii) Communication equipment or a value more than Rupees one lakh.

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS  
(CDN DIRECTORATE)**

**CIRCULAR NO. 11**

**DATE : 26.3.96**

**SUB : The system of maintenance of records by the Port consignee and of proper linkage with the imported consignments.**

Para 2(e) of Circular No. 21 dt. 8.6.95 on the above subject may be substituted as under:—

“The contract placed must clearly indicate the name of the Port Consignee and clear instructions for despatch of goods by AD (Shipping) after clearance. As per the policy DGS&D does not undertake Insurance and it is the responsibility of the Indentor to take insurance cover, if they so desire. In respect of ‘FOB’ contracts after obtaining requisite permission in deserving cases as per standing instructions of the Govt. on the issue. The contract must indicate these provisions very clearly. Contract copies are despatched to AD (Shipping) by Regd. Post.”

Sd/-  
(S. Bansal)  
Director (CDN)

**STANDARD DISTRIBUTION**

---

On file No. CDN-5/9(1)/PAC/95/Rlys. dt. .... 3.96

*Vetted by Pr. DAE&SM*

### **Recommendation**

172. What is still more distressing is the fact that Committee's further examination of the Audit Paragraph has revealed yet another glaring case of similar nature involving both the DGS&D and the South Central Railway. In this case, two Image Intensifier machines were imported by the South Central Railway at a cost of Rs. 16.22 lakhs. The Committee are surprised to find that while these two machines had arrived in Bombay in May, 1991, the same could be cleared only on 26.7.1991 due to three reasons. Firstly, the DGS&D made an omission to specify the "port consignee" in formal contract issued on 18.2.1991 curiously enough, this omission could be corrected only by issuance of two amendments on 19.3.1991 and 18.4.1991. However, none of the ultimate consignees nor the Controller of Stores, Central Railway is stated to have received the amended copy which could be finally procured by Railways only on 5.6.1991. The second reason for delay in clearance is attributable to the time of three weeks taken by AD(Shipping) in forwarding the documents to the clearing agent on 3.7.1991. Thirdly, the clearance was further delayed as the customs authorities insisted on furnishing of catalogue which was made available to them on 19.7.1991. After examining the information made available in this regard, the Committee are of considered view that while the omission to specify the port consignee and the subsequent issuance of two amendments is a sad commentary on the working of the organisation of DGS&D, the time of three weeks taken by AD(Shipping) Bombay in just forwarding the documents to clearing agent speaks volumes about the need for restructuring the agencies of DGS&D. The Committee trust that the Department of Supply would look into the matter and initiate suitable steps to improve the efficiency and functioning of their agencies.

[Sl. No. 21 Appendix I Para 172 of 101st Report of P.A.C. (10th Lok Sabha)]

### **Action Taken**

Manual of General Instructions for Shipping and clearance gives comprehensive information on the procedure to be followed by the Port consignee and responsibilities of the contract placing authority as well as the Indenting Deptts. as also the suppliers/shippers. All concerned agencies have been advised to follow the instructions stated herein highlighting in particular the responsibilities of each agency. Enclosed circular No. 21 dated 8.6.1995 as referred to above is relevant. This circular also contains the system of maintenance of records by the Port Consignee and of proper linkage with the imported consignments. The shipping activities are also being computerised. Action has also been initiated to revise the shipping Manual to remove the informities, if any. With the adoption of the above measures the recurrence of such cases may be avoided.

The stated negligence on the part of the officers in DGS&D is being investigated by the Vigilance Department and the findings thereof shall be communicated in due course.

[Department of Supply O.M. No. P.III-17(1)/94 dated 29.3.1996]

NEW DELHI;  
4 November, 1997  

---

13 Kartika, 1919 (S)

DR. MURLI MANOHAR JOSHI,  
Chairman,  
Public Accounts Committee.

## APPENDIX

### STATEMENT OF CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1.	1.3	Ministry of Commerce (Deptt. of Supply)	The Committee are extremely unhappy to note that the Ministry of Commerce, Department of Supply are yet to furnish their final replies in respect of the recommendations of the Committee contained in Paragraph Nos. 170 and 172 of the Report, despite a lapse of more than two years' period. The Committee deplore the same and desire that the final replies duly vetted by Audit should be furnished within a period of three months from the presentation of this Report.
2.	1.9	Ministry of Railways (Railway Board)	The Committee note that the shortfall of BG wheelsets for use by Indian Railways in wagon production was clearly established in February, 1988 itself and as such the procurement process should have been initiated immediately thereafter. The review conducted in July, 1988 only reinforced the shortfall. The plea of Railways that it was after critical review in July, 1988, the procurement process was started does not therefore, hold good. Further, the tender GP-154 for 7500 wheelsets was floated in April, 1989 i.e. after a delay of nine months. The tender was opened on 13 June, 1989. The contract was awarded to the Polish firm on 3 November, 1989 i.e. near about five months after opening of the tender. Thus the matter was not only initially delayed but also the delay was allowed to occur at all stages. The review was a continuous process and the quantity of requirements for import varied with each

1	2	3	4
			<p>review. The procurement action should therefore, not have been withheld on account of frequent, review one after another within a short span of period particularly when the contract for import used to contain a provision of plus minus 30 per cent variation in the quantity ordered. The Committee are of the firm opinion that the procurement action for import of BG wheelsets was delayed and the Ministry of Railways have unsuccessfully attempted to use the reviews conducted at different times as a shield to defend themselves against the delay caused by them in the initiation of procurement action for import of wheelsets. The Committee are therefore, of the opinion that the Ministry of Railways instead of providing the excuses for undue delay caused by them in the initiation of procurement action for import of wheelsets should undertake review of the entire system of processing of import requirements and also should evolve a mechanism whereby the accountability could be fixed on the officers responsible for such delays.</p>
3.	1.10	Ministry of Railways (Railway Board)	<p>The Committee are not convinced by the logic advanced by the Ministry of Railways of justifying their decision to import the wheelsets at a higher price from the Japanese firm. The Ministry themselves have admitted in clear terms that they were fully aware of the capacity limitation of the Polish firm on the basis of past performance of that firm. In such a situation, the Railways should have taken prompt decision regarding the import of the wheelsets. It was only because of the delay in the initiation of procurement action by Railways that very little time was left to meet the entire requirements. The Committee are of the view that the Railways by delaying the procurement action pushed the matter to such an end where no option was left except to import the wheelsets at higher costs.</p>

1	2	3	4
4.	1.11	-do-	<p>The Committee further note that the Railways right from the very beginning could not precisely estimate their exact or near exact requirements of imports despite frequent reviews. The Railways could not maximise the orders on Rupee Payment Agreement (RPA) source and precious foreign exchange was paid at a time when the country was experiencing serious foreign exchange crunch. Further, order for import of major part of the additional quantity was placed with sources other than the lowest bidder (Polish firm). Contrary to their claims, the Railways could not garner much advantage of the lowest offer from the Polish supplier. The Committee therefore, reiterate their recommendation that the Ministry of Railways must strengthen their planning process which could enable them to consider all possible aspects of the requirements well in advance.</p>
5.	1.12	Ministry of Railways (Railway Board)	<p>The Committee also note that the two lowest offers were from the firms located in Poland and Romania. Even if the Committee accept the contention of the Railway that the lowest tenderer had some problem to meet the delivery schedule, the Railways have no explanation as to why the imports were not maximised with Romanian firm which also made the lowest offer. The Committee feel that had the Railways taken timely action for procurement and explored all possible means to reduce the cost, the extra expenditure of Rs. 10.71 crore could certainly have been substantially reduced, if not eliminated fully. The Committee would therefore, like the Railways to exercise extra care and caution in such matters in future.</p>
6.	1.15	-do-	<p>The Committee note that the Railways have just enumerated the procedure involved in the process of making assessment. The Committee are fully aware of such procedure. The point the Committee is trying to drive home is that the Railways, knowing full well the various implications of delayed action for procurement, should have respected the spirit of the procedure and should not have allowed themselves to be swayed by mere technicalities</p>

1	2	3	4
			<p>adversely affecting the nation's economy. Using "frequent reviews" as a pretext for delay, non-consideration of foreign exchange constraint, non-application of various advantageous parameters to maximise imports on RPA (Rupee Payment Agreement) sources and ignorance of some crucial provisions are certainly not the desirable aspects of the functioning of Railways. The Committee, therefore, strongly feel and reiterate that the existing procedures, must be streamlined so that not only the procurement process but also other activities associated with it are toned up to minimise the cost of transactions.</p>
7.	1.18	<b>Ministry of Railways (Railway Board)</b>	<p>The Committee are not satisfied with the Action Taken reply of the Ministry. The procedure of licensing and custom clearance being cumbersome is no reason for the Railways to act as an intermediary between a foreign firm and its Indian subsidiary. The Committee are also shocked to observe the comments of Audit which is appended to ATN of the Ministry wherein Audit has specifically mentioned that whether the Indian subsidiary or their foreign principal was the only source of supply could not be verified by them as the CLW could not supply the relevant file to them. The Committee feel that such an action on the part of Railways brings the entire transaction under suspicion. The Committee thus do not find the submission of the Railways as convincing and therefore, reiterate that the matter should be thoroughly looked into afresh to find out the precise circumstances necessitating such an unusual decision. The Committee would like to be apprised of the action taken in this regard.</p>
8.	1.21	-do-	<p>The Committee find it very difficult to accept the arguments of the Railways which are not more than what they had earlier submitted and the Committee had already considered them in its original Report. The Committee are of the</p>

1	2	3	4
			<p>firm view that being a monopolist does not mean that the firm had been conferred with unfettered freedom to violate whatever clauses of the contract they found inconvenient to them and thus making a mockery of the different clauses of the contract. The Railways acted apparently in the belief that being the sole supplier, the company had every right to function in whatever manner they desired. The Committee would therefore, reiterate their earlier observations and further advise the Railways to improve the management of import contracts.</p>
9.	<p>1.24 Ministry of Railways (Railway Board)</p>		<p>The Committee reject the submission of the Railways that the supervisory officers cannot be held responsible for such a serious lapse. The item imported in the question was specifically manufactured by the supplier for the Railways and this item had very limited use. Moreover, the item was costly enough involving expenditure of Rs. 21.37 lakh. The officers of the Railways who put the indent of such a costly item in the sample-check category should also be held responsible for loss. The Committee strongly feel that the supervisory officers are expected to exercise due care and caution while scrutinising the indents for imports. Keeping in view the peculiarities involved in the indents of rare outliers — such as special manufacturing of the item, its single use, high value of Rs. 21.37 lakh, the supervisory officers should have taken extra care to ensure that the item with correct specifications was ordered for import. The supervisory officers apparently failed in their duties and therefore they cannot absolve themselves of the responsibilities. The Committee, therefore, strongly recommend suitable action against officers at supervisory levels and also against those officers who decided to put such an indent in sample-check category knowing full well the cost implications. The Committee may be kept</p>

1	2	3	4
			informed of the precise action taken against the erring officials at higher levels.
10.	1.27	-do-	<p>The Committee note that the Railways have initiated certain measures for streamlining the procedure. But the Railways have not implemented many of the recommendations of the Committee. In majority of the cases, they have put forth excuses to defend the lapses on their part which the Committee do not consider a healthy practice. Inordinate delay in initiating procurement action for imports, inability to precisely estimate the requirements, import of wheelsets at a higher rate, wasteful import of 14 tonne MG wheelsets despite announcement of unigauge policy and thus involving infructuous expenditure of Rs.9.98 crore, delay in commissioning of the "Laminated Spring Line" plants, functioning by the Railways as intermediary, failure to take penal action against the supplier for contractual violations, import of wrong spare part rendering entire expenditure of Rs. 21.37 lakh as infructuous, unjustified delay in operation of X-Ray Machine, failure to take action against erring officials etc. are areas where the Railways miserably failed to rise to the occasion to initiate preventive/punitive action.</p>
11.	1.28	Ministry of Railways (Railway Board)	<p>The Committee, therefore, desire that the Railways should streamline the system making it much more responsive to the possible contingencies and also having inbuilt mechanism to avoid the recurrences of not only the cases dealt with in the Report of the Committee but also other cases of similar nature in future. The Committee also desire that panel action against the erring officials may be expeditiously taken by the Railways. The Committee would like to be kept informed of the precise action taken by the Railways in the matter.</p>

## **PART-II**

### **MINUTES OF THE SIXTEENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1997-98) HELD ON 23 OCTOBER 1997**

The Committee sat from 1100 hrs to 1145 hrs. on 23 October, 1997 in Committee Room 'C', Parliament House Annexe.

#### **PRESENT**

Dr. Murli Manohar Joshi *Chairman*

**MEMBERS**  
*Lok Sabha*

2. Shri Nirmal Kanti Chatterjee
3. Prof. Ajit Kumar Mehta
4. Shri Suresh Prabhu
5. Shri Ganga Charan Rajput
6. Shri V.V. Raghavan
7. Dr. T. Subbarami Reddy
8. Shri Ishwar Dayal Swami

*Rajya Sabha*

9. Shri Ramdas Agarwal
10. Shri R.K. Kumar
11. Shri Surinder Kumar Singla

#### **LOK SABHA SECRETARIAT**

Shri P. Sreedharan *Deputy Secretary*

**OFFICERS OF THE OFFICE OF C&AG OF INDIA**

Shri A.K. Thakur *Pr. Director of Audit (Reports-Central)*

2. The Committee took up for consideration the following draft Reports on:

- |  |     |     |
|--|-----|-----|
| (i) ***  | *** | *** |
| (ii) ***   | *** | *** |
| (iii) Action Taken on 101st Report of PAC (10th LS) on Avoidable or Wasteful Imports |     |     |
| (iv) ***   | *** | *** |

3. The Committee adopted the above mentioned draft Reports with certain modifications and amendments as shown in Annexures\* I to IV respectively. The Members of the Committee appreciated the quality of the draft Reports.

4. The Committee authorised the Chairman to finalise these draft Reports in the light of verbal and consequential changes arising out of factual verification by Audit and present the same to Parliament.

*The Committee then adjourned.*

---

\*Annexures I, II and IV not appended.

Reports in the light of verbal and consequential changes arising out of factual verification by Audit and present the same to Parliament.

*The Committee then adjourned.*

---

\*Annexures I, II and IV not appended.

### ANNEXURE-III

#### *Amendments/Modifications made by the Public Accounts Committee in the Draft Action Taken Report relating to avoidable or wasteful imports*

<i>Page</i>	<i>Para</i>	<i>Line</i>	<i>Amendments/Modifications</i>
3	1.7	3	Substitute "negligence" by "irregularities"
4	1.7	19 & 26	Mention the names of the concerned firms located in Poland, Japan and France (referred to in lines 19 and 26) as footnote 1, 2 & 3 respectively:— "1. M/s Kolmex, Poland 2. M/s Sumitomo Corporation, Japan 3. M/s Ascometal Valdunes, France"
5	1.7	6	Mention the name of the Romanian supplier referred to in line 6 as footnote "4 M/s Mecano export-import, Romania"
7	1.9	3	Substitute "exploring the" by "providing"
10	1.16	2 & 3	Mention the names of the Swiss firm and its Indian subsidiary referred to in line 2 & 3 as footnote 5 & 6 respectively: "5. M/s BBC Ltd., Switzerland 6. M/s HBB, Baroda (India)"
11	1.18	15	Add "necessitating such an unusual action" after "circumstances" Delete the remaining part of the sentence "in which... decision" after "circumstances"
13	1.24	1	Delete "outrightly"
15	1.27	2	Substitute "Yet" by "But"
		3	Delete "fully"
		3	Insert "many of" after "implemented"
		4	Substitute "explored" by "put forth"
		6	Substitute "find" by "consider"
		18	Delete "definitely deplorable"

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

Sl. No.	Name of Agent	Sl. No.	Name of Agent
<b>ANDHRA PRADESH</b>		<b>UTTAR PRADESH</b>	
1.	M/s. Vijay Book Agency, 11-1-477, Mvirgadda, Secunderabad-500 306.	12.	Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad, U.P.
<b>BIHAR</b>		<b>WEST BENGAL</b>	
2.	M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).	13.	M/s. Madimala, Buys & sells, 123, Bow, Bazar Street, Calcutta-1.
<b>GUJARAT</b>		<b>DELHI</b>	
3.	The New Order Book Company, Ellis Bridge, Ahmedabad-380 006. (T.No. 79065)	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi, (T.No. 351663 & 350806)
<b>MADHYA PRADESH</b>		15.	M/s. J.M. Jaina & Brothers, P. Box 1020, Mori Gate, Delhi-110086. (T.No. 2915064 & 230936)
4.	Modern Book House, Shiv Vilas Place, Indore City. (T.No. 35289)	16.	M/s. Oxford Book & Stationery Co., acindia House, Connaught Place, New Delhi-110 001. (T.No. 3315308 & 45896)
<b>MAHARASHTRA</b>		17.	M/s. Bookwell, 2/72, Sant Nirankari Colony, Kingsway Camp, Delhi-110 009. (T.No. 7112309).
5.	M/s. Sunderdas Gnan Chand, 601, Girgaum Road, Near Princes Street, Bombay-400 002.	18.	M/s. Rajendra Book Agency, IV-DR59, Lajpat Nagar, Old Dobule Storey, New Delhi-110 024. (T.No. 6412362 & 6412131).
6.	The International Book Service, Deccan Gymkhana, Poona-4.	19.	M/s. Ashok Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110 033.
7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400 001.	20.	M/s. Venus Enterprises, B-2/85, Phase-H, Ashok Vihar, Delhi.
8.	M/s. Usha Book Depot, Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, connaught Circus, New Delhi-110 001. (T.No. 344448, 322705, 344478 & 344508).
9.	M & J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele road Naigaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India corporation Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T.No. 269631 & 714465).
<b>TAMIL NADU</b>		24.	M/s. Sangam Book Depot, 437E/4B, Murari LaL Street, ansari Road, Darya Ganj, New Delhi-110 002.
11.	M/s. M.M. subscription Agencies, 14th Murali Street, (1st Floor), Mahalingapuram, Nungambakkam, Madras-600 034. (T. No. 476558)		

