

**PUBLIC ACCOUNTS COMMITTEE**  
**(1968-69)**

**(FOURTH LOK SABHA)**

**EIGHTY-FIRST REPORT**

**[Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 4th Report (Fourth Lok Sabha) on action taken on the 64th Report (Third Lok Sabha) regarding Purchase of Defective Tyres.]**



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

**APRIL, 1969/VAISAKHA, 1891 (SAKA)**

*Price : Rs. 1.30*

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## PUBLIC ACCOUNTS COMMITTEE

(1968-69)

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Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri K. Seshadri—*Under Secretary.*

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\*Declared elected on 19th August, 1968 *vice* Shri M. M. Dharla, who resigned from the Committee.

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Eighty-First Report on the Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 4th Report (Fourth Lok Sabha) on action taken on the 64th Report (Third Lok Sabha) regarding purchase of defective tyres.

2. On 12th June, 1968, an "Action Taken" Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with following Members:

1. Shri D. K. Kunte—*Convener*.
2. Shri C. K. Bhattacharyya
3. Shri K. K. Nayar
4. Shri Narendra Kumar Salve
5. Shrimati Tarkeshwari Sinha
6. Shri N. R. M. Swamy

3. The draft Report was considered and adopted by the Sub-Committee at their sitting held on 23-4-69 and finally adopted by the Public Accounts Committee on 28-4-69.

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

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

M. R. MASANI,

*Chairman,*

*Public Accounts Committee,*

NEW DELHI ;

April 28, 1969/Vaisakha 8, 1891(S).

## CHAPTER I

### REPORT

This Report deals with action taken by Government on the recommendations contained in the Fourth Report of the Public Accounts Committee (Fourth Lok Sabha) on action taken by Government on the recommendations of the Committee contained in their Sixty-Fourth Report (Third Lok Sabha) regarding the purchase of defective Tyres, which was presented to the House on 8-8-1967.

1.1. The action taken notes/statements on the recommendations of the Committee contained in the Fourth Report have been categorised under the following heads:-

(i) *Recommendations/Observations that have been accepted by Government.*

Sr. Nos. 1, 2, 3, 4, 5, 6, 12, 13, 32, 33, 34, 39, 40, 47, 49 and 50.

(ii) *Recommendations/Observations which the Committee do not desire to pursue in view of the replies of Government.*

Sr. Nos. 10, 11, 21, 29, 31, 41, 42, 43 and 45.

(iii) *Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration.*

Sr. Nos. 7, 8, 9, 44, 14, 15, 16, 17, 46, 25, 26, 48, 35, 36, 37, 38, 27, 51, 20, 22, 23, 24 and 52.

(iv) *Recommendations/Observations in respect of which Government have furnished interim replies.*

Sr. Nos. 18, 19, 28 and 30.

1.2. The Committee hope that final replies in regard to those recommendations to which only interim replies have so far been furnished will be submitted to them expeditiously after getting them vetted by Audit.

1.3. The Committee will now deal with some of the recommendations in their Fourth Report.

*Assessment of requirements of imported tyres—Paragraphs 1·35 to 1·37 and 2·6 [S. Nos. 7 to 9 and 44 of Fourth Report (Fourth Lok Sabha)].*

Commenting on a decision taken by Government in 1961 which led to the import of 1,20,000 giant tyres from certain countries with whom Government had rupee payment arrangements, the Public Accounts Committee made the following observations in paragraphs 1·35 to 1·37 and 2·6 of their 4th Report (Fourth Lok Sabha):

“1.35. The Committee cannot but reiterate the observations made by them earlier in paras 1·28 to 1·30 and 5·1 of their 64th Report that the decision to import the tyres in such large numbers from ‘rupee payment’ countries was not taken after a thorough examina-

tion of all aspects of the problem. One of the contributory factors, as pointed out by the Inter-Departmental Committee, was the feeling on the part of the potential purchasers that the imported tyres may not be as good as the indigenous tyres. The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the State Trading Corporation from 'rupee payment' countries or elsewhere are really necessary and that they are competitive both in price and quality."

"1.36. As assured by the Secretary, Ministry of Commerce, in evidence, the Committee hope that the Ministry will be more careful while assessing the requirements of different commodities, their indigenous production and the need for import in future."

"1.37. The Committee feel that the demand was grossly over-estimated with the result that a large number of tyres were imported which were not required and that this was apart from their defective quality, one of the reasons for the subsequent difficulty in the disposal of the tyres."

"2.6. The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the State Trading Corporation from 'rupee payment' countries or elsewhere are really necessary and that they are competitive both in regard to price and quality."

1.4. In their reply dated 10-7-1968, the Ministry of Commerce have indicated that the assessment of requirements was made as follows:

"In the Inter-Departmental Committee's note submitted to the Public Accounts Committee, it had been indicated that the Director General, Technical Development had made an assessment of the import requirements of tyres in 1960 taking into consideration the indigenous production and the imports through the normal trade channels. Even though the first decision to import 1,00,000 tyres was taken on an *ad hoc* basis, in view of the rampant black marketing and in view of the numerous complaints received from various sources including some Chief Ministers of States, the subsequent assessment of the technical authorities confirmed the Ministry's *ad hoc* assessment of the import requirements. However, the Committee's observations have been noted and in this Ministry's evidence it had been indicated that in future, demand would be even more carefully estimated."

1.5. In reply to an enquiry from the Committee how it was being generally ensured that imports arranged through State Trading Corporation from 'rupee payment' countries were really necessary and competitive in price and quality, the Ministry of Commerce have stated in a note dated 14th August, 1968 as follows :

"Before an import is actually permitted to take place, whether by the State Trading Corporation or by any other importer, a number of formalities and checks have to be gone through. Firstly, the essentiality of the import of the particular commodity will have to be certified by an approved authority which varies according to the nature of the commodity and the user. Only those items which are not indigenously manufactured are allowed to be imported."



These checks ensure the necessity of the import of the commodity including its quality and specifications.

With regard to competitiveness in price, the general practice followed by the State Trading Corporation is to obtain clearance from the concerned authorities in the Government in all cases of bulk imports. State Trading Corporation takes adequate care to see that its imports are generally at internationally competitive prices. Clearance from the Ministry of Finance (Department of Economic Affairs) is called for at the time of release of foreign exchange.

It will thus appear that under the normal import policies which have been in existence for a long time no import can take place except with the adequate safeguards and checks laid down as the necessary procedure for imports, applicable as much to State Trading Corporation as to any other importer.

This policy and procedure is applicable equally well in respect of imports from the rupee payment area. There is an additional safeguard abuilt into the system of imports from the rupee area in that the commodities to be imported from any East European country, with each of which trade is carried on, on the basis of a balanced bilateralism through the medium of rupees, are generally pre-determined at the commencement of each calendar year on an appraisal of the necessity of the import. The possibility of non-essential imports is eliminated because the items projected for import during a particular year are determined on the basis of essentiality as recommended by the administrative Ministries and authorities concerned. The second, and the more important, justification for import from the rupee area is that the payment for the import is made not by the use of convertible currency but by the export, in a planned manner, of commodities. Such a scheme, therefore, takes care of the essentiality of the import and prevents at the same time an erosion of the country's free foreign exchange resources".

1.6. In regard to the observations of the Committee in paragraphs 1.36, 1.37 and 2.6, the Ministry of Commerce have stated: "The Committee's observations have been noted for guidance."

1.7. As a result of the observations of the Public Accounts Committee, the Commissioner, Civil Supplies, Ministry of Commerce, conducted certain investigations into the transactions leading to the import of tyres. He made the following observations in para 14 of his report;

"I would, however, like to point out that the present system under which State Trading Corporation's indirect trade, popularly known as stock-and-sale system, as conducted has certain advantages such as:—

- (a) the State Trading Corporation does not make any investment nor incur any financial responsibility;
- (b) the responsibility for the import of goods of correct quality and specification is cast on the distributors and the manufacturers;
- (c) the responsibility for proper storage, Warehousing, insurance etc. also devolves on the distributors.

At the same time, to protect the interests of consumers, the State Trading Corporation retains the power (i) to determine and regulate the prices at which the commodity will be sold and (ii) lay down the pattern of distribution.

Based on experience, the State Trading Corporation is also assisting in negotiating the prices at which the goods are to be imported particularly from countries with which we have rupee payment agreements and competition is limited.

While such a system certainly covers most of the important aspects of the transactions, the possibility of a collusion between the foreign suppliers and their agents which may result in loss of foreign exchange by importing substandard goods cannot be ruled out. According to Shri.....(ex-Director, State Trading Corporation), this aspect of the matter is taken care of by the Customs authorities.

Additionally, he felt that in the case of East European countries the trade being through Governmental agencies, the possibility of such a collusion was very remote. It was felt that there was a danger of financial liability being transferred on to State Trading Corporation in case of their more direct involvement such as checks on quality etc.

The state Trading Corporation being a public undertaking, it is naturally expected that the consumers interest would be foremost in their mind. The public Accounts Committee's observation also appears to be based on this basic assumption. The danger that a distributor may pass on the financial liability to State Trading Corporation can be taken care of while drawing up the agreements' contracts. I feel it would be advisable for State Trading Corporation to have a fresh look into the system of indirect trade (stock and sale) and see if a provision should be made with a view to exercising some reasonable control on the quality of the material being imported without incurring any financial liability. The interests of consumers and the need to ensure that there is no leakage of foreign exchange, appear to dictate that this aspect of the matter and its implications need to be examined in greater detail. Although it is not a term of reference of this enquiry, I consider this aspect of the matter important enough to make a specific mention of it."

1.8. An Expert Committee set up by Government to review the trading techniques and methods of State Trading Corporation have in an interim report made the following observations about the procedure followed by State Trading Corporation in arranging imports:

**"Imports:** In this field the Corporation has no initiative of its own, for it acts as an agency for procuring products and raw material that are scarce and where Government does not want Indian importers to bid abroad and push up prices, or where this is a feeling that the large profits on imports should be syphoned off to the State. Instances have been of newsprint, raw wool, vegetable oils and tallow. This is an area where the Trade is most critical of the Corporation's role. The Committee will go closely into specific examples to see whether the Corporation did obtain advantages of bulk buying and succeeded in a fair and even distribution of imported materials.

Also the Committee will study how best the Corporation can discharge its obligations to Government, Industry and Trade by developing a system of regular consultation to assess import requirements, available supplies and equitable distribution so that there is a healthy sense of reconciliation of all interests." (Para 25)

"Agencies : There has been criticism of the Corporation's agency and distribution arrangements. This system should be reviewed carefully and procedures suggested for securing reliable and experienced dealers to handle import and distribution work of the Corporation." (Para 26)

1-9. The Committee drew attention to the observations in para 14 of the Report submitted by the Commissioner, Civil Supplies and enquired what action had been taken to ensure that a reasonable control would be exercised on the quality of imports made by State Trading Corporation with a view to protecting the interests of the consumer and conserving foreign exchange. The Committee have been informed by Ministry of Commerce that these observations had been brought to the notice of the State Trading Corporation's Review Committee who would be examining them. The Committee referred to the observations in para 26 of the Interim Report of the State Trading Corporation Review Committee where that Committee had referred to the criticism about State Trading Corporation's agency and distribution arrangements and stressed the need to review the existing procedures and system and enquired on what lines this review was proposed to be carried out. In a note dated 9-12-1968, the Ministry of Commerce have stated:

"This was taken up with the Review Committee. The Ministry is informed that it is too early for the Committee to give an indication of the lines on which such reviews will be made. The final Report of the Tandon Committee is expected by the end of May, 1969".

1-10. In a note dated 27-3-1968 about the agency system of the State Trading Corporation which was submitted to the Committee by Ministry of Commerce, it has been *inter-alia* stated:

"The State Trading Corporation's role in generality of cases of its imports is mainly of a regulatory nature. In order to enable it to exercise due control over the margin of profit of the importers and for proper distribution of the goods to the consumers, Government issues licences to the Corporation with Letters of Authority, with or without certain conditions attached to it, to a third party who actually imports the goods. According to the conditions of the Letters of Authority contained in the Red book, the holders of Letters of Authority are to act only technically as 'agents' of the licence-holders both at the time of clearance through the customs and also subsequent thereto. The object of this regulation appears to be to prevent trafficking in permits and import licences and to keep the Letter of Authority holders anchored to their licences and the goods imported under it and to ensure due performance of their obligations. The true relationship between the licensee *vis.* the Corporation and the holder of a Letter of Authority, however,

depends upon the terms of the agreement that may be entered into between the two. For that reason all persons importing goods on the licences issued in the name of the Corporation do not necessarily become agents of the Corporation, despite the use of the word 'agents' in the wording of the regulation. They may at best be described as 'Business Associates' whose relationship would be governed by the specific terms of the agreement entered into with them. This position has been recognised in judicial pronouncements also. It has been held that this regulation under the import control orders cannot be stretched beyond the specific purpose for which it was issued without making serious inroads into the contractual rights of the parties and without avoiding manifestly absurd results.

The importing/selling/distributing agents utilised by the Corporation may be broadly categorised as follows:

1. *State Agencies:*

The State Trading Corporation tries to employ as far as it can State agencies for selling/distributing the various items imported by it. In this category will also fall certain items which the State Trading Corporation handles departmentally.

2. *Associations/Consortia of Erstwhile Importers/Actual Users:*

The State Trading Corporation gives encouragement to the formation of Associations/Consortia of erstwhile importers/actual users who take over the distribution of the items in preference to dealing with individual importers/selling and distributing agents in keeping with the Government's policies in this regard.

3. *Indian Manufacturers/ Actual Users :*

The State Trading Corporation imports a fairly large number of items required by the Indian manufacturers/actual users, one or more of which are utilised as selling/distributing agents also. Such distribution, however, is based strictly according to the allocations given to the State Trading Corporation by the various technical authorities like the Director General, Technical Development, Drugs Controller, etc.

4. *Indian Agents of Foreign Suppliers :*

Where 'after-sale-service' is obligatory and essential or the imported goods are 'Proprietary' in nature and only the agents appointed by the principals/ manufacturers are in a position to arrange for 'after-sale-servicing', training of Indian technicians for providing 'after-sale-service,' etc., the State Trading Corporation accepts and utilises the services of such Indian agents of foreign suppliers, who are capable and have proficiency in their respective fields.

5. *Imports of items by Licenced Dealers:*

In such a case the State Trading Corporation transfers the import licence to the licence holders who import and sell them. For

instance, under the present licensing system no body can handle cartridges except the licensed dealers.

#### 6. *Ad hoc Arrangements* &

On rare occasions, where the State Trading Corporation has to import certain items to meet the critical shortage of the same within the country and there is no regularity of imports, it makes *ad hoc* arrangements for import and distribution. For example, import and distribution of tyres were undertaken by the State Trading Corporation as a rescue measure to meet the internal shortage."

"It may be recalled that India's trade with the East European countries has recorded a considerable increase and diversification during the last 10 to 15 years. The Corporation also played an important role in this growth and diversification. As a matter of fact, quite a substantial portion of the Corporation's imports, for which the Indian agents are nominated by the foreign suppliers for import and distribution, is from the East European countries. As the present trend indicates, India's trade with these countries will increase further in the years to come. At present most of the Indian agents of the East European suppliers are comparatively newcomers who have been handling the imports and distribution of important items like machine tools, tractors, other machinery and instruments for the past 8 to 10 years. During this period, these firms have been able to build up an organisational structure and have acquired the necessary experience and expertise in providing after-sale-service for the machines of East European makes sold by them to a large number of users within the country. Any attempt to impose restrictions in the matter of selection of firms and to change these tie-ups is likely to be resisted by the foreign suppliers and may not, even when changes have been made, result in any appreciable improvement in the service. It is further apprehended that any change in their present mutual understanding and relationship may retard the progress of future growth of the trade between India and these countries. Furthermore, a substantial amount of trading risk is involved in the import of such materials, which may remain partly or wholly unsold for a long period upsetting all economies of import, etc. Only a party which has a long-term stake and interest may be prepared to do so. In this context, it is only the Indian agents of the foreign suppliers who would be most competent and best placed to handle such imports and their distribution. From the Corporation's point of view also, it would be advantageous to have such imports made through those Indian agents who could be held responsible, at least in part, for any shortcomings of their principals, such as delays in supplies, defective packing or quality of material, etc.

It would not be out of place to mention here some of the recent experience of the Corporation in attempting to bring about a change in the present system of selection and appointment of agents in the field of import and distribution of certain goods from the East European countries. The Corporation has already entered into contracts for import of 2,000 tractors from Czechoslovakia of which 1,000 will

be in knocked-down condition. At our insistence and persuasion the Czech suppliers have agreed to these tractors being imported and distributed through the Agro-Industrial Corporations of the State Governments. But in so far as imports of tractors from the U.S. S.R. is concerned for which the Corporation has entered into contracts for import of 4,000 tractors, it has not been possible to make the Soviet suppliers agree to these tractors being similarly imported and arranged through the State Agro-Industrial Corporations or any organisation other than their own nominees/agents. The Soviet suppliers are of the view that their tractors have got some special features and their techniques are quite different from those of other makes so much so that neither the Agro-Industrial Corporation of the States nor any organisation in the country other than those with whom they have already established business relationship in the form of training the necessary technical personnel, etc., would be in a position to handle this trade in a smooth and satisfactory manner. They, therefore, feel that the present system of import and distribution through their agents' nominees would be in the best interest of themselves as well as of India. Thus while we have been able to achieve some success in the field of Czech tractors, we are meeting a stiff resistance in the case of the U.S.S.R. tractors.

In these circumstances, it is felt that no single or uniform method for appointing agents of imported goods would be desirable or practicable. The agency to be utilised would differ according to the category of business to be handled. For commodities where it is possible to select a State-owned/supported agency or Agro-Industrial Corporation, the same would be preferred. There may be here and there an odd or exceptional case where we may have to lean on a private party even though no after-sales-service is required, for example in the case of imported tyres, where a warranty may be necessary for its performance.

From the foregoing, it would be seen that the Corporation has been utilising as far as possible the services of the trading channels previously in existence in respect of the commodities falling within the categories Nos. 1, 2, 3 and 5 mentioned on page 2 of the note. These agencies are either the actual users or the erstwhile importers or their associations or the licenced dealers or the State agencies. As regards the category No. 4, efforts are made to effect the imports and distribution of the goods through the agencies other than those nominated by the foreign suppliers. The Corporation will continue its efforts to effect such imports and distribution through the dealers or firms selected by the Corporation itself at the earliest opportunity possible.

In all cases, however, necessary vigilance and safeguards as may be required from time to time will continue to be observed by the Corporation."

1.11. The Committee observe that under the present system of 'indirect trade' adopted by the State Trading Corporation there is possibility of collusion between suppliers and their agents in India which may result in the sub-standard goods being imported.

The Committee would like Government to take effective steps to remedy this weakness in the system, so that the interests of consumers are protected and precious foreign exchange is not dissipated in such imports. The Committee note in this connection that this question is under examination by the State Trading Corporation Review Committee.

1.12. The Committee note that an Expert Committee set up to review the working of the State Trading Corporation have in their interim Report underlined the need for reviewing the existing agency and distribution arrangements of the Corporation with a view to securing the services of reliable and experienced dealers. The Committee hope that the Expert Committee would be able to spell out in their final Report the precise lines on which the arrangements in this regard should be reorganised.

1.13. The Committee appreciate that, in the matter of imports, the State Trading Corporation acts largely as an agent of Government. The experience of the Corporation with the transaction relating to tyres suggests that Corporation will have to evolve what the Expert Committee have termed "a system of regular consultation with Government, Industry and Trade", so that import requirements could be realistically assessed and decisions in this respect reviewed in the light of market conditions and modified if necessary. The Committee observe in this connection that a substantial proportion of imports made by the Corporation is from East European countries. The imports from these countries are generally regulated by periodical Trade Plans. The Committee would like all proposals for imports under these Plans to be critically examined, so that only items that are really necessary and competitive in quality and price are imported. In this connection, the Committee would like to invite attention to their observations in paragraph 2.28 of their Fifty-Fifth Report (Fourth Lok Sabha).

*Failure of State Trading Corporation to inform users about lower specifications of imported tyres—Paras 1.69 to 1.72 and 2.8 (S. Nos. 14 to 17 and 46 of Fourth Report):*

1.14. In paras 1.69 to 1.72, the Committee had commented in the following terms about the failure of the State Trading Corporation to inform the users of the specifications of the imported tyres:

"1.69. The Committee cannot appreciate why the State Trading Corporation, a public undertaking, knowing fully well the lower specifications of the imported tyres and their consequences to users chose to maintain complete silence about even such vital factors as maximum load carrying capacity and pressure of the imported tyres, which had a vital bearing on safety".

"1.70. In particular, the Committee deprecate the attitude of the State Trading Corporation in not communicating vital information regarding specification, quality and performance expectations of the imported tyres to the Director General, Supplies and Disposals specially when it was known that these tyres were being procured for the use of Defence Forces."

"1.71. The State Trading Corporation's attitude to the user seems unfortunately to be based on the Roman Legal Maxim 'caveat emptor' (let the buyer beware!)."

**"1.72. The Committee would like to be informed of the result of action initiated by the Ministry of Commerce for fixing responsibility on the officials responsible for this serious lapse."**

**1.15. The Commissioner, Civil Supplies, Ministry of Commerce, who conducted investigations into these lapses came to the following conclusions:**

**"In regard to the non-furnishing of information pertaining to specifications to the Director General, Supplies and Disposals, the then Director, State Trading Corporation explained that such details were not specifically mentioned in his letter of 30th January, 1962 addressed to the Director General, Supplies and Disposals, it was intended merely to introduce stockists of these tyres etc. to the Director General, Supplies and Disposals with a request to help solve the problems of accumulation. The Director General, Supplies and Disposals himself was a Director of State Trading Corporation and he was fully aware of the condition of these tyres. Besides the Director General, Supplies and Disposals had a fully competent organisation for undertaking the inspection of these tyres on behalf of his indentors and nowhere was it stated that the normal procedure of inspection and satisfying themselves before making the purchases was not to be observed." (Para 19)**

**"It cannot .....be said that the Director General, Supplies and Disposals or the Defence authorities were not communicated the vital information or that they had to acquire these tyres and tubes without carrying out necessary inspection and satisfying themselves that they would be getting the right material." (Para 22)**

**"It is, however, clear that so far as the common consumer is concerned, the public notice which was issued did not indicate the specifications and other material information. Unfortunately the two officers who were responsible for this lapse.....and who could have explained as to why this was not done are longer alive." (Para 25)**

**1-16. The Committee were informed by Ministry of Commerce that the report of the Commissioner had been accepted by Government.**

**1-17. The Committee, however, observe that the Central Bureau of Investigation which conducted fresh investigations into the case came to the conclusion that two Directors of the State Trading Corporation and a Divisional Manager were responsible for withholding from the purchasers vital information about the inferior specifications and the poor performance of the tyres.**

**1-18. The Committee trust Government will examine in the light of the findings of the Central Bureau of Investigation what action against these officials is called for.**



*Action against other officials—Para 1·106, 1·119, 1·163 to 1·169 (S. Nos. 25,26,48,35 to 38) of Fourth Report :*

1·19. In paragraphs 1·106, 1·119, 2·10 and 1·163 to 1·169, the Committee had urged that action should be taken by Department of Supply/Ministry of Defence/Department of Defence Production against all officials found at fault in connection with the various irregularities noticed in the transaction.

1·20. The Committee have been apprised of the following position in this regard:

*Department of Supply :*

“Disciplinary proceedings against the Deputy Director (Supplies and Disposals) were initiated while he was in service. His explanation was called for on 20-8-66 for non-inclusion of warranty clause and certain other omissions. Subsequently on receipt of the report of Public Accounts Committee in November, 1966, certain aspects of the transaction regarding purchase of THN pattern tyres for COD Kandivli were referred for further investigation to the Central Bureau of Investigation on 19-11-1966. The Central Bureau of Investigation was reminded on 29-12-1966. However, as the investigation was likely to take time and as the Deputy Director concerned was due to retire on 28-2-67, it was decided to initiate formal disciplinary proceedings against him immediately without waiting for the Central Bureau of Investigation’s report. Accordingly regular charge-sheet was issued to him on 10th February, 1967 for major penalty. Subsequently, the charge-sheet was amplified to cover the irregularities brought out by the Inter-Departmental Committee. As Departmental enquiry against the Deputy Director was instituted while he was in service, the enquiry is being continued under Article 351A of Civil Service Regulation..”

“As regards the Assistant, the Enquiry Officer submitted his report on 23-3-68. According to the Enquiry Officer the charges framed against the Assistant were not proved. It was, therefore, decided that the final decision in this case should pend till the report on the case of the Deputy Director was available. In the meantime, after his attaining the age of 55 years, it was decided to retire the Assistant prematurely with effect from 20-11-1968. The proceedings against him have, therefore, been dropped on the advice of the Ministry of Law.”

*Ministry of Defence :*

“On the basis of the SP’s Report in case No. RC6/67-CIA(T), the Superintendent of Police CIA(T) has suggested a statement of charges against.....OC, COD, Malad and has recommended departmental action against him.

The.....charges of misconduct made against.....had already been examined in the Defence Ministry and as a result thereof a penalty has been imposed on him by reducing his pension by 1/3rd for the said lapses on his part.....

As no fresh lapse on the part of.....OC, COD, Malad has been disclosed as a result of the recent SPs Report, no further action is indicated against.....”

**Department of Defence Production:**

“Special Police Establishment’s report of investigation in PE No. 9/63-CIA dealing with four allegations relating to the purchase of giant tyres from East European countries in 1960 and 1961 was received in this Ministry in January, 1964. While three allegations pertained to the State Trading Corporation, Director General, Supplies and Disposals and Ministry of Economic and Defence Co-ordination, this Ministry was concerned with the following allegation only:

‘The officers of the Directorate General of Ordnance Factories, Calcutta purchased 3,000 sets of tyres from M/s. General Industrial Supply Store Co., in spite of the fact that their Technical Development Establishment had stated that tests have to be done by actual use only for long periods and hence no opinion could be given as to the quality of these tyres, which were needed by this unit for use in forward areas and have to stand the stress and strain of operational hazards in the Defence operations.’

The finding of the Central Bureau of Investigation in respect of the above mentioned allegation was that no officer of the Directorate General, Ordnance Factories could be blamed except, perhaps one Shri.....(Dy. Assistant Director General, Ordnance Factories), who made an attempt, which however did not succeed, for altering a warranty clause in favour of the firm. The Central Bureau of Investigation recommended that his conduct may be brought to the notice of the Director General, Ordnance Factories for taking such action as may be considered necessary.

The matter was examined in the Ministry and the Directorate General, Ordnance Factories was addressed *inter alia* that Shri.....’s conduct might be considered for such action as deemed necessary. The Directorate General of Ordnance Factories have replied that the idea of the amendment proposed by Shri..... was dropped by that Headquarters and there was no question of Shri..... working independently in this matter. Any action taken by Shri..... was with the full knowledge of his superior officer in the Directorate General of Ordnance Factories and so they did not agree with the remarks made by the Special Police Establishment. The matter is again under consideration of the Ministry and Directorate General, Ordnance Factories.”

1-21. The Committee observe from the latest report of the Central Bureau of Investigation that certain other officials have been found responsible for various lapses connected with the transaction.

1-22. The Committee hope that Government will consider in the light of the findings of the Central Bureau of Investigation the question of taking appropriate action against various officials.

*Recovery of excess amount of Rs. 2·90 lakhs paid to M/s. Ramkrishan Kulwant Rai against Defence A/T placed originally for 7,100 tyres—Paras 1·119—1·120 (S. No. 26 and S. No. 27) of Fourth Report.*

1-23. In paragraphs 1·119 and 1·120 of the Fourth Report (Fourth Lok Sabha), the Committee had made the following recommendations:

“1·119.....The Committee also regret to note that, (i) against the rate contract of Rs. 349 per set which included a tyre, a

tube and a flap, the Director General, Supplies and Disposals made the payment of Rs. 360 for a tyre alone. (ii) The sale price fixed for Polish tyres was Rs. 360 per tyre, while the c.i.f. Indian port price for the same tyre was Rs. 228·24 per set. As against the Hungarian THR Type tyre per set (which was comparatively inferior) was also fixed at Rs. 360 per tyre, when the c.i.f. price, on M/s. Ramkrishan Kulwant Rai's own admission, was Rs. 210 per set. Thus, the Government was forced to pay the same price for inferior quality, the landed cost of which was also less by Rs. 18·24 per set.

The firm of M/s. Ramkrishan Kulwant Rai was thus overpaid to the extent of about Rs. 2·90 lakhs."

"1·120. The Committee desire that suitable measures should be taken by Government in consultation with the Ministry of Law, if necessary, to recover this excess payment from the firm in question."

1·24. In their reply dated 20-1-68, the Department of Supply have stated:

"The Ministry of Law has been consulted for the recovery of the excess amount from the firm, who have opined that *prima facie* there is good case to lodge a claim on M/s. Ramkrishan Kulwant Rai, to refund the excess amount paid to them against the Defence A/T placed originally for 7,100 tyres. As already mentioned against S. No. 26, the correct magnitude of the claim to be made is under verification and as soon as the actual amount to be recovered with reference to contractual obligations is established, the claim against the firm will be lodged."

1·25. The Committee note from a communication addressed by the Director General, Supplies and Disposals to the Central Bureau of Investigation that the amount of overpayment has been worked out at Rs. 1·83 lakhs.

1·26. The Committee trust that speedy steps would be taken by Government to recover the excess payment of Rs. 1·83 lakhs made to M/s. Ramkrishan Kulwantrai.

*Financial relationship between the State Trading Corporation and distributors—opinion of the Solicitor General about the legal and financial responsibility of the State Trading Corporation vis-a-vis the private importing firms—Para 1·88 (S. No. 20) of Fourth Report.*

1·27. In paragraph 1·88 of the Fourth Report (Fourth Lok Sabha), the Committee had made the following recommendation:

"1·88. The Committee cannot help concluding that had advice of the Solicitor General/Additional Solicitor General been taken in 1961, as suggested by the Deputy Divisional Manager (Law) of State Trading Corporation, the uncertainty about the legal and financial responsibility of the State Trading Corporation would have been dispelled. It would also have been made the State Trading Corporation realise that it had no particular obligation repeatedly to approach Governmental purchasing organisations to facilitate the

disposal of imported tyres which were known to be below specification. The Committee feel that even now the Ministry of Commerce should obtain the legal advice of the Solicitor General/the Additional Solicitor General about the legal and financial responsibilities of the State Trading Corporation *vis-a-vis* the private firms to set all doubts at rest."

1·28. In their reply to para 1·88, the Ministry of Commerce have stated in a note dated 12-1-68, as under:

"The State Trading Corporation has consulted the Solicitor General and it is informed that the Solicitor General will not give advice to the Corporation in his official capacity. He would only be willing to tender legal advice in his private capacity as a lawyer on payment of the usual fees. The Corporation had already obtained the opinion of Shri. .... Ex-Law Minister on relationship between State Trading Corporation and the distributors/importing firms. However, in view of the Committee's recommendation, an official reference is being made by this Ministry to the Solicitor General and the Public Accounts Committee will be informed of the final outcome in this matter."

1·29. A copy of the Solicitor General's opinion on the various issues arising out of the agreements entered into by the State Trading Corporation with the importers of tyres has been furnished to the Committee.

1·30. The Committee note from the opinion of the Solicitor General that the State Trading Corporation had no legal or financial liability in terms of the agreements for imported tyres which were not sold or for the loss incurred by the importers in the transaction. The Committee note that a number of other issues were also posed before the Solicitor General. They hope that in the light of the Solicitor General's opinion on their issues, action will be taken by Government to streamline the existing arrangements between the Corporation and its business associates, agents etc.

*Action taken against Messrs. Ramkrishan Kulwant Rai for withholding from Director General, Supplies and Disposals information about the complaints of manufacturing defects in the tyres—Paragraphs 1·35 and 2·13 (S. Nos. 7 and 51 of Fourth Report).*

1·31. The Public Accounts Committee in paragraphs 3·73 and 3·77 of their 64th Report had observed as under:

"3·73. The Committee regret to note that so far no action has been taken against the firm for withholding from Director General, Supplies and Disposals information about complaints of manufacturing defects in the tyres. The Committee feel that the Director General, Supplies and Disposals as well as the State Trading Corporation have been unduly generous with the particular firm."

"3·77. The Committee feel that the facts mentioned above indicate that these firms had some influence with the persons dealing with this transaction of tyres in the office of the Director General, Supplies and Disposals and State Trading Corporation.

1-32. The Inter-Departmental Committee who investigated into this aspect of the case gave the following interim findings:

"The Ministry of Law had advised that so long as the Injunction of the High Court, Calcutta, operated no further action could be taken against the firm-Messrs Ram Krishan Kulwant Rai. The case has, however, been referred to the Special Police Establishment on 19-11-66. The report of the Special Police Establishment is awaited. It is not possible to state whether there was any collusion between the officers of the Director General, Supplies and Disposals and the firm till the results of the disciplinary proceedings against the officers concerned and Special Police Establishment's investigations are known."

1-33. In paragraphs 1-135 and 2-13 of their Fourth Report, the Public Accounts Committee had made the following recommendations:

"1-135. After the injunction of the High Court is vacated, the Committee would like to be informed of the action taken against this firm. As a result of the enquiry by the Special Police and the results of the disciplinary proceedings against the officers concerned, the Committee would like to know whether there was any collusion between the officers and this firm. The Committee would also like it to be ascertained whether there are any grounds for taking any action against any of the other firms involved in the import and supply of these tyres."

"2.13. As regards the firms, the Committee understand that the Central Bureau of Investigation is looking into the case against M/s. Ramkrishan Kulwant Rai. After the injunction of the High Court is vacated, the Committee would also like to be informed of the action taken against the firm. The Committee would also like to be ascertained whether there are any grounds for taking any of the other firms involved in the import and supply of these tyres."

1-34. In their reply dated 20-1-1968, the Department of Supply have stated as under:

"The injunction of the High Court against the firm Messrs Ramkrishan Kulwant Rai has not yet been vacated. Further action against the firm is therefore pending. The result of the enquiry by the Special Police Establishment and the results of the disciplinary proceedings against the officers concerned are still awaited. Action to be taken against other firms is under examination."

1-35. In a note dated 14-8-1968, the Ministry of Home Affairs have indicated the following position pursuant to the findings of the Central Bureau of Investigation:

"The allegations against M/s. Ramkrishan Kulwant Rai which are the subject-matter of R.C. 6/67-CIA(I) registered on 13-6-67, are:—

- (1) that M/s. Ramkrishan Kulwant Rai had secured a rate contract from the Director General, Supplies and Disposals by fraudulently misrepresents facts about the quality of tyres knowing the said facts to be false;
- (2) that they had supplied sub-standard tyres;

- (3) that M/s. Ramkrishan Kulwant Rai had cheated the Director General, Supplies and Disposals authorities in obtaining higher rates by misrepresentation.

1-36. The investigation of the case has been completed and the result is as under:—

It has been established that M/s. Ramkrishan Kulwant Rai had approached the State Trading Corporation with a request to issue a circular letter to all direct demanding officers to liquidate their stocks of imported tyres which had been imported under the auspices of the State Trading Corporation. A circular letter was issued by the Director General, Supplies and Disposals on 1-3-62 to all Government Transport Undertakings requesting them to consider purchase of these tyres. The matter was further pursued by the State Trading Corporation with the Director General, Supplies and Disposals and a circular letter to all direct demanding officers was issued by Director General, Supplies and Disposals on 28-5-62. In the meantime, on 21-5-62, M/s. Ramkrishan Kulwant Rai wrote a letter to the Director General, Supplies and Disposals wherein they referred to their meeting with the Director General, Supplies and Disposals officials and pointed out that the tyres were of standard specifications to suit tropical conditions and guaranteed for satisfactory performance. It was also mentioned that the tyres would be replaced or due compensation would be paid in case of premature failure due to manufacturers' defect without giving expected mileage. Photostat copies of the manufacturers' guarantees and the letter from U.P. Government Roadways about the satisfactory performance of the tyres were also attached. Though this letter was received by the Director General, Supplies and Disposals before the issue of the circular letter dated 28-5-62 the file does not indicate if it was the basis for the issue of said circular letter.

1-37. M/s. Ramkrishan Kulwant Rai approached the Director General, Supplies and Disposals for a rate contract on 8-8-62 in respect of the tyres lying in their stock. It was pointed out by the firm that the samples of the tyres had been inspected by the Director of Inspection, Director General, Supplies and Disposals, Calcutta. No mention was made about the quality of tyres and the guarantees regarding payment of compensation in case of premature failure which had been mentioned by the firm in their letter of 21-5-62 when they had requested for the issue of a circular letter to all direct demanding officers.

1-38. As regards the price, it was mentioned by the firm that they would charge Rs. 349 as against Rs. 380 for a tyre of 825×20×12 with a tube and a flap, as suggested by the State Trading Corporation and mentioned in the circular letter issued by the Director General, Supplies and Disposals. It will thus be seen that the firm cleverly made no representation about the quality of tyres when asking for the rate contract, neither there was any mention about the guarantee in case of premature failure of tyres. The fault, therefore, lies with the officers of the Director General, Supplies and Disposals who failed to incorporate the guarantee clause in the rate contract for which Shri. . . . . (Deputy Director, Directorate General, Supplies and Disposals) and others have been found responsible. It has, however, been seen that M/s. Ramkrishan Kulwant Rai had addressed various communications to the State Trading Corporation and the Government about the bad

quality of tyres. There were also similar complaints from some of the purchasers. The firm had also taken up the matter regarding the defective quality of tyres with the manufacturers through the Government and had returned a large quantity of tyres to the manufacturers for which they were fully compensated. The manufacturers, however, although they paid the compensation, did not agree that the tyres were defective.

1-39. The question regarding the sub-standard nature of tyres supplied by the firm was looked into by an Inter-Departmental Committee who in their report dated 3-7-67 have come to the conclusion that 'during the period 1-1-62 to 31-12-66, the average kilometrage per tyre performed by an indigenous tyre is 21,580 and the average kilometrage per tyre performed by the Cordatic tyre (supplied by M/s. Ramkrishan Kulwant Rai) is 20,747. In other words, the performance of Cordatic tyre is more or less the same as that of indigenous tyre.'

1-40. During the course of investigation, it has also been found that the c.i.f. price of all the tyres of the size 825×20×12 ply rating imported by M/s. Ramkrishan Kulwant Rai was the same viz. Rs. 210. They, however, agreed to sell ST Pattern tyres of the above size alongwith one tube and one flap for Rs. 349 per set whereas they sold tyres of THR pattern of the above size at Rs. 360 per tyre without tube and flap and thereby Government was put to loss. The investigation has shown that when M/s. Ramkrishan Kulwant Rai offer 7,100 THR pattern tyres, they did not quote the price but stated that they would do only on being informed that the tyres were acceptable. They also showed the tyres to the C.O.D., Kandivili and when the Director General, Supplies and Disposals asked the O.C., C.O.D., Kandivili if the tyres were acceptable to him, the latter replied in the affirmative. Director, Ordnance Services, Army Headquarters was not informed about the offer and acceptance of the THR pattern tyres both by Director General, Supplies and Disposals and C.O.D., Kandivili.

- (1) The Director General, Supplies and Disposals authorities while negotiating, asked the firm to give the break-up of the price.
- (2) .....
- (3) In the above break-up, the firm did not make any misrepresentation.
- (4) The firm had also quoted Rs. 380 per set of tyres which was the price mentioned in the circular letter. The firm, however, mentioned that as a special case, they were prepared to reduce the price to Rs. 360 for a tyre only.

1-41. In view of the above facts, according to the law officers of the Central Bureau of Investigation, it could not be said that the firm had made any misrepresentation regarding the price. If the previous correspondence had, however, been properly scrutinised by the Director General, Supplies and Disposals authorities, the firm would not have been able to get the increased price. As regards the quality of tyres, it is true that the firm had received complaints regarding the quality of tyres but this fact was within the knowledge of the State Trading Corporation authorities who should have brought this fact to the notice of the Director General, Supplies and Disposals. The Committee have been further informed that the question of taking suitable action against the firm is under Government's consideration.

**1-42. The Committee note that the question of taking appropriate action against M/s Ramkrishan Kulwant Rai is under the consideration of Government. They would urge that a decision on this issue should be taken by Government expeditiously.**

*Compensation for defective tyres—Paragraphs 1-100, 1-101, 1-102 and 2-14 (S. Nos. 22 to 24 and 52) of Fourth Report:*

1-43. In paras 1-100, 1-101, 1-102 and 2-14 of the Fourth Report (Fourth Lok Sabha) the Committee had made the following observations:

“1-100. The Committee entirely agree with the views of the Secretary of the Ministry of Commerce that ‘for a public sector undertaking like the State Trading Corporation the responsibility to the user should have weighed with them a little more than the responsibility of the Associate’. The Committee feel that the State Trading Corporation and the Ministry should take necessary action to bring to the notice of all the bulk purchasers, specially those whom they had approached earlier to purchase the imported tyres, the procedure for claiming compensation for defective tyres so that they may file their claims.”

“1-101. The Committee would also like to draw attention to the specific provision made in the agreement with M/s. Ramkrishan Kulwant Rai to the effect that ‘the failed tyres will be examined by a panel . . . . . and that the decision of the panel will be binding’ and that ‘they shall give adequate compensation to the party concerned as per the decision of the panel’.”

“1-102. The Committee, therefore, see no reason why State Trading Corporation and Government should not be able to ensure payment of proper compensation to the users who have suffered loss on account of the supply of defective tyres.”

“2.14. The Committee reiterate their observation contained in para 5-4 of their 64th Report that ‘Government should take immediate steps to assess the losses suffered by the various users, viz., Defence, Transport Undertakings, etc. due to the purchase of these defective tyres and to secure adequate compensation from the firms/State Trading Corporation’.”

1-44. In their reply dated 10-7-1968 to paragraphs 1-100, 1-101 & 1-102, the Ministry of Commerce have stated:

‘On receipt of Public Accounts Committee’s recommendation, the State Trading Corporation had written to all the importers indicating that they are liable to pay compensation wherever claims in respect of defective tyres had been established. Except one firm, namely General Industrial Store Supplying Co. all the other firms have informed the State Trading Corporation that they have no legal liability at this stage.’

1-45. In a further note dated 14-8-1968, the Ministry of Commerce apprised the Committee of the following position:

“The four firms through which State Trading Corporation had imported tyres, were allowed after 7-2-1962 to sell tyres to any person and



at any price. All the tyres supplied through Director General, Supplies and Disposals were after this date. From the information supplied by Director General, Supplies and Disposals only 3 firms viz. M/s. General Industrial Store Supplying Co., Calcutta, M/s. Ram Krishan Kulwant Rai and M/s. Khemka & Co. (Agency) Pvt. Ltd. supplied tyres at rate contracts to Director General, Supplies and Disposals. The number of total tyres purchased by the Government Agencies through Director General, Supplies and Disposals and by the Defence and the number of tyres reported defective are indicated below:

Name of the Firm	No. of tyres purchased	No. of tyres reported defective	Total Claim (in Rs.)
M/s. General Industrial Store Supplying Co. Through D.G.S.&D. . . . .	214	99+10 tubes	33,864
<i>Defence</i>			
Director General, Ordnance Factories . . . . .	2,765	49	18,620
M/s. Ram Krishan Kulwantraï through D.G.S.& D. . . . .	632	390+16 tubes	1,01,623
<i>Defence</i>			
C.O.D., Kandivili . . . . .	5,904	138	54,648

*M/s. Khemka & Co.* : Full information about the number of tyres reported defective out of the supply made by this firm is not readily available.

State Trading Corporation is obtaining information regarding the present stage of the settlement of the claims and the Committee will be informed shortly.

1-46. In response to further questions from the Committee, the following information was furnished by Ministry of Commerce in a note dated 21-9-1968.

*"Amount received by the firms from their principals as compensation.*

The State Trading Corporation had inspected the accounts of the 4 firms who had imported the tyres. This inspection revealed that the following amounts were received from the foreign suppliers as compensation:

1. M/s. Ram Krishan Kulwant Rai . . . . . Rs. 6.19 lakhs
2. M/s. General Industrial Store Supply Co. . . . . Rs. 6.17 lakhs
3. M/s. Khemka & Co. . . . . Rs. 2.24 lakhs
4. M/s. Consolidated Equipment Co. . . . . Rs. 0.21 lakh

Two firms viz., M/s. Ram Krishan Kulwant Rai and M/s. General Industrial Store Supply Co. have re-exported to their suppliers 13,000 numbers and 7,300 nos. of tyres.....

*Claims for compensation for defective tyres received so far from Central Government Departments, etc. :*

It is submitted for the Committee's information that State Trading Corporation had issued release orders in favour of Government Departments, Transport Undertakings, etc. only upto 1st April, 1961. After that

been taken up with the firm by the State Trading Corporation for payment of compensation.”

1.48. In reply to paragraph 2.14, the Department of Supply have stated in a note dated 20-1-1968, as under:

“All the reports received from the Indentors against the defective tyres have been reported to the State Trading Corporation for consideration of adequate compensation against each case. The progress in this respect and the amount of compensation paid to the indentor by the firm through the State Trading Corporation is still awaited.”

1.49. In a further note dated 17-8-1968, the Department of Supply have intimated the following progress in the settlement of the claims:

“Details of compensation claims are shown in the statements attached to Director General, Supplies and Disposals letter No. DSCA/PAC/SV-8/67 dated 19-7-67 addressed to State Trading Corporation. Further progress in the settlement of claims is as follows :

*M/s. General Industrial Stores Supplying Co.*

Discussions were held in the Directorate General, Supplies and Disposals with the firm on 21-3-1968. The firm agreed to pay compensation @ 30% for all defective tyres and refund the full value of unused tyres, tubes and flaps. The Pay and Accounts Officer, Ministry of Works, Housing and Supply, New Delhi was instructed to make deductions worth Rs. 14,831.30 from the pending bills of the firm in satisfaction of indentors' claims.....

*M/s. Ram Krishan Kulwant Rai.*

The State Trading Corporation informed Director General, Supplies and Disposals on 19-12-1967 that the firm had not agreed to the Panel meeting. The firm contended further that the claims of State Trading Corporation were time-barred.

The State Trading Corporation have sought the advice of the Solicitor General, which is still awaited.

In addition to claim for premature failure of various tyres.....the Director General, Supplies and Disposals issued a demand notice on the firm for payment of Rs. 3, 71,952 as compensation for sub-standard supply of 5,904 tyres against the *ad-hoc* A/T No. SV-3/81080-P/V/344, dated 12-6-1963. The firm's reply refusing the claim is under consideration.

*M/s. Khemka and Co.*

(i) *Ad-hoc A/T for 750 sets required by Director General, Border Roads (A/T No. SV-3/30237-N/V/6925 dated 1-11-1962).*

The State Trading Corporation reported on 17-1-1968 that the firm have agreed to the inspection of failed tyres by the Panel. The Director General, Border Roads was advised by Director General, Supplies and Disposals on 29-1-68 to despatch the failed tyres to the firm's godown on 'freight paid basis'. The Director General, Border Roads approached the State Trading Corporation on 20-2-68 to intimate consignee instructions for arranging the despatch of the

unserviceable tyres. Further developments are awaited. State Trading Corporation was last reminded on 21-6-68.

(ii) *Ad-hoc A/T No. STV-3/25697-N/II/6814, dated 25-8-1962 for 310 sets of Russian tyres.*

The tyres did not fit some particular vehicles.

The Law Ministry have opined that in the absence of any manufacturing defect, the tyres did not fit some particular vehicles, no valid claim can be made against the firm at this stage and the matter has been treated as closed.

(iii) *Claim of Indian Telephone Industries, Bangalore.*

As the order in question was placed before the issue of Rate Contract, the indenter was advised on 3/5-6-1967 to settle the matter direct with the State Trading Corporation."

1.50. The Committee observe from the information furnished to them that the four firms which imported tyres received the following sums from their principals abroad, for payment of compensation for defective tyres supplied by them to various parties.

Name of the firm	Amount (in lakhs of Rs.)
1. M/s. Ram Krishan Kulwant Rai . . . . .	6.19
2. M/s. General Industrial Store Supplying Co. . . . .	6.17
3. M/s. Khema & Co. . . . .	2.24
4. M/s. Consolidated Equipment Co. . . . .	0.21

While three of these firms have agreed to pay compensation and are in the process of settling claims on this account, M/s. Ram Krishan Kulwant Rai have not agreed to pay any compensation on the plea that claims are time-barred. The Committee consider this attitude unethical and would like Government to consider what action could be taken against the firm in this regard. The Committee would also like the Department of Supply and State Trading Corporation to ensure that pending compensation claims are expeditiously settled by the other three firms.

1.51. The Committee have earlier in this Report drawn attention to the necessity to ensure that imports arranged by the State Trading Corporation through their business associates are of the specific quality. The experience in this case suggests that it might be necessary for the Corporation to evolve some arrangements to ensure that where imports arranged by their business associates turn out to be sub-standard, the actual users are adequately compensated.

**CHAPTER II**  
**RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN**  
**ACCEPTED BY GOVERNMENT**

**MINISTRY OF DEFENCE**

**Recommendation**

1.9. The Committee regret to note that no reply was received from Government by the end of February 1967 *i.e.* within three months of the date of the presentation of the 64th Report of the Public Accounts Committee (Third Lok Sabha). The Committee are unable to appreciate why Government waited till 18th April 1967, to constitute an Inter-Departmental Committee to consider the various recommendations/observations made by the Public Accounts Committee in their 64th Report (Third Lok Sabha).

[*Sl. No. 1 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68*]

**Action taken**

Copies of the 64th Report (Third Lok Sabha) of the Public Accounts Committee were received in the Ministry of Defence on 3rd December 1966. Immediately thereafter action was initiated to examine the various recommendations/observations with the authorities concerned. As a result, a reply was sent to the recommendation at serial No. 45 of the Report in question on the 21st February 1967. The other recommendations/observations were also under active examination. Thus, action on the various recommendations of the Committee concerning this Ministry was already in hand and had made considerable progress even before the question of setting up an Inter-Departmental Committee arose. In the meantime, a number of Questions on this subject of purchase of imported tyres were raised and answered in the Parliament by the Defence Minister during March/April 1967. Towards the end of March 1967, it was felt that it would help to expedite action on the recommendations of the PAC if an Inter-Departmental Committee coordinated action of the 3 Ministries and submit *inter alia* draft replies to all the recommendations. The Inter-Departmental Committee was accordingly constituted on 18th April, 1967.

DADS has seen.

[*Ministry of Defence Note No. 14(13)/67/D. (O. I.), dated 16-10-1967.*]

**Recommendation**

1.10. The Committee are also constrained to point out that Government did not take prompt notice of the recommendations of the Committee in as much as the Officer Commanding, Malad, against whom the Committee had passed strong strictures and recommended investigation, was allowed to retire prematurely from service on 16th December, 1966 *i.e.*, two weeks after the presentation of the Report of the Committee on 30th November, 1966.

[*Sl. No. 2 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68*].

### Recommendation

1.11. The Committee have dealt with this matter at greater length in paras 1.156 to 1.158 of this Report, but here they would like to emphasise that Government should take prompt and due notice of the recommendations made in their Reports so that any necessary investigation or inquiry or any remedial measures can be initiated without loss of time.

[*Sl. No. 3 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.*]

### Recommendation

1.158. The Committee are not convinced by the explanation advanced by the Ministry of Defence for not taking prompt notice of the specific recommendations made by the Public Accounts Committee in their 64th Report about the lapses on the part of the Officer Commanding COD, Kandivili (Malad), in regard to the purchase of imported tyres. The Committee are unable to appreciate how the irregularity committed by this Officer in accepting 5,904 THR tyres in lieu of cross country tyres, in contravention of the instructions of Army Headquarters, was over-looked while processing his application for premature retirement, in spite of the instructions dated 2nd September, 1966 of the Defence Secretary that investigations should be made into the case and the observations made by the Public Accounts Committee on the conduct of this Officer in their 64th Report, presented to the House on 30th November, 1966. The Committee would like the responsibility for allowing this Officer to retire prematurely on 16th December, 1966 to be fixed and deterrent action taken against those who are found responsible for this lapse.

[*Sl. No. 34 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.*]

### Recommendation

2.12. The Committee have also not been able to appreciate how the irregularity committed by the COD Kandivili (Malad) in accepting 5,904 THR tyres in lieu of cross country tyres in contravention of the instructions of Army Headquarters was over-looked while processing his application for premature retirement and he was allowed to retire on 16th December, 1966, and that contrary to the instructions of the Defence Secretary that an investigation should be undertaken into the case and the observations made by the PAC on the conduct of this Officer in their 64th Report presented to the House on the 30th November, 1966.

[*Sl. No. 50 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.*]

### Action taken

There are two points covered by the aforesaid recommendations of the committee. The first pertains to the need for prompt and due notice on the recommendations of the committee. This observation is noted for future guidance. The second point pertains to investigation into the circumstances under which in spite of the proceedings before the PAC in September, 1966 and the report of the PAC dated 30th November, 1966,

orders permitting Officer Commanding COD, Malad on 16th December 1966 were issued and fixation of responsibility for the said lapse.

2. The circumstances under which, the Officer Commanding, Central Ordnance Depot, Malad, was allowed to retire prematurely are stated in paragraphs 1.156 and 1.157 of the Public Accounts Committee's 4th Report (4th Lok Sabha). In amplification, the position is as follows. :

3. It was pointed out to the Public Accounts Committee during the discussions in September 1966 that a lapse on the part of this Officer in accepting the THR tyres had just then come to the notice of Government and it was mentioned that the circumstances under which the said tyres were accepted were being investigated. A reference is invited in this connection to paragraph 4.6 of the Public Accounts Committee's 64th Report (3rd Lok Sabha). A note was accordingly sent by the Defence Secretary to the Master General of the Ordnance on the 2nd September 1966 requesting an inquiry into the matter. This case was accordingly being dealt with by Master General of the Ordnance Branch in Army Headquarters and the Officers concerned in the Ministry of Defence dealing with the MGO's Branch. Several notes were exchanged on this file in this connection and no final decision had been reached by the time the PAC's 64th Report (3rd Lok Sabha) was received in this Ministry (i.e. on 3rd December 1966).

4. The question of premature retirement of this officer was, however, revived by the Military Secretary's Branch on 7-10-1966 and processed by them with the officers concerned in the Defence Ministry dealing with that Branch. This file, however, did not contain any reference to the Defence Secretary's note dated 2nd September 1966 as the Military Secretary's Branch was not aware that the conduct of this officer was under investigation in another case. The proposal to prematurely retire this officer was approved by the Defence Minister on 1-12-1966 i.e. before the PAC's 64th Report (3rd Lok Sabha) presented to the Lok Sabha on 30-11-1966 was received in the Ministry on 3-12-1966.

5. There was thus a lack of coordination at the particular time when the case for premature retirement was received by the Military Secretary's Branch in October, 1966. To rectify this defect remedial action has already been taken as explained in the concluding portion of para 1.157 of the PAC's 4th Report (4th Lok Sabha). The defect was one of procedure, and it will be appreciated that no particular individual can be held responsible.

6. In accordance with the Army Act 1950, no trial by Court Martial of any person subject to this Act can commence after the expiration of three years from the date of such offence. In this particular case, the date of offence, if any, would be 12th April, 1963 i.e. the date on which he wrote a letter to the DGS&D. communicating his acceptance to THR tyres in lieu of Cross-Country tyres. Therefore, he could not be tried for this offence after 12th April, 1966. The fault of intimating acceptance of THR tyres against the indent for Cross-Country tyres came to the notice of the Defence Ministry for the first time on 1st September 1966 when the Chairman, Public Accounts Committee informed the Defence Secretary that he would like the latter to appear before the Committee on 5th September 1966 in the matter of Audit Report (Civil) 1966. As such even if this officer

had not been permitted to retire, action could not have been processed against him under the Army Act for any offence committed prior to September, 1963.

7. Even if the fact that the conduct of this officer was under inquiry in connection with the purchase of imported tyres had been brought on the file relating to his premature retirement before orders were passed, it is submitted that, in view of the gravity of the lapse on the part of the officer which was subsequently established, it would have been undesirable and against public interest to retain this officer any longer in service and the only action, apart from a prosecution, that could then have been imposed would have been either to withhold his pension in its entirety or reduce it. Such an action could be taken after retirement as well as before retirement. The said penalty has already been imposed by Government. Thus, the premature retirement did not result in the officer escaping punishment. The premature retirement of the officer has in no way affected the Government's ability to take action against him according to law.

8. The question whether this officer has assets disproportionate to his means is being inquired into through the Central Bureau of Investigation. Further, a case under Section 420 I.P.C. has also been registered by the Special Police Establishment against Messrs. Ramkrishan Kulwant Rai. If, as a result of the inquiries, any greater default on the part of this officer is disclosed, necessary further action could be taken. If an offence is disclosed under the Prevention of Corruption Act, the prosecution of the officer could also be considered.

9. It will thus be seen that there are three lines of action for any default. These can be used concurrently or alternatively. The first is action under the Army Act, the second is departmental action by way of stoppage or reduction of pension and the third is prosecution under the Prevention of Corruption Act. The first line of action was time-barred on 12th April 1966 and retirement has no bearing thereon. The other two lines of action again are not affected by retirement and are maintainable in the same degree after retirement as before retirement.

10. DADS has seen.

[Ministry of Defence Note No. 14(15)/67/D (O.I.), dt. 26/10/67].

#### SUPPLEMENTARY NOTE

SUBJECT : 4th Report (4th Lok Sabha) of the Public Accounts Committee.—Recommendations Nos. 2, 3, 34 and 50 of Appendix XI thereto.

With reference to paras 8 and 9 of the Defence Ministry's note No. 14 (15)/67/D(O.I.) dated 26th October, 1967 forwarded to the Lok Sabha Secretariat under the Ministry of Defence Office Memorandum No. 11(4)/66/D (Budget) dated 3rd November, 1967, in connection with the recommendations made by the Public Accounts Committee at Sl. Nos. 2, 3, 34 and 50 in appendix XI to their 4th Report (4th Lok Sabha), the position in regard to the following aspects is indicated in the subsequent paragraphs:—

- (i) The results of the investigations of the case against the OC, COD, Malad regarding his assets disproportionate to his means; and

- (ii) The progress of the investigations regarding the case registered against M/s. Ramkrishan Kulwant Rai with a view to consider whether any greater default is disclosed against Officer Commanding, COD, Malad.

2. *In regard to para 1(i) above*

The case of the OC, COD, Malad having assets disproportionate to his means has been examined by the Central Bureau of Investigation, who have stated in conclusion on 15th November 67 that "in view of the circumstances of the case, it is felt that no useful purpose will be served by registering a case and conducting an investigation against OC, COD, Malad at this stage." The Central Vigilance Commission on 5th April 1968 has agreed to treat the case as closed. The Defence Ministry on 20th May 1968 have accepted the advice of the Central Vigilance Commission.

*In regard to para 1(ii) above*

As regards the case registered by the Central Bureau of Investigation against M/s. Ramkrishan Kulwant Rai, the investigation report of the Bureau has not yet been received. As mentioned earlier on 26-10-1967 if the enquiries in progress by the Special Police Establishment against Messrs Ramkrishan Kulwant Rai disclose any greater default on the part of OC, COD, Malad than the defaults for which action has already been taken against him, further action would be considered against him.

4. DADS has seen.

[Ministry of Defence Note No. 14(12)/67/D(O.I.), dt. 23-8-1968].

MINISTRY OF WORKS, HOUSING AND SUPPLY  
(DEPARTMENT OF SUPPLY)

**Recommendation**

1.9. "The Committee regret to note that no reply was received from Government by the end of February, 1967 i.e. within three months of the date of the presentation of the 64th Report of the Public Accounts Committee (3rd Lok Sabha). The Committee are unable to appreciate why Government waited till April, 1967 to constitute an Inter-Departmental Committee to consider the various recommendations/observations made by the Public Accounts Committee in their 64th Report (Third Lok Sabha)."

[S. No. 1 of Appendix XI of 4th Report (Fourth Lok Sabha)].

1.10. "The Committee are also constrained to point out that Government did not take prompt notice of the recommendations of the Committee in as much as the Officer Commanding, Malad, against whom the Committee had passed strong strictures and recommended investigation, was allowed to retire prematurely from service on 16th December, 1966, i.e. two weeks after the presentation of the Report of the Committee on 30th November, 1966."

[S. No. 2 of Appendix XI of 4th Report (4th Lok Sabha)].



**Action taken**

A note showing action taken on the above recommendations has already been submitted to the Lok Sabha Secretariat by the Ministry of Defence under their No. 14(15)/67/D(O.I) dated 16-10-67 and 26-10-67.

**Recommendation**

1.11. "The Committee have dealt with this matter at greater length in paras 1.156 to 1.158 of this Report, but here they would like to emphasise that Government should take prompt and due notice of the recommendations made in their Reports so that any necessary investigation or enquiry or any remedial measures can be initiated without loss of time."

[S. No. 3 of Appendix XI of 4th Report (Fourth Lok Sabha)].

**Action taken**

This observation is noted for future guidance.

[Deptt. of Supply Note No. PI-13(17)/67. dated 26-4-1968].

**MINISTRY OF COMMERCE****Recommendation**

1.9. "The Committee regret to note that no reply was received from Government by the end of February, 1967, i.e. within three months of the date of the presentation of the 64th Report of the Public Accounts Committee (Third Lok Sabha). The Committee are unable to appreciate why Government waited till 18th April, 1967, to constitute an Inter-Departmental Committee to consider the various recommendations/observations made by the Public Accounts Committee in their 64th Report (Third Lok Sabha)."

[S. No. 1 of Appendix XI to the Fourth Report (Fourth Lok Sabha)].

**Action taken**

The Committee's observations have been noted.

[Ministry of Commerce Note No. 32(20)/66-ST. dated 10-7-68].

**Recommendation**

1.32. "The Committee do not accept the suggestion of the Inter-Departmental Committee 'that the linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not therefore justifiable.' They feel that if the requirements had been correctly assessed the gap between the demand and the supply would have been found to be far narrower. In fact, it would have been found that there was no justification for the Ministry of Commerce to direct the State Trading Corporation to import giant tyres, to the tune of 1,20,000 in 1961."

[S. No. 4 of Appendix XI to the Fourth Report (Fourth Lok Sabha)].

**Action taken**

In the Inter-Departmental Committee's note submitted to the Public Accounts Committee, it had been indicated that the Director General

Technical Development had made an assessment of the import requirements of tyres in 1960 taking into consideration the indigenous production and the imports through the normal trade channels. Even though the first decision to import 100,000 tyres was taken on an *ad hoc* basis, in view of the rampant black-marketing and in view of the numerous complaints received from various sources including some Chief Ministers of States, the subsequent assessment of the technical authorities confirmed the Ministry's *ad hoc* assessment of the import requirements. However, the Committee's observations have been noted and in this Ministry's evidence it had been indicated that in future, demand would be even more carefully estimated."

[*Min. of Commerce Note No. 32(20)/66-ST, dt. 10-7-68*].

#### **Recommendation]**

1.33. "It is not clear to the Committee why the State Trading Corporation were not asked to import tyres based on their own commercial judgment of the country's requirements. The Committee were given to understand in evidence by the representative of the Ministry of Commerce that the State Trading Corporation were allowed to import tyres in small lots of 4,750 or so. They find, however, that orders for the import of 40,000 tyres by M/s. Ramkrishan Kulwant Rai were allowed to be placed in February 1961, while orders for the import of another 15,500 tyres were allowed to be placed by M/s. GISSCO during March 1961. This does not indicate that orders for only a small lot of tyres were allowed to be placed each time and that the need for the import was also examined at each stage in detail by the Ministry."

[*S. No. 5 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

#### **[ Action taken ]**

The Committee's observations are being examined and a further report will follow.

[*Min. of Commerce Note No. 32(20)/66-ST, dt. 10-7-68*].

#### **Recommendation**

1.34. "It has already been mentioned by the Committee in their 64th Report (Para 1.30) that the State Trading Corporation in their letter dated 13th October, 1961, had told M/s. Ramkrishan Kulwant Rai "to defer further shipments till such time as the existing stocks are liquidated", as the firm already had large stock of tyres on hand, but Shri Kulwant Rai, "however, assured our Divisional Manager that you have no difficulty in the sale of tyres and that the licence may be released". It is regrettable that even at that stage timely action was not taken to stop further shipment of tyres."

[*S. No. 6 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

#### **Action taken**

The State Trading Corporation in the reply had indicated that the firm had entered into a firm commitment with the Hungarian suppliers for the import of 40,000 sets and for which they had also established a letter

of credit. The consignment was lying in Rijeka Port incurring heavy demurrage. In the circumstances, the S.T.C. had no other alternative but to permit the imports, at the same time pointing out that the responsibility for sale would be that of the firm (M/s. Ramkrishan Kulwant Rai).

[Min. of Commerce Note No. 32(20)/66-ST dt. 10-7-68].

#### Recommendation

1.63. "The Committee agree with the observations of the Inter Department Committee that 'the State Trading Corporation took no steps whatsoever to have the quality and the specifications checked up with reference to the contracts made by them even after the receipt of the Complaints from the importers themselves'."

[S. No. 12 of Appendix XI to the Fourth Report (Fourth Lok Sabha)].

#### Action taken

This Ministry has no comments on this as this has already been accepted.

[Min. of Commerce Note No. 32(20)/66-ST dt. 10-7-68].

#### Recommendation

1.64. "The Committee would like Government to fix responsibility for the failure to exercise any check on the imported tyres and to make sure that they were in accordance with the quality and specifications laid down in the agreement and for which money was being paid to a foreign party. They would also like Government to make sure that the firms have not obtained compensation from the foreign manufacturers on the ground of the lower quality of imported goods as compared with specification, without disclosing it to the State Trading Corporation. It seems that M/s. Ramkrishan Kulwant Rai had obtained compensation amounting to Rs. 6.19 lakhs from the foreign suppliers. In case they have obtained any such compensation, the Committee would like this aspect to be kept in view while framing claims for recovery against all the firms concerned."

[S. No. 13 of Appendix XI to the Fourth Report (Fourth Lok Sabha)].

#### Action taken

On receipt of P.A.C.'s recommendations, the S.T.C. had appointed an Inquiry Officer to fix responsibility *inter alia* for the failure to exercise a check on the imported tyres and to make sure that they were in accordance with the quality and specifications laid down in the agreement. However, this Ministry considers that it would be more appropriate to conduct this inquiry through the Central Vigilance Commission and the Commission has been approached for this purpose, and the P.A.C. will be informed of further developments.

The S.T.C.'s preliminary investigations reveal that M/s. Ramkrishan Kulwant Rai had obtained compensation amounting to Rs. 6.19 lakhs from their foreign suppliers. The inspection of the S.T.C. has revealed that GISSCO and Consolidated Equipment (India) Co. have also obtained compensation from their foreign suppliers to the extent of Rs. 6.17 lakhs and Rs. 21,000 respectively. The Committee's observation that if the firms

had obtained compensation, this aspect should be kept in view while framing claims against all the firms concerned, has been noted for necessary action.

[*Min. of Commerce Note No. 32(20)/66-ST dt. 10-7-68*].

### Recommendation

2.2. "In this re-examination of the case about the purchase of defective tyres, the Committee would like to high-light certain aspects of the case. In respect of the recommendations at Sl. Nos. 1, 2, 3, 4, 5, 11, 52(1), 52(4), and 52(5) regarding the assessment of requirements, the Ministry of Commerce have accepted the suggestion of Inter-Departmental Committee that" ".....Linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not, therefore, justifiable." The Committee regret they cannot accept the reply of the Ministry of Commerce and hold that, if the requirements had been correctly assessed, the gap between the demand and the supply would have been found to be far narrower. In fact, it may well have been found that there was no justification for the Ministry of Commerce to direct the S.T.C. to import giant tyres to the tune of 1,20,000 in 1961. The Committee, therefore, reiterate the observations made by them earlier in paras 1.28 to 1.31 and 5.1 of their 64th Report that the decision to import the tyres in such large numbers from 'rupee payment' countries was not taken after a thorough examination of all aspects of the problem."

[*S. No. 40 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

### Action taken

Covered under reply to S. No. 4.

[*Min. of Commerce Note No. 32(20)/66-ST dt. 10-7-68*].

### Recommendation

2.9. "The S.T.C., on its part, also failed to have the quality and specifications checked with reference to the contracts even after the receipt of complaints from the importers themselves. The Ministry of Commerce have asked the S.T.C. to fix the responsibility for failure to inform the prospective buyers about the specifications, pressure etc. of imported tyres in different sizes and plies. The Committee desire that suitable action should also be taken against the officer in the S.T.C. who failed to check the quality and specifications with reference to the contracts even after receipt of complaints regarding the defective quality of the tyres from the importers themselves."

[*S. No. 47 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

### Action taken

Covered under reply to S. No. 13.

[*Min. of Commerce Note No. 32(20)/66-ST dt. 10-7-68*].

## MINISTRY OF DEFENCE

### Recommendation

1.147. The Committee feel that, as pointed out by them earlier in para 4.20 of their Report, it is difficult to appreciate the distinction sought to be made for the requirements of the forward areas and other areas in so far as the use of imported tyres was concerned. They hope that Government will keep this aspect of the question in view while considering the purchase of goods for Defence purposes in future. The Committee note that approximately 4,000 imported tyres purchased by the Ministry of Defence were issued to the forward areas. They further note that, though the decision about making a distinction in the use of imported tyres between the forward areas and other areas was taken on 30th July 1962, it was not communicated until the 22nd July 1963, to the MGO's Branch. They are not able to appreciate the delay on the part of the Ministry of Defence in communicating these orders of the Minister of State for Defence Production. As regards the non-implementation of the orders by the Army Headquarters, the Committee note that, according to Government, there was "nothing to justify the questioning the bonafides of the mistake in not communicating the decision of the Ministry—Army Headquarters have, therefore, been requested that in future instructions issued by this Ministry should be followed by corresponding instructions to lower formations and in case there are any difficulties in implementing those decisions they should be brought to the notice of the Ministry immediately.

[S. No. 32 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68].

### Recommendation

2.11. Apart from the delay in communicating the orders dated 19th April, 1963 of the Defence Minister there was a failure in the Ministry of Defence to communicate promptly the decision taken at the meeting held in the room of the Minister of State for Defence on 30th July 1962, that it would not be advisable to procure tyres and tubes from the stocks available with the State Trading Corporation in so far as the requirements of the forward areas were concerned. This decision was communicated to the MGO's Branch on 22nd July 1963, i.e., after nearly a year. This delay of about a year needs looking into as it might also have been a contributory fact to the issue of some of these tyres to the forward areas.

[Sl. No. 49 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68].

### Action taken

The observation of the Committee that it is difficult to appreciate the distinction sought to be made for the requirements of forward areas and other areas in so far as the use of imported tyres was concerned has been noted. The further observation that Government should keep this aspect of the question in view while considering the purchase of goods for defence purpose in future has also been noted for future guidance.

2. The further point raised by the Committee in the preceding two recommendations pertains to the non-communication of the decision taken at the meeting held in the room of the Minister for Ministry of Defence

on 30th July 1962 until 22nd July 1963. The situation in question would not have arisen if the minutes of the meeting had been recorded and had been circulated. The Public Accounts Committee has already had occasion to comment on this aspect of the matter. The Committee has urged that the Ministry should invariably keep the written minutes of important meetings where decisions are taken. Accordingly, instructions have been issued on 19th January 1967 impressing upon all officers of the Ministry of Defence to ensure that written minutes of important meetings where decisions are taken are invariably kept. Had the minutes of the meeting of 30th July 1962 been drawn up and circulated, the situation in question would not have arisen.

3. As has already been brought to the notice of the Committee, the Defence Minister took a view on 19th April 1963 that as the tyres are not of the quality and are not likely to be used in the forward areas, they should not be purchased for defence purposes. It was primarily these orders which were sought to be communicated to the Army HQ in the Government letter of 22nd July 1963. While communicating these orders of the Defence Minister of 19th April 1963 that the imported tyres should not be purchased for defence purposes, it was stated that it had been decided that it would not be correct to use these tyres in the forward areas as their quality is not up to the mark. The Army HQ have pointed out that the non-issue of the minutes of the meeting of 30th July 1962 confirmed the impression of the MGO that the said meeting was purely an informal one. It will, therefore, be seen that the non-communication of the decision of 30th July 1962 arises principally from the non-issue of the minutes to all who were present and this defect has already been rectified by instructions to be followed hereafter.

DADS has seen.

[*Min. of Defence Note No. F. 14(16)/67/D. (O.I.) dt. 19-9-67*].

#### **Recommendation**

1.151. In view of the action taken by Government the Committee do not desire to pursue the matter further. They cannot, however, too strongly emphasise that administrative procedures and machinery should be fully geared to convey, without delay, specific orders of the Ministers to all concerned for faithful implementation.

[*Sl. No. 33 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha) 1967-68.*]

#### **Action taken**

The observations of the Public Accounts Committee have been noted.

DADS has seen.

[*Min. of Defence Note No. 14(17)/67/D (O.I.) dt. 19-9-67*].

#### **MINISTRY OF COMMERCE**

#### **Recommendation**

2.1. "In their 64th Report, the Public Accounts Committee had made 55 recommendations/observations. The Ministries of Commerce, Works,

Housing and Supply (Department of Supply) and Defence have accepted 48 of the recommendations.”

[*Sl. No. 39 of Appendix XI to the Fourth Report (Fourth Lok Sabha.)*]

#### **Action taken**

The Ministry of Commerce is concerned with the observations/recommendations of the following S. Nos. in the 64th Report of the Public Accounts Committee (1966-67).

S. Nos. 1 to 26, 28, 29, 32, to 35, 37 to 40, 48, 49, 52 to 55.

The inter-Departmental Committee had submitted a report on the various recommendations/observations contained in the 64th Report of the 3rd Lok Sabha. It is observed that the observations/recommendations against the following Serial Numbers with which the Ministry of Commerce is concerned, have not been specifically mentioned in the 64th Report :

S. Nos. 34, 37, 53, 54 and 55.

The following replies are furnished in respect of these Serial Numbers :

[*S. No. 34 (para 3.63) of Appendix XIV to the Sixty-Fourth Report (Third Lok Sabha)*].

“The Committee fail to understand why in the case of the Complaint dated 4th May, 1965 from PEPSU Road Transport Corporation no action was taken. The Committee would like to await the result of investigation proposed to be made by the Panel.”

#### **Action taken**

The matter is being investigated and the Committee will be informed of the results.

[*S. No. 37 (para 3.69) of Appendix XIV to the Sixty-Fourth Report (Third Lok Sabha)*].

“It, however, appears to the Committee that all the defective tyres might not have been reported to the authorities concerned as the public were not perhaps aware of the procedure in this case.”

#### **Action taken**

The Committee's observations have been noted.

[*S. No. 53 (para 5.2) of Appendix XIV to the Sixty-Fourth Report (Third Lok Sabha)*].

“The Committee also regret to note that attitude disclosed by the STC in their note submitted to the Committee wherein they have stated that on the entire tyre transaction the STC earned profit without investing a single rupee. The Committee are not impressed with the fact that a huge profit was made by the STC as they feel that under the circumstances, scarcity conditions and the power and the patronage that STC enjoys, it was not difficult to earn such profits.

The earning of huge profit by STC under these circumstances is but a poor compensation for the damage which this transaction has caused.”

**Action taken**

The Committee's observations have been noted and communicated to the STC.

[S. No. 54 (para 5.4) of Appendix XIV to the Sixty-Fourth Report (Third Lok Sabha)].

"The Committee desire that responsibilities should be fixed for various lapses revealed in this case on the part of STC, office of D.G.S. & D., Ministry of Defence etc."

**Action taken**

The lapses on the part of the S.T.C. are being investigated and the results will be communicated to the Committee.

[S. No. 55 (para 5.4) of the Appendix XIV to the Sixty-Fourth Report (Third Lok Sabha)].

The Committee desire that Government should take immediate steps to assess the losses suffered by the various users viz. Defence, Transport Undertakings, etc. due to the purchase of these defective tyres and to secure adequate compensation from the firms by S.T.C.

**Action taken**

The Committee's recommendation has been accepted *vide* recommendation No. 13 in para 63, Chapter VI of the inter-Departmental Committee's Report. S.T.C. has received claims from some users and these are, at present, under examination by the Corporation.

[Min. of Commerce Note No. 32(20)/66-ST. dt. 10-7-68].

## MINISTRY OF DEFENCE

**Recommendation**

2.1. "In their 64th Report, the Public Accounts Committee had made 55 recommendations/observations. The Ministries of Commerce, Works, Housing and Supply (Department of Supply) and Defence have accepted 48 of the recommendations.

[Sl. No. 39 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.]

**Action taken**

Of 55 recommendations/observations made by the PAC in the 64th Report, the Ministry of Defence were concerned with recommendations/observations at Sl. Nos. 32, 41, 42, 43, 45, 50, 51, 52(12) and 54. All these recommendations were accepted by the Ministry of Defence.

DADS has seen.

[Ministry of Defence Note No. 14(21)/67/D/(O. I. dt. 30-9-67)].



## DEPARTMENT OF SUPPLY

**Recommendation**

2.1. "In their 64th Report, the Public Accounts Committee had made 55 recommendations/observations. The Ministries of Commerce, Works, Housing and Supply (Department of Supply) and Defence have accepted 48 of the recommendations."

[S. No. 39 Appendix XI of 4th Report (Fourth Lok Sabha)].

**Action taken**

Noted. The seven remaining recommendations regarding assessment of requirements pertain to the Ministry of Commerce as brought out in para 2.2 of 4th Report (Fourth Lok Sabha) of the Public Accounts Committee.

[Department of Supply Note No. PI-13(17)/67, dt. 26-4-1968].

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Government to form a judgment on the requirements of the country taking into account the technical advice of the Development Wing and the information available on indigenous production, imports and other such relevant factors.

As has been indicated in reply to S. No. 11, the S.T.C. has already been informed that when situations arise in future which, according to their business judgment, justify a review of a decision conveyed to them by Government, the specific points should be brought to the notice of the Government so that they could review the position, if necessary. (This reply covers S. No. 5 also).

[*Ministry of Commerce Note No. 32(20)/66-ST, dt. 10-7-1968*].

#### **Recommendation**

2.4. "The Committee are unable to appreciate how the S.T.C. though aware that the specifications of the tyres from East European countries were 12 to 15 per cent short of Indian specifications considered themselves justified in placing orders for their purchase from these countries in such large numbers and why they should not have asked for a review, in the light of these shortcomings, of Government's fiat for the import of these tyres from these countries so that the possibility of making these imports in the national interest from other parts of the world could also be considered."

[*S. No. 42 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

#### **Action taken**

Covered under the reply to the observation in S. No. 11.

[*Ministry of Commerce Note No. 32(20)/66-ST, dt. 10-7-68*].

#### **Recommendation**

2.7. "The Committee find that the S.T.C. also failed to communicate to the prospective buyers that the imported tyres were 12% to 15% below the indigenous specifications."

[*S. No. 45 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

#### **Action taken**

Covered under reply to S. No. 11.

[*Ministry of Commerce Note No. 32(20)/66-ST, dt. 10-7-68*].

#### **Recommendation**

1.94. "In the absence of the production of the original invoice of the foreign suppliers by the firm, the Committee feel that correctness of the agency commission received from the foreign suppliers cannot be verified. The Committee desire that the original invoices of the foreign suppliers should be obtained from the firm and checked with a view to find out the correct amount of commission received by the firm M/s. Ramkrishan Kulwant Rai from the foreign suppliers. Such a check is all the more necessary as according to the contract, the landed cost was to be determined

on the basis of the net c.i.f. price, i.e. c.i.f. price after excluding agency commission, if any, paid to the firm by the foreign suppliers."

[S. No. 21 of Appendix XI to the Fourth Report (Fourth Lok Sabha)].

#### **Action taken**

The Committee is aware that the Central Bureau of Investigation is investigating into a complaint against M/s. Ramkrishan Kulwant Rai that they had allegedly cheated the D. G. S. & D. in respect of their tyre dealt with that organisation. The documents have been seized by them. However, on receipt of the Committee's recommendation, the S.T.C. had approached the C.B.I. to make available to them the records so that they could ascertain whether the original invoices were available. They have been able to trace only one original invoice from the records. There is no evidence in this invoice of any commission having been obtained by the Indian firm. The Corporation had also taken up the matter with the suppliers in Hungary directly and through the Corporation's representative in Budapest. From both these sources they have understood that the records are not available as it is the practice of the Hungarian supplier to destroy all papers after 5 years.

[Ministry of Commerce O.M. No. 32(20)/66-ST, dated 12-1-1968].

#### **Further information called for by the Committee**

Please state when the State Trading Corporation/Government first addressed the Hungarian suppliers for furnishing copies of original invoices for import of tyres by the Indian firms.

Please furnish copies of correspondence exchanged with the Hungarian suppliers.

[LSS D. O. No. 2(1)/29/67/PAC. dated 7-8-1968]

#### **Reply of Government**

The files relating to the import of tyres by M/s. Ramkrishan Kulwantrai are with the C.B.I. These files are being examined and a further reply will be sent to the Committee shortly.

[Ministry of Commerce O.M. No. 32(20)/66-ST. dated 14-8-1968]

#### **DEPARTMENT OF SUPPLY**

#### **Recommendation**

1.130. "The committee hope that the instructions issued by the Director, General, Supplies and Disposals, on 7th January, 1967, will be strictly observed and that cases of this type will not recur."

[S. No. 29, Appendix XI of 4th Report of the P.A.C. (Fourth Lok Sabha)].

#### **Action taken**

As a further remedial measure, the instructions have been re-circulated on 7-9-67 and it is hoped that cases of this type will not recur.

[Deptt. of Supply Note No. 13(17)/67-P.I. dated 20-1-68].

## MINISTRY OF DEFENCE

**Recommendation**

1.139. The Committee find that it was primarily on the request of the firm, M/s. Ramkrishan Kulwant Rai, that the D.G.S. & D. sharply raised the ceiling for placing orders from Rs. 2 lakhs to Rs. 10 lakhs against rate contract on 12th March, 1963. In the absence of any request for this from the Ministry of Defence, the Committee feel that the raising of the monetary limit was calculated to favour the firm rather than defence indentors. Another disquieting aspect of the case is that the revised ceiling of Rs. 10 lakhs was allowed to remain operative even after 31st March, 1963.

[*Sl. No. 31 of Appendix XI of Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.*]

**Action taken**

The observations made by the Public Accounts Committee have been shown both against the Department of Supply and the Defence Ministry. So far as the Defence Ministry is concerned, the observations have been noted. The Department of Supply will undoubtedly deal with the observations so far as they are concerned.

DADS has seen.

[*Ministry of Defence Note No. 14(14)/67/D (O.I.) dt. 19-9-67.*]

## DEPARTMENT OF SUPPLY

**Recommendation**

1.139. "The Committee find that it was primarily on the request of the firm, M/s. Ram Krishan Kulwant Rai, that the D.G.S. & D. sharply raised the ceiling for placing orders from Rs. 2 lakhs to Rs. 10 lakhs against rate contract on 12th March, 1963. In the absence of any request for this from the Ministry of Defence, the Committee feel that the raising of the monetary limit was calculated to favour the firm rather than defence indentors. Another disquieting aspect of the case is that the revised ceiling of Rs. 10 lakhs was allowed to remain operative even after 31st March, 1963."

[*S. No. 31 of 4th Report (4th Lok Sabha)*].

**Action taken**

"With a view to examining this recommendation in its proper perspective, the then DG has been asked to explain the position. He has asked for certain further information. P.A.C. will be informed of the position after explanation of the then DG has been received and examined in this Department."

[*Department of Supply Note No. PI-13(17)/67, dt. 26th April, 1968.*]

"As stated earlier under the above recommendation in this Department's action taken note forwarded to the Lok Sabha Sectt. with this Department's O. M. No. 13(17)/67-PI, dated the 29th April, 1968, this

recommendation was referred to the then Director General of Supplies and Disposals. The then DG has given his comments as follows :—

On 8-3-1963 M/s. Ram Krishan Kulwant Rai represented that the Defence indentors were finding difficulty in placing orders with them under the existing monetary limit of Rs. 2 lakhs. As Defence demands were larger, the firm requested that the monetary limit might be raised to Rs. 10 lakhs. On this I had recorded, "We need not raise the limit. Defence can send their indent to us." Thereafter the following note has been recorded by Director, "Received on 12-3-1963. Director General (S. & D.) has directed on phone that he has reconsidered his orders of 8-3-1963 above and has agreed to the monetary limit in the Rate Contract being raised to Rs. 10 lakhs as Defence have to place a supply order for about 3,000 tyres against the Rate Contract by the 15th March, 1963, in order to utilise the funds during the current financial year."

The amendment to the Rate Contract was issued on 12th March, 1963, after approval by the Deputy Director General and Finance. In pursuance of the amendment C.O.D. Kandivilli placed an order for 2,850 tyres on the firm on 15th March, 1963. The Ministry had stated before the Public Accounts Committee that there was no evidence on the file that the Defence indentors asked for the enhancement of the limit. I may point out that the D.G.S. & D. do not always get written requests from indentors. Apparently, one of them had brought it to my notice that the Defence indentors had to place an order for about 3,000 tyres, and this is supported by the fact that one Defence indentor did place an order for 2,850 tyres on the 15th March, 1963 soon after the amendment was issued. I might at this stage mention that there was a single rate contract applicable to two firms M/s. Ram Krishan Kulwant Rai and M/s. GISSCO and the increased monetary limit applied to both the firms and not only to the former who had asked for the increase. Thus there is no basis for the observation of the Committee that it was primarily at the instance of the firm that the Directorate General of Supplies and Disposals sharply raised the ceiling for placing orders from Rs. 2 lakhs to Rs. 10 lakhs."

This department has no reason to differ from the views expressed above."

[Dept. of Supply Note No. PI-13(17)/67 dated 26-7-1968].

#### **Further information called for by the Committee**

"The Department of Supply may be asked to state the reason why the revised ceiling of Rs. 10 lakhs was allowed to remain operative even after 31st March, 1963 and the action taken to fix responsibility for this lapse."

(Lok Sabha Sectt. D.O. No. 2/1/29/67/P.A.C., dated the 7th August, 1968).

#### **Reply of Government**

The monetary limit had been increased by the D.G.S. & D. in pursuance of D.G.'S direction as recorded by Director (Veh.) in his note of 12-3-1963 with a view to enable the Defence D.D.O.S to place the Supply

the Government in all cases of bulk imports. S.T.C. takes adequate care to see that its imports are generally at internationally competitive prices. Clearance from the Ministry of Finance (Department of Economic Affairs) is called for at the time of release of foreign exchange.

It will thus appear that under the normal import policies which have been in existence for a long time no import can take place except with the adequate safeguards and checks laid down as the necessary procedure for imports, applicable as much to S.T.C. as to any other importer.

This policy and procedure is applicable equally well in respect of imports from the rupee payment area. There is an additional safeguard built into the system of imports from the rupee area in that the commodities to be imported from any East European country, with each of which trade is carried on, on the basis of a balanced bilateralism through the medium of rupees, are generally predetermined at the commencement of each calendar year on an appraisal of the necessity of the import. The possibility of non-essential imports is eliminated because the items projected for import during a particular year are determined on the basis of essentiality as recommended by the administrative Ministries and authorities concerned. The second, and the more important, justification for import from the rupee area is that the payment for the import is made not by the use of convertible currency but by the export, in a planned manner, of commodities. Such a scheme, therefore, takes care of the essentiality of the import and prevents at the same time an erosion of the country's free foreign exchange resources.

[*Ministry of Commerce O.M. No. 32/20/66-ST. dated 14-8-1968*].

#### **Recommendation**

2.6. "The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the STC from 'rupee payment' countries or elsewhere are really necessary and that they are competitive both in regard to price and quality."

[*S. No. 44 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

#### **Action taken**

Dealt with under Serial Number 7.

[*Ministry of Commerce Note No. 32(20)/66-ST, dated 10-7-1968*].

#### **Recommendation**

1.36. "As assured by the Secretary, Ministry of Commerce, in evidence, the Committee hope that the Ministry will be more careful while assessing the requirements of different commodities, their indigenous production and the need for import in future."

1.37. "The Committee feel that the demand was grossly over-estimated with the result that a large number of tyres were imported which were not required and that this was apart from their defective quality, one of the reasons for the subsequent difficulty in the disposal of the tyres."

[*S. Nos. 8 and 9 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

**Action taken**

As has been indicated in the remarks of this Ministry against S. No. 4, the Committee's observations have been noted for guidance.

[*Ministry of Commerce Note No. 32 (20)/66-ST. dt. 10-7-1968*].

**Recommendation**

1.69. "The Committee cannot appreciate why the State Trading Corporation a public undertaking, knowing fully well the lower specifications of the imported tyres and their consequences to users chose to maintain complete silence about even vital factors as maximum load carrying capacity and pressure of the imported tyres, which had a vital bearing on safety."

1.71. "The State Trading Corporation's attitude to the user seems unfortunately to be based on the Roman Legal Maxim "caveat emptor". ('let the buyer beware')."

1.72. "The Committee would like to be informed of the result of action initiated by the Ministry of Commerce for fixing responsibility on the officials responsible for this serious lapse."

[*S. Nos. 14, 16 & 17 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

**Action taken**

On receipt of the Committee's recommendation, the State Trading Corporation had appointed an officer to fix the responsibility for the lapses indicated by the P.A.C. However, this Ministry considers it would be more appropriate to conduct this inquiry through the Central Vigilance Commission and the Commission has been approached for this purpose and the PAC will be informed of further developments.

[*Ministry of Commerce Note No. 32(20)/66-ST. dt. 10-7-1968*].

**Recommendation**

2.8. "The Committee deprecate in particular the attitude of the S.T.C. in not communicating vital information regarding specifications, quality and performance of the imported tyres to the D.G.S. & D. specially when it was known that these tyres were being procured for the use of the Defence Force."

[*S. No. 46 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

**Action taken**

Covered under replies to S. Nos. 14, 15, 16 and 17.

[*Ministry of Commerce Note No. 32(20)/66-ST dt. 10-7-1968*].

**Further information called for by the Committee**

Please intimate the date on which they made the reference to the Central Vigilance Commission to investigate the conduct of officials of the S.T.C. The specific points required to be covered in the investigation may also be intimated. Please also indicate the progress made in the in-

**Action taken**

This recommendation primarily concerns the Ministry of Commerce which is the Ministry administratively concerned with the State Trading Corporation.

[*Department of Supply Note No. P.I.-13(17)/67, dt. 26-4-1968*].

**MINISTRY OF COMMERCE****Recommendation**

1.88. "The Committee cannot help concluding that had advised of the Solicitor General/Additional Solicitor General been taken in 1961, as suggested by the Deputy Divisional Manager (Law) of State Trading Corporation, the uncertainty about the legal and financial responsibility of the State Trading Corporation would have been dispelled. It would also have made the State Trading Corporation realise that it had no particular obligation repeatedly to approach Governmental purchasing organisations to facilities the disposal of imported tyres which were known to be below specifications. The Committee feel that even now the Ministry of Commerce should obtain the legal advice of the Solicitor General/the Additional Solicitor General about the legal and financial responsibilities of the S.T.C. *vis-a-vis* the private firms to set all doubts at rest."

[*S. No. 20 of Appendix XI to the Fourth Report (Fourth Lok Sabha)*].

**Action taken**

The State Trading Corporation has consulted the Solicitor General and it is informed that the Solicitor General will not give advice to the Corporation in his official capacity. He would only be willing to tender legal advice in his private capacity as a lawyer on payment of the usual fees. The Corporation had already obtained the opinion of Shri A. K. San, ex-law Minister on relationship between S.T.C. and the distributors importing firms. However, in view of the Committee's recommendation, an official reference is being made by this Ministry to the Solicitor General and the P.A.C. will be informed of the final out come in this matter.

[*Ministry of Commerce Note No. 32 (20)/66-ST dt. 12-1-1968*]

**Further information called for by the Committee**

- (a) Please furnish a copy of the reference made to the Solicitor General to determine the legal and financial responsibility of the S.T.C. *vis-a-vis* the private importing firms so as to set all doubts at rest.
- (b) Please state the reasons for the inordinate delay in making the reference to the Solicitor General.
- (c) Please furnish the advice given by the Solicitor General in the matter and the action taken in pursuance thereof.

[*L. S.S D.O. No. 2(1)/29/67/PAC., dated 7-8-1968*]



### Reply of Government

In pursuance of the undertaking given by the Ministry that an official reference will be made by this Ministry to the Solicitor General, a Memorandum was addressed to the Ministry of Law on the 31st January, 1968. That Ministry wanted certain additional information on 17-2-1968 which were furnished to them by S.T.C. on 22-2-1968. The Ministry of Law prepared a memorandum for consideration of the Solicitor General and this was sent to the S.T.C. for its comments on 12-4-1968. It was returned, to the Ministry of Law after vetting on the 15th May, 1968. The matter is still under consideration with the Ministry of Law/Solicitor General. A copy of the statement\* of case prepared by the Law Ministry is enclosed.

*Ministry of Commerce O. M. No. 32/20/66 ST, dt. 14-8-1968]*

#### Further information called for by the Committee

The Ministry of Law have stated that the opinion of the Solicitor General of India on the various points mentioned in para 16 of their Memorandum dated the 28th March, 1968, will be passed on to the Ministry of Commerce as soon as it is received and that a final reply duly vetted by Audit will be furnished to the Lok Sabha Secretariat direct by the Ministry of Commerce.

Ministry of Commerce is requested to furnish a copy of the opinion expressed by the Solicitor General of India on the subject mentioned above.

*[L. S. S. D. O. No. 2(1)/29/67 PAC, dated 30-11-1969]*

### Reply of Government

A copy\* of the opinion expressed by the Solicitor General of India, received a few days back is enclosed. This is now under examination of the State Trading Corporation and this Ministry.

*[Ministry of Commerce O.M. No. 32(20)/66-ST. dt. 9-12-1968].*

### Recommendation

1-100. "The Committee entirely agree with the views of the Secretary of the Ministry of Commerce that "for a public sector undertaking like the State Trading Corporation the responsibility to the user should have weighed with them a little more than the responsibility of the Associate." The Committee feel that the State Trading Corporation and the Ministry should take necessary action to bring to the notice of all the bulk purchasers, specially those whom they had approached earlier to purchase the imported tyres, the procedure for claiming compensation for defective tyres so that they may file their claims."

1-101. "The Committee would also like to draw attention to the specific provision made in the agreement with M/s. Ramkrishan Kulwant Rai to the effect that "the failed tyres will be examined by a panel..... and that the decision of the panel will be binding " and that "they shall give adequate compensation to the party concerned as per the decision of the panel."

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\*Not appended

Two firms viz., M/s. Ram Krishan Kulwant Rai and M/s. General Industrial Stores Supply Co. have re-exported to their suppliers 13,000 numbers and 7,300 nos. of tyres. A statement indicating the number of tyres re-exported to Poland and Hungary, together with the import and re-export c.i.f. prices, is enclosed as Annexure I.

*Claims for compensation for defective tyres received so far from Central Government Departments, etc.*

It is submitted for the Committee's information that STC had issued release orders in favour of Government Departments, Transport Undertakings, etc. only upto 1st April, 1961. After that date, the importing firms were authorised to sell tyres without release orders from the Corporation but at the prices fixed by it from time to time. With effect from the 7th February, 1962, STC had further authorised them to sell tyres at any price and to any user. Tyres supplied to the Government Departments and Defence authorities through the DGS & D under the rate contracts and acceptance tenders are reported to have been sold after the 7th February 1962. The Corporation has, therefore, no record of such transactions. It has only taken into consideration the information supplied by DGS & D. However, the position in regard to the claims for compensation as far as is known to the Corporation is indicated below :

*M/s. Ram Krishan Kulwant Rai*

As has already been intimated to the Committee, this firm has not agreed to pay any compensation for the defective tyres on the plea that these claims are time barred. This Ministry has however, indicated to the Committee that the legal liability of the firm is at present, under examination of the Ministry of Law/Solicitor General. Further action will be taken on the receipt of their advice.

The position as reported to the Corporation on information of defective tyres furnished by D.G.S. & D. is indicated in Annexure II.

*M/s. General Industrial Stores Supply Co.*

STC do not have information regarding the compensation claims for defective tyres and amounts paid prior to 7th February, 1962. Regarding supplies made through DGS & D after 7th February, 1962, a statement received from DGS & D indicating the compensation claims received and the amount of compensation paid is attached as Annexure III. D.G.S. & D. has informed the Corporation that at a meeting held with the firm on 21st March, 1968, M/s. GISSCO has agreed to pay compensation at the rate of 30% for the prematurely failed tyres. They had also agreed to reimburse the full cost of any unused tyres, tubes and flaps provided they were returned to the firm on freight paid basis. The information required by the Committee regarding compensation claims and settlement is being collected and will be furnished in due course.

*M/s. Khemka & Co.*

STC has asked this firm to supply information regarding numbers of tyres reported defective out of the supplies made by them.

This firm had supplied tyres to D. G. Border Roads and C.O.D. Malad through the DGS & D under rate contracts /A. Ts. In case of C.O.D. Malad, the D.G.S. & D has informed that the question of obtaining compensation has been considered and the matter has been dropped as sufficient.

grounds did not exist for action against the firm. M/s. Khemka & Co have agreed to pay 25% on ad hoc basis of the total amount of Rs. 36,735 for the defective tyres supplied to D. G. Border Roads. The Corporation has referred this matter again to the Director General and his advice is awaited. Further progress in this case will be reported in due course.

*M/s. Consolidated Equipment Co.*

Against a compensation of Rs. 21000 received from their suppliers, this firm had paid Rs. 9890/- as compensation for the defective tyres. According to the records of the STC, no compensation claim is pending in respect of this firm. This firm are also reported to have supplied no tyres to Government Departments through the D.G.S. & D. However, full information as asked by the Committee is being collected from the firm and will be furnished in due course.

[Ministry of Commerce O. M. No. 32/20/66-ST, dated 21-9-68].

**ANNEXURE III**

*Statement Indicating Position of Defective Tyres A/C/M/S General Industrial Stores Supplying Co. Calcutta Reported by Government Dep'ts. Through D. G. S. & D.*

Sl. No.	Name of the Indentor	No. of tyres purchased	Value if the tyres in Rs.	No. of tyres reported defective	Value of the tyres in Rs.	Remarks
1.	The Controller of Stores and Purchase, Gujarat Electricity Board, Baroda .. .. .	70	23,342	70	23,342	Originally 8 tyres were reported defective on 19-7-66 and necessary compensation has been awarded. Rest 62 tyres were not produced before the Panel.
2.	The Controller of Purchase and Stores, Damodar Valley Corpn. Calcutta. .. .. .	40	..	8	2,792	
3.	The Asstt. Engineer (Stores) S. E. Railway, Gharrugude ..	21	..	10 tubes only	200	Payment has been made
4.	The Supdt. Engineer, General Construction Circles, Tiruchirappalli. .. .. .	58	19,960	15	5,250	Compensation for 15 tyres has been paid.
5.	The Supdt. Engineer, Tiruchy. .. .. .	25	9,500	6	2,280	
		<u>214</u>		<u>99</u>		
<b>DEFENCE</b>						
6.	D.G.O.F. .. .. .	2,765	..	49	18,620	As a result of STC intervention the firm has agreed to pay three fourth cost of 49 tyres which would work out to Rs. 13,965/- against D.G.O.F. claim of Rs. 18,620/-.

### Recommendation

The Committee fail to understand why in the case of the Complaint dated the 4th May, 1965 from PEPSU Road Transport Corporation no action was taken. The Committee would like to await the result of investigation proposed to be made by the Panel.

[S. No. 34 para 3.63 of Appendix XIV to the Sixty Fourth Report (Third Lok Sabha.)]

### Reply of Government

The matter is being investigated and the Committee will be informed of the results.

Ministry of Commerce O.M. No. 32(20)/66-ST, dated 10-2-1968.

### Further information called for by the Committee

The Ministry of Commerce may please intimate the result of the investigation made by panel into the complaint by PEPSU Road Transport Corporation and the action taken in pursuance thereof. Please also state the reasons for the inordinate delay.

[LSS D.O. No. 2(1)/29/67/PAC, dated 7-8-1968].

### Reply of Government

M/s. Ramkrishan Kulwantra had supplied 36 tyres direct to the PEPSU Road Transport Corporation of which 24 were reported in September 1966 to be defective. As has already been indicated to the Public Accounts Committee, the legal position in regard to the repudiation of liability by the firm is at present under examination of the Ministry of Law and Solicitor General. Further action will be taken on receipt of Solicitor Generals' advice.

Ministry of Commerce O.M. No. 32(20)/66-ST, dated 14-8-1968.

## DEPARTMENT OF SUPPLY

### Recommendation

2-14. "The Committee reiterate their observation contained in para 5-4 of their 64th Report that Government should take immediate steps to assess the losses suffered by the various users, viz., Defence, Transport Undertakings, etc., due to the purchase of these defective tyres and to secure adequate compensation from the firm/STC."

[SI. No. 52 Appendix XI, 4th Report (4th Lok Sabha)].

### Action taken

"All the reports received from the Indentors against the defective tyres have been reported to the S.T.C. for consideration of adequate compensation against each case. The progress in this respect and the amount of compensation paid to the indentor by the firm through the S.T.C. is still awaited."

(Ministry of W. H. & S. O.M. No. 13(17)/67-P1, dated 18/20-1-1968).

### Further information called for by the Committee

“Please furnish precise details of compensation claim, name of Government user, name of supplier, amount claimed, date of claim and the progress made in settlement of the claim.”

(Lok Sabha Sectt. D. O. No. 2(1)/29/67/PAC, dated 7-8-1968.)

### Reply of Government

Details of compensation claims are shown in the statements attached to D.G.S. & D. letter No. DSCA/PAC/SV-8/67 dated 19-7-67 addressed to S.T.C. (copy enclosed). Further progress in the settlement of claims is as follows :—

#### *M/s. General Industrial Stores Supplying Co. :*

Discussions were held in the D.G.S. & D. with the firm on 21-3-68. The firm agreed to pay compensation @ 30% for all defective tyres and refund the full value of unused Tyres, Tubes and Flaps. The Pay and Accounts Officer, Ministry of W.H. & S., New Delhi was instructed to make deductions worth Rs. 14,831.30 from the pending bills of the firm in satisfaction of indentors' claims, as per DGS & D's letters dated 29-4-1968 and 10-7-1968, copies attached.

#### *M/s. Ram Krishan Kulwant Rai :*

The State Trading Corporation informed DGS & D on 19-12-1967 that the firm had not agreed to the Panel meetings. The firm contended further that the claims of S.T.C. were time barred.

The S.T.C. have sought the advice of the Solicitor General, which is still awaited.

In addition to claim for premature failure of various tyres as per statement, the DGS & D issues a demand notice on the firm for payment of Rs. 3,71,952/- as compensation for sub-standard supply of 5904 Tyres against the *ad-hoc* A/T No. SV-3/81080-P/V/344, dated 12-6-1963. The firm's reply refuting the claim is under consideration.

#### *M/s. Khemka & Co :*

- (i) *Ad hoc A/T for 750 Sets required by DGBR (A/T No. SV-3/30237-N/V/6925, dated 1-11-1962.)*

The S.T.C. reported on 17-1-1968 that the firm have agreed to the inspection of failed Tyres by the Panel. The DGBR was advised by DGS & D on 29-1-68 to despatch the failed Tyres to the firm's godown on 'freight paid basis'. The DGBR approached the S.T.C. on 20-2-68 to intimate consignee instructions for arranging the despatch of the unserviceable tyres. Further developments are awaited. S.T.C. was last reminded on 21-6-68.

- (ii) *Ad-hoc A/T No. STV-3/25697-N/II/6814, dated 25.8.1962 for 310 Sets of Russian Tyres.*

The tyres did not fit some particulars vehicles. The Law Ministry have opined that in the absence of any manufacturing defect, the Tyres did not fit some particular vehicles, no valid claim can be made against the firm at this stage and the matter has been treated as closed.

(iii) *Claim of I.T.I. Bangalore :*

As the order in question was placed before the issue of Rate Contract, the indenter was advised on 3/5-6-1967 to settle the matter direct with the S.T.C.

[Deptt. of Supply note No. 13(17)/67, PI dated 17-8-1968]

NO. DSCA/PAC/SV-8/67

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS**

SV-8 Section, Parliament Street,

NEW DELHI, dated the 19th July, 1967.

To

The Divisional Manager,  
State Trading Corporation of India Ltd.,  
'Express Building'  
9 & 10 Bahadur Shah Zafar Marg,  
(Mathura Road), **NEW DELHI.**

**SUBJECT: Purchase of defective Tyres—Compensation.**

Sir,

We thankfully acknowledge receipt of your letter No. STC/Eng. Vol. VII/Sub Vol. II, dated 6th June, 1967 and No. STC/Eng. Vol. VII/Sub Vol./II, dated 7th June, 1967.

We wish to point out that while writing your letter you have not taken into consideration the defective lot of 310 Tyres reported by us on 30-5-1967 and 50 sets reported by us on 3/5-6-1967. Both these lots were supplied by M/s. Khemka & Co.

As per information forwarded to us *vide* your letter dated June 6, 1967 the indentors have been informed accordingly. The copies of all such letters were forwarded to the S.T.C.

We are enclosing herewith one comprehensive statement of defective tyres reported to us by various indentors till this date for purposes of compensation claims. Your attention is invited to the recommendation of Inter-Departmental Committee dated 3-7-1967, as contained in para 5.9 which is reproduced below:-

“The State Trading Corporation should immediately arrange for a meeting with the DGS&D, Defence Production Department and the firms concerned, after getting all relevant details from the authorities concerned, with a view to settle the compensation claims for tyres which have failed prematurely.”

In view of above you are requested to act at your earliest.

Yours faithfully,

Sd/-

*Director of Supplies*

*for Director General of Supplies and Disposals.*

M/s. General Industrial Stores Supplying Co. Calcutta

POSITION OF DEFECTIVE IMPORTED TYRES AGAINST RATE CONTRACT

Sl. No.	Name of the Indentor	No. of Tyres purchased	Value of Tyres Purchased	No. of Tyres reported defective originally	Value of Tyres reported defective originally	No. of Tyres now reported defective	Value of Tyres now reported defective	Remarks.
1	2	3	4	5	6	7	8	9
			Rs.		Rs.		Rs.	
1.	Controller of Stores and Purchase, Gujarat Electricity Board, Race Course, Baroda-5.	70	23,342	8	2,668	70	23,342	The defects were reported to S.T.C. on 19-7-66 and on 1-9-66. Compensation for 8 Nos. has been awarded. Rest 62 Nos. produced before the panel (Vide S.T.C's letter dated 6th June, 1967).
2.	The Controller of Purchase and Stores, Damodar Valley Corporation Anderson House, Alipur Calcutta.	40	..	8	2,792	8**	2,792	Defects reported on 1-9-66. These have not been produced before the panel. The Indentor is being requesting to get in touch with M/s GISS CO (S.T. C'S letter dated the 6th June, 1967).



3. The Assistant Engineer (Stores) S.E. Railway, Gharsuguda.	21	—	10 Tubes	Not given	10 Tubes	200	Defects reported on 1-9-67. Firm has agreed to gest the price of tubes deducted from their bill. S.T.C. vide their letter dated the 6th June, 1967 have requested to inform them the price of a tube. The price is being informed as Rs. 16/- per tube as per decision.
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(13-8-68) \*\*N.B. The revised claim of the Indentor as per his letter dated 25-6-1968 is indicated below :

4. The Controller of purchase and Stores, Damodar Valley Corporation, Anderson House, Alipur, Calcutta.	40	13,448	8	2,792	8 (Unused) 32 (Used)	5,630-40	The P. & A.O. has been instructed on 10-7-1968 to deduct the full amount from the firms' pending bills.
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M/s. General Industrial Stores Supplying Co.

1. The Supdt. Engineer, General Construction Circles, Post Box No. 86, Mannarpuram, Triuchirapalli-1.	58 Nos.	19,960	15	5,250.00	15	5,250.00	The defects were reported on 1-9-66. Compensation has been given for 15 Nos. Tyres. The firm M/s. CISSCO has stated to S.T.C. that the mentioned two parties are the same and only 15 Nos. Tyres were presented before the panel. S.T.C. has asked for clarification and the location of the remaining defective tyres <i>vide</i> their letter dated 6-6-67. Reference is being made to Indentors.
2. The Supdt. Engineer, Tiruchy Elec. System, Tiruchy.	25	9,500	6	2,280.00	6	2,280.00 7,530.00	Reported on 9-6-66 and on 1-9-66.

*Tyres purchase against A/T No. SV-3/81080-P (Def. A/T)*

1. D.O.S.	5,904	23,37,984	138	54,648	138	54,648	Defence A/T. The defects were reported on 1-9-66. Same as above. The whole lot is of 10 PR instead of 12 PR.
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*Tyres purchased against A/T No. SV-3/30237-N/V/6925 dated 1-11-62 D.G.B.R. A/T.*

1. D.G., B.R.	700	1,88,769	175	46,725 Less Cost of Tubes and Flaps	175	46,725 Less cost of Tubes & Flaps.	Action being taken for compensation against warranty. Report on 1-9-66.
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*A/T No. SV-8/STV-3/25697-N/II/6814 dated 25-8-62*

M/s. Khemka & Co.  
Value—Rs. 1,37,372.62

310 Sets

These were purchased against Warranty. The defects were reported to S.T.C. on 30-5-67.

*Against Supply Order PO: 15728, dated 23-8-1961 (I.T.I Bangalore)*

M/s. Khemka & Co.

50 Sets

These were reported to S.T.C. on 3-5-8-1967.

Value—Rs. 19,270.00

This was a direct purchase order from I.T.I. before the conclusion of R.C. M/s. I.T.I. have been advised to deal with S.T.C. directly.

*No. SV-8 SV-3/RC-6424/V/6848*

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS**

SV-8 Section, Parliament Street,

NEW DELHI, dated the 29th April, 1968.

To

The Pay and Accounts Officer,

Department of Supply,

New Delhi,

**SUBJECT—Rate Contract No. STV-3/RC-6424/V/6848, dated 5-9-1962 for the Supply of Imported Tyres, Tubes and Flaps.**

Sir,

In continuation of this Office letter of even No. dated 8-4-1968 please note that the following amounts are to be paid to the Indentors as compensation for the defective Tyres:-

Sl. No.	Name of the Indentor	Quantity	Amount of compensation @ 30% ..
1.	Controller of stores, Gujarat State Electricity Board, Baroda.	70 Sets	Rs. 7,002.60 (-) 304.00 (Paid earlier) <hr/> 6,698.60
2.	Controller of Purchase and Stores, Damodar Valley Corporation, Anderson House, Alipore, Calcutta-27.	38 sets (Provisional)	Rs. 3,978.60
3.	Supdt. Engineer, General Const. Circle, PB No. 86, Mannarpuram, Trichirapalli.	15 sets	Rs. 1,570.50 (-) 228.00 (awarded earlier) <hr/> 1,342.50
4.	The Supdt. Engineer, Tiruchy Electricity System Tiruchy.	6 Sets	Rs. 628.20

These amount may be paid to the aforesaid Indentors out of the pending Bills of the firms lying with you. Further Communication will follow for the balance amount to be paid to the firm and also whether any other claim is still pending for compensation.

Sd/-

for Director General of Supplies Disposals

Copy to :—

1. Mss. General Industrial Stores Supplying Co. (P) Ltd., 23-A, Netaji Subhash Road, Calcutta-1.
2. The Controller of Stores and Purchase, Gujrat Electricity Board, Race Course, Baroda-5.
3. The Controller of Purchase and Stores, Damodar Valley Corporation, Anderson House, Alipore, Calcutta-27.
4. The Superintending Engineer, General Construction Circle, PB No. 86, Maunapuram, Trichirapalli.
5. The Superintending Engineer, Tiruchy E.l.c. System, Tiruchy.

They are requested to check and confirm whether the amounts worked-out as compensation are correct.

No. SV-8/SV-3/RC-6424/V/6848

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

S-V8 Section, Parliament Street,

NEW DELHI, dated the 10th July, 1968.

To

The Pay and Accounts Officer,  
Department of Supply, Akbar Road,  
New Delhi.

SUBJECT:—Rate Contract No. SV-3/RC-6424/V/6848, dated 5-9-1962 for the supply of Imported Tyres, Tubes and Flaps.

Sir,

Please refer to this office letter of even No. dated 29-4-1968 and carry out the following amendment in respect of compensation claim of Damodar Valley Corporation, Calcutta:—

For:—Existing entries

Read:—32 sets—compensation @ 30% i.e. Rs. 3,360/- (original purchase price Rs. 11,168/-)

8 sets—Refund value of 8 sets of unused Tyres being returned to the firm i.e. Rs. 2,280/-

Total claim—Rs. 5,630/-

Sd/-

for Director General of Supplies and Disposals

Copy to:—

1. The Controller of Stores, Damodar Valley Corporation, Anderson House, Alipore, Calcutta-27—Ref. his letter No. PL/Misc/61-62/4526, dated 25-6-68. He may please confirm that 8 sets of unused Tyres have since been returned to the firm.
2. M/s. General Industrial Stores Supplying Co. Pvt. Ltd., 23A, Netaji Subhash Road, Calcutta-1 for information.
3. M/s. General Industrial Stores Supplying Co. Pvt. Ltd., D-216, Defence Colony, New Delhi-3 for information.

MINISTRY OF DEFENCE

**Further Information called for—Recommendation No. 52  
(para 2.14) in Appendix XI to their 4th Report (4th Lok  
Sabha)—Payment of Compensation**

The Ministry of Defence may please furnish precise details of claims for compensation passed on to the S.T.C. indicating therein the name of the Government user, name of the supplier, amount claimed, date of claim and the progress made in settlement of the claim.

**Reply of the Government**

1. As stated in para 5.5 of Chapter V of the report of the Inter-Departmental Committee on the purchase of imported tyres which has been reduced as Appendix I in the Public Accounts Committee's 4th Report (4th Lok Sabha), 11 indentors who had procured tyres against the D.G.S. & D. rate contracts from S.T.C.'s stockists had reported defects to the DGS & D. None of these 11 defect reports is from Defence indentors.

2.1. Against the DGS & D A/T No. SV-3/81080-P.V/344 dated 12th June 1963 placed on M/s. Ram Krishan Kulwant Rai, a total quantity of 5,904 Nos. tyres 825 x 20 12 Ply THR/UNIV/TGP were received in the Central Ordnance Depot, Malad. In response to an enquiry from the DGS & D. dated 9-8-1966, the Central Ordnance Depot, Mald, reported to the DGS & D. on 11-8-1966, that 5,904 tyres were received against the A/T in question, that the said tyres had been issued to Army units, and that the Army user units reported that 138 tyres therefrom have failed prematurely.

2.2. A claim for Rs. 54,648/- as compensation for the premature failure of these 138 tyres was taken up by the DGS & D on 1st September 1966 with the State Trading Corporation.

3. Further, as stated in para 5.8 of Chapter V of the report of the Inter-Departmental Committee on the purchase of imported tyres, which has been reproduced as Appendix I in the PAC's 4th Report (4th Lok Sabha), a claim for compensation for 50 Polish tyres purchased by the D.G.O.F. under a supply order placed by him direct on M/s. General Industrial Stores Supplying Company and which have failed prematurely is also being pursued by the Department of Defence production with the State Trading Corporation. A note on this aspect will be forwarded to the Public Accounts Committee by the Department of Defence Production direct.

4. D.A.D.S. has seen.

[Ministry of Defence Note No. 12(5)/68/I (0.1) dt. 20-8-1968].

**Further Information called for in regard to whether any more Tyres failed prematurely during the last two Years (1967 and 1968 so far)**

*S. No. 52 Appendix XI to the 4th Report (4th Lok Sabha)*

**Reply of the Government**

1. In para 2.1 of the Defence Ministry's note dated 20-8-1968, forwarded to the Lok Sabha Secretariat under the Defence Ministry's u.o. Note No. 12(5)/68/D(0.1) dated 20th August 1968, the Public Accounts Committee were informed *inter alia* that the Army User Units had reported that 138 tyres out of a total quantity of 5,904 tyres received in the Central Ordnance Depot, Malad, against the DGS & D's A/T No. SV 3/81080-P/V/344 dated 12th June 63, had failed prematurely.

2. Army Headquarters, after consulting COD, Malad, have stated on 20th September, 1968, that no further cases of premature failure of tyres have been reported.

3. D.A.D.S. has seen.

(Ministry of Defence Note No. 12(5)/68/D. (0.1) dt. 14-11-1968).

DEPARTMENT OF DEFENCE PRODUCTION

**Further information called for in regard to recommendation No. 52 (para 2.14) of Appendix XI to their 4th Report (4th Lok Sabha)**

The Ministry of Defence may please furnish precise details of claims for compensation passed on to the STC indicating therein the name of the Government user, name of the supplier, amount claimed, date of claim and the progress made in settlement of the claim.

[L.S.S. D.O. No. 2(1)/29/67/PAC, dated 7-8-1968].

**Action taken**

It was stated in Defence Ministry's u.o. Note [File No. 12(5)/68/DO-I] dated 20th August 68 to the Lok Sabha Secretariat (PAC) Branch on the subject mentioned above that, as stated in para 5.8 of Chapter V of the report of the Inter-Departmental Committee on the purchase of imported tyres which has been reproduced as Appendix I in the PAC's 4th Report (4th Lok Sabha), a claim for compensation for 50 Polish tyres purchased by the DGOF under a supply order placed by him direct on Messrs. General Industrial Stores Supplying Company and which had failed prematurely was also being pursued by the Department of Defence Production with the State Trading Corporation; and that a note on this aspect would be forwarded to the P.A.C.'X' by the Department of Defence Production, Direct.

**Further information with reference to 'X' of above para**

2. The DGOF had placed a supply order (No. TU/6002 dated 7-11-62) on Messrs General Industrial Stores Supplying Company Limited, Calcutta for 3,000 sets of tyres, tubes and flaps, Polish make size 8.25x20-12 ply CC Pattern (Stomil) for fitment on Shaktiman vehicles. Out of the quantity 2,776 tyres supplied by the firm (order short-closed at 2,776), 50 tyres were returned to GCF, Jabalpur by the user units as having failed

prematurely. On inspection, 49 of these tyres were found to have failed prematurely due to manufacturing defects; the 50th tyres having failed due to normal running/accidental Cut and the firm cannot be blamed for that.

3. The matter was taken up with the firm initially on 6th December 63, and after some correspondence, in April 65, the tyres were inspected by the Regional Manager, S.T.C., Calcutta who recommended compensation claim for only 15 of these tyres. This was not acceptable to Government who took up the matter with S.T.C. in July 1967. After protracted correspondence with STC, the latter on 25th April 1968 informed us of the agreement of the firm to pay compensation for 49 prematurely failed tyres at 3/4th price on the following conditions :—

- (a) There will be no further claim whatsoever by DGOF or by the Ministry of Defence against the total supplies of tyres, tubes and flaps under the above order.
- (b) M/s. GISSCO's outstanding dues for supply under the above order are adjusted against the amount of compensation.
- (c) All the 49 sets of tyres, tubes and flaps for which compensation is being paid are returned back to Calcutta Office of M/s. GISSCO freight prepaid.

These conditions were accepted by us on 4th July 68 and ultimately on 9th July 1968, STC, New Delhi informed the firm to get to touch with DGOF and settle the case expeditiously.

4. The amount of compensation works out to Rs. 14,104.65. Out of this, a sum of Rs. 5,373.20 was due to the firm (which was earlier withheld pending settlement of the compensation claims) leaving a balance of Rs. 8,731.45 to be paid by the firm. The D.G.O.F. on 14th August 1968 has claimed this amount from the firm. No reply has yet been received from the firm and they have been expedited.

5. D.A.D.S. has seen.

[Ministry of Defence (Deptt. of Defence Production) Note No. 2/30/67/D (Projects) dt. 1-11-68].

#### MINISTRY OF COMMERCE

#### Recommendation

2-10. "The Committee are distressed to note that a Deputy Director in the office of the DG & S made a number of incorrect and misleading statements and showed an unusual interest in pushing through the purchase of tyres by defence indentors. It is also strange to note that when the landed cost of the ST & THR pattern tyres was the same viz. Rs. 210/- per set (tyre, tube and flap) and the rate contract interceded into by the DGS & D for a set of (tyres, tubes and flaps) was Rs. 349/- a payment of Rs. 360 was made for a THR tyre alone. Government was also forced to pay for THR tyres the price applicable to Polish tyres (cross Country type) which was of a superior quality than THR type, and the landed cost of which was also higher by Rs. 18.24 per set. This gave a further benefit of at least Rs. 18.24 per set to M/s. Ramkrishan Kulwant Rai. This resulted in a

total excess payment of about Rs. 2.90 lakhs to the firm. The Committee take a serious view of this lapse and desire that the responsibility should be fixed for the same."

[S. No. 48 of Appendix XI to the Fourth Report (Fourth Lok Sabha)].

#### **Action taken**

The Committee's observations are being examined and a further reply will follow.

[Ministry of Commerce Note No. 32/20/66-S.T. dt. 10-7-69].

#### **Recommendation**

2.13. "As regards the firms, the Committee understand that the Central Bureau of Investigation is looking into the case against M/s. Ram Krishan Kulwant Rai. After the injunction of the High Court is vacated, the Committee would also like to be informed of the action taken against the firm. The Committee would also like it to be ascertained whether there are any grounds for taking any action against any of the other firms involved in the import and supply of these tyres."

[S. No. 51 of the Appendix XI to the Fourth Report (Fourth Lok Sabha)].

#### **Action taken**

Committee's observations have been noted for necessary action at the appropriate time.

[Min. of Commerce note No. 32/20/66-ST dt. 10-7-68]

#### **Further information called for by the Committee**

The Ministry of Commerce may kindly intimate the result of examination of the question of taking action against other firms involved in the import of tyres.

[LSS D. O. No. 2(1)/29/67-PAC. dated 7-8-1968]

#### **Reply of Government**

At S. T. C.'s intervention, the other three firms M/s. GISSCO, M/s. Khemka & Co. (Agencies) Pvt. Ltd. and M/s. Consolidated Equipment of India Pvt. Ltd. have settled a number of claims. The outstanding claims are still under negotiation. The action that should be taken against them if the claims are not settled satisfactorily will be considered after the final results of the negotiations are known.

[Ministry of Commerce, O. M. 32/20/66-ST, dated 14-8-68]

DEPARTMENT OF SUPPLY

#### **Recommendation**

1.106. "The Committee would like to be informed of the action taken against the persons at default as suggested by the Inter-Departmental Committee in due course.

[S. No. 25, Appendix XI of 4th Report of the P. A. C. (Fourth Lok Sabha)]



### Action taken

The reason why the Directorate of Inspection, D. G. S. & D. Calcutta, failed to bring out full history of the tyres, their condition and period of storage, and also committed to check the weight of the tyres, in their Inspector report to the Hqrs. at New Delhi, has been further investigated. As regards the history of the tyres, a reference had been made to the Inspectorate at Calcutta because it was not known at the time whether the tyres were new or used. Since on visual inspection by the Inspector it had been found that the tyres were 'now are unused' and otherwise appeared to be satisfactory, they therefore had no other history which could have been reported upon. The storage condition of the tyres was not particularly mentioned in the Inspection reports. It has been however, subsequently stated by the Inspecting Officer, that the tyres were stocked in closed godowns and kept in racks where they were protected from sun, light, rain and other factors having deleterious effect on the rubber goods. Each tyre was wrapped in paper and thus protected from circulating air. From the date of invoice and the date of inspection, the storage did not show a period of more than one year. Therefore, the question of prolonged storage did not arise and was not mentioned by the Inspector in his report.

The weight of the tyre was not checked because it is not customary to weigh tyres as it is not a critical feature of a tyre. Neither is weight of tyres specified in any data books. Even the indigenous manufacturers do neither guarantee nor indicate the same in any of their technical literature. It is found from experience that for the same size and type of tyre, the weight may vary from manufacturer to manufacturer, also from batch to batch.

With regard to the omission while issuing the circular letter dated 28-5-62 to all the Direct Demanding Officers, of stating the suitability of the tyres for use on 3-ton and 5-ton vehicles only, action has been taken to charge-sheet the two Officers concerned, and the departmental enquiry is in progress. Further action will be taken on receipt of the findings of the Departmental Enquiry.

*[Department of Supply note no. 13(17)'67-PI dt. 20-1-68]*

#### Further information called for by the Committee

"Please indicate the action taken against the officers for their failure to advise the Direct Demanding Officers about the suitability of imported tyres for three and five ton vehicles only."

*[Lok Sabha Sectt. D. O. No. 2-1/29/56/PAC dated 7-8-1968].*

#### Reply of Government

Disciplinary proceedings were initiated for the imposition of a major penalty against the Deputy Director on 10-2-1967 and against the Assistant on 11-4-1967.

The proceedings against the Deputy Director were entrusted to the Commissioner for Departmental Enquiries on 14-4-67. The Commissioner held two hearings on 18-5-67 and 21-10-67. The proceedings had been held up as the relevant files were taken by the C. B. I. The files have since been released by the C. B. I. and the enquiry has been resumed by the Commissioner.

As regards the Assistant, the Enquiry Officer submitted his report on 23-3-68. According to the Enquiry Officer the charges framed against the Assistant were not proved. It was, therefore, decided that the final decision in this case should pend till the report on the case of the Deputy Director was available. In the meantime after his attaining the age of 55 years, it was decided to the Assistant prematurely with effect from 20-11-1968. The proceedings against him have therefore, been dropped on the advice of the Ministry of Law.

[*Department of Supply note no. 13(17) /67/PI dt. 20/3/1969*].

### Recommendation

1.119. "The Committee are alarmed to note the unusual enthusiasm shown by the Deputy Director, Supplies and Disposals in putting through the deal of the purchase of tyres by the Ministry of Defence from Messrs. Ramkrishan Kulwant Rai. The Officer seemed to have made several incorrect and misleading statements. The Committee take a very serious view of the lapses on the part of this officers. They note from the report of the Inter-Departmental Committee that this officer has retired and that he was already under disciplinary action for another charge, *i.e.* non-inclusion of a warranty clause in the rate contract entered into by the D. G. S. & D. The Committee desire the Department of Supply to examine as to why action could not be taken against this officer when he was in service and how the unusual enthusiasm shown by him in this deal escaped the notice of the senior officer concerned. They are, however, not sure whether the Department of Supply will be able to take adequate action against the officer as he has already retired from service. They would like to be informed of the action taken against this officer. The Committee also regret to note that (i) as against the rate contract of Rs. 349/- per set which included a tyre, a tube and a flap, the D. G. S. & D. made the payment of Rs. 360/- for a tyre alone, (ii) the sale price fixed for Polish tyres was Rs. 360/- per tyre, while the *c.i.f.* Indian price for the same tyre was Rs. 228.24 per set. Thus, the Government was forced to pay the same price for inferior quality, the landed cost of which was also less by Rs. 18.24 per set.

The firm of M/s. Ramkrishan Kulwant Rai was thus overpaid to the extent of about Rs. 2.90 lakhs."

[*S. No. 26 Appendix XI of 4th Report of the P. A. C. (4th Lok Sabha)*].

### Action taken

Disciplinary proceedings against the Deputy Director (Supplies and Disposals) were initiated while he was in service. His explanation was called for on 20-8-1966 for non-inclusion of warranty clause and certain other omissions. Subsequently on receipt of the report of P. A. C. in November, 1966 certain aspect of the transaction regarding purchase of THR pattern tyre for C. O. D. Kandivli were referred for further investigation to the C. B. I. on 19-11-1966. The C. B. I. was reminded on 29-12-1966. However, as the investigation was likely to take time and as Deputy Director concerned was due to retire on 28-2-67, it was decided to initiate formal disciplinary proceedings against him immediately without waiting for the C. B. I. report. Accordingly regular charge sheet was issued to him on 10th February, 1967 for major penalty. Subsequently the charge sheet was

amplified to cover the irregularities brought out by the Inter-Departmental Committee. As Departmental enquiry against the Deputy Director was instituted while he was in service, the enquiry is being continued under Article 351-A of Civil Service Regulation *vide* Presidential Order No. 1 (2)/67-V. dated 16-3-67. The explanation of the Senior Officer is also being called for.

The correctness of every payment of Rs. 2.90 lakhs mentioned in the P. A. O.'s recommendations is being examined further in consultation with S. T. C. and the Defence Ministry.

[No. 13(17)/67-PI, dated 20-1-1968]

#### Further information called for by the Public Accounts Committee

1. The Department of Supply may please indicate the precise progress made in the departmental proceedings going on against the Deputy Director of Supply.

2. The Department of Supply may please state the points referred to the Special Police Establishment/Central Bureau of Investigation for detailed investigation together with the date of reference. In particular, the Department of Supply may please state whether the relevant observations made by the P. A. C. in their 64th Report (Third Lok Sabha) and 4th Report (Fourth Lok Sabha) and by the Inter-Departmental Committee in their report were specifically brought to the notice of SPE/CBI and if so, on what dates. The precise progress made by the SPE/CBI in the matter may please be intimated. (It is requested that self-contained note on the subject may please be furnished jointly by the Department of Supply and the Ministry of Home Affairs).

[Lok Sabha Sectt. D. O. No. 2(1)/29/67/PAC, dated the 7th August, 1968.]

#### Reply of Government

1. (i) The Dy. Director was served with a chargesheet for imposition of major penalty on 10-2-1967.

(ii) The Enquiry was entrusted to the Commissioner for Departmental Enquiry on 14-4-1967.

(iii) The chargesheet was amplified on 21-7-1967 to include additional lapses brought out in the Inter-Departmental Enquiry Committee Report.

(iv) Two hearings have been held on 18-5-1967 and 31-10-1967 by the Enquiry Commissioner.

(v) Thereafter the records were taken over by the C.B.I. in November, 1967 and the Enquiry was kept pending. It will be resumed when the records are received from the C. B. I.

2. The following references were made to the C. B. I. :—

*D. O. letter dated 19-11-1966 :*

In this letter, attention was drawn to the various aspects arising out of A/T No. SV-3/81010-P/2/344 dated 12-6-63 placed on M/s. Ramkrishan M22LSS/69—

Kulwant Rai for the supply of 7100 tyres to COD Kandivili particularly the following :

- (a) that the firm M/s. Ram Krishan Kulwant Rai mis-represented the facts and suppressed information regarding the specifications, quality and performance of these tyres as a result of which the firm was able to secure a rate contract and also a big order for the supply of 7100 tyres to COD, Kandivili;
- (b) that this firm had declared their stock of only two types of tyres *i.e.* 825 × 20 × 2 and 750 × 20 × 10 ply of ST pattern only. Subsequently they offered THR pattern tyres in the size 825 × 20 × 12 ply. It is suspected that they must have committed some fraud and had actually supplied ST pattern tyres only;
- (c) complaints were received from various indentors regarding the premature failure of these tyres. Investigations by the Defence Inspectorate revealed that these tyres were considered lighter and weaker in design and the entire lot had been classified by the indentors as 10 ply rating ST type instead of 12 ply rating CC type; and
- (d) the contract was concluded in a hurry without pre-inspection of a few tyres to determine their suitability to the indentors' requirements. C. B. I. was requested to investigate various aspects of this case and in particular whether there was any mis-representation or fraud on the part of the firm. It was also stated that the case had been examined in detail by the P. A. C.

*D. O. letter dated 29-12-1966 :*

*Points referred :*

It was pointed out that this case had been commented upon by the PAC in their 64th Report (Third Lok Sabha) and the Committee had desired that suitable action should be taken against the defaulting officers. C. B. I. was requested to expedite their investigation so that disciplinary action against the defaulting officers could be initiated as one of the officers was due to retire shortly.

*D. O. letter dated 13-1-67 :*

*Points referred :*

C. B. I.'s attention was invited to the observations made by the P. A. C. in their 64th Report (Third Lok Sabha) a copy of which was also forwarded to the C. B. I. requesting them to consider criminal prosecution of the firm, M/s. Ram Krishan Kulwant Rai in view of the mis-representation and suppression of information regarding specification, quality and performance of the tyres for which they had secured a Rate Contract. C. B. I. was also requested to consider criminal prosecution of the firm in respect of an A/T for 7100 tyres for C. O. D, Kandivili already reported to C. B. I. for investigation on 19-11-1966.

*D. O. letter dated 28-7-1967 :*

*Points referred :*

C. B. I. was requested to investigate higher prices paid to M/s. Ram Krishan Kulwant Rai for THR tyres which were imported at the same price

as ST pattern tyres. For ST pattern the rate contract at Rs. 349/- per set (tyre, tube and flap) was concluded but for THR pattern, the firm obtained order at Rs. 360/- per tyre excluding tube and flap. Taking the price of tube and flap at Rs. 20/- the firm over-charged the Govt. to the extent of Rs. 31/- per set.

*D. O. letter dated 23-11-1967 :*

*Points referred :*

It was pointed out that M/s. GISSCO who had also been awarded Rate Contract and *ad hoc* contracts for imported tyres and tubes misrepresented and withheld vital information about the condition of the tyres while approaching this office for conclusion of the various contracts with them. C. B. I. was requested that detailed investigation might be carried out in respect of all the transactions with this firm and report submitted to this office.

*D. O. letter dated 3-8-1968 :*

Details of the irregularities and lapses on the part of the officials, as brought out in the PAC Report and the Inter-Departmental Committee were forwarded to the C.B.I. for investigation. Attention of C.B.I. was also drawn to the recommendations of the P. A. C. contained in their 64th Report (Third Lok Sabha) and 4th Report (Fourth Lok Sabha), C. B. I. was requested to investigate the possibility of a collusion between the purchase authorities, inspection authorities and the firms.

3. (i) In the letters dated 19th November, 1966, 29th December, 1966 and 13th January, 1967 the attention of the C. B. I. was drawn to the discussion in the P. A. C. (Third Lok Sabha).

(ii) The lapses brought out in the report of the Inter-Departmental Committee were not specifically, referred to the C. B. I. but many of the lapses were included in the references mentioned above. A copy of the Report of Inter-Departmental Committee was however received by the C. B. I. in November, 1967 and they were therefore aware of the observations of the Committee. Also the lapses, in so far as the officials were concerned were included in the chargesheet served on them and copies of these chargesheets were sent to the C. B. I. on the 3rd August, 1968.

(iii) The observations made by the P. A. C. (Fourth Lok Sabha) were officially brought to the notice of the C. B. I. on 3rd August, 1968. However, many of the lapses covered by the P. A. C. report were already included in the references made to the C. B. I. earlier.

(iv) The copies of the P. A. C. reports were also obtained by the C.B. I., and they were, therefore, fully aware of the observations of the P. A. C.

4. (i) In their D. O. letter of 2nd January, 1967, the C. B. I. intimated that the investigation regarding the lapses on the part of officials was completed in 1963 and a report was submitted at that time. It may be mentioned that this report was received with C. B. I.'s letter of 23rd January, 1964. In this report, it had been made out that there was inefficiency and lack of discretion on the part of three officials, namely, Shri 'A', Deputy Director, Shri 'B', Deputy Director Inspection and Shri 'C' Asstt. Inspecting Officer but that there was no *malafide* on the part of officials, no action was called

for. A copy of this Report was also made available to the Chairman of the P. A. C. on 17-10-1966.

(ii) In the case of M/s. GISSCO, the C. B. I. intimated in their D. O. letter of 31st January, 1968, that the scrutiny of the files had shown that the firm had requested the Ministry of Commerce and Industry to take up their case with Polish authorities for settlement of their claim as the tyres etc. were found defective and inferior and were not tropicalised. The firm while quoting for a tender issued by D. G. S. & D. had represented about the satisfactory performance of the tyres and an order for the supply of 750 tyres, 374 tubes and 498 flaps was placed with them. This order was, however, subsequently cancelled by the D. G. S. & D. authorities as the firm was not in a position to supply the tyres within the time limit specified. The firm had, therefore, made no supplies in spite of the above representation in so far as the said contract is concerned, although supplies against some other orders were made by them. The Departmental Committee appointed by the Govt. to look into the performance of the tyres supplied both by M/s. Ram Krishan Kulwant Rai and M/s. GISSCO had, however, found the performance of these tyres to be satisfactory. In view of the above facts, the C. B. I. reported that it will not be possible to make out a successful case for prosecution against M/s. GISSCO. Since, the C. B. I. investigation had not revealed any malpractice on the part of the firm, Government decided that blacklisting of the firm would not be justified.

5. The C. B. I. have now reported that their present investigation has been completed and that they will be submitting a report shortly. They have indicated that, briefly, their findings are as follows:—

“Enquiries in respect of the points raised by D. G. (S. & D.) have been completed and a full report giving the result of enquiries is being sent. In brief, the result of the enquiries has been mentioned in reply to Recommendation No. 51. It has been established that M/s. Ram Krishan Kulwant Rai were aware that the tyres imported by them were weaker and lighter than tyres of indigenous manufacture for the same size and ply rating. They were also aware that there were complaints about the satisfactory performance from some of the purchasers. They had taken up the case with the Government for the return of the tyres to the manufacturers because of these defects and had in fact returned a large quantity and obtained compensation for these. These facts were, however, known to the S. T. C. authorities also. Since the warranty clause was not incorporated in the Rate Contract when tyres were found defective, the firm did not own their responsibility and refused to pay compensation. For the lapses on the part of the D. G. S. & D. officers, departmental action has been recommended against Shri ‘A’, Deputy Director, Shri ‘D’, Section Officer and Shri ‘E’, Assistant.

As mentioned in reply to Recommendation No. 51, there was not sufficient evidence to prove that M/s. Ram Krishan Kulwant Rai had made any mis-representation as in their letter dated 8-8-62 for rate contract, the firm had not mentioned about the quality or performance of the tyres. No mention was made either in respect of premature failure. The firm only mentioned that the samples of the tyres had been inspected by the Director of Inspection D. G. S. & D., Calcutta. It was for the D. G. S. & D. and the S. T. C. officers to have been through these particularly when they were aware that there were certain complaints about the quality and the performances of the tyres.

During the course of search of the promise of M/s. Ram Krishan Kulwant Rai at Delhi, Lucknow, Calcutta, Madras and Bombay, records pertaining to the import of tyres were seized. The scrutiny of the records and the enquiries made have shown that the two types of the tyres of the same size were received by the firm. One of these types was similar to THR pattern. The import documents, however, did not mention different patterns in size 825×20×12. The price of all the tyres in this size, according to the import documents, is the same. There was no evidence to show that the manufacturers' certificate or other certificates were forged.

The above findings of the C. B. I. will be considered by Government as soon as their report is received.

[Department of Supply Note No. PI-13 (17)/67 dt. 4-3-1969]

1.120. "The Committee desire that suitable measures should be taken by Government in consultation with the Ministry of Law, if necessary, to recover this excess payment from the firm in question."

[S. No. 27, Appendix XI of 4th Report of the P. A. C. (Fourth Lok Sabha)]

#### Action taken

The Ministry of Law has been consulted for the recovery of the excess amount from the firm, who have opined that *prima facie* there is a good case to lodge a claim on M/s. Ram Krishan Kulwant Rai, to refund the excess amount paid to them against the Defence A/T placed originally for 7,100 tyres. As already mentioned against S. 0.26 the correct magnitude of the claim to be made is under verification and as soon as the actual amount to be recovered with reference to the contractual obligations is established the claim against the firm will be lodged.

[Department of Supply Note No. 13 (17)/67. PI dt. 20-1-1968]

#### Recommendation

2.10. "The Committee are distressed to note that a Deputy Director in the office of the D. G. S. & D. made a number of incorrect and misleading statements and showed an unusual interest in pushing through the purchase of tyres by defence indentors. It is also strange to note that when the landed cost of the S. T. & THR pattern tyres was the same *viz.* Rs. 210/- per set (tyre, tube and flap) and the rate contract entered into by the D. G. S. & D. for a set of (tyre, tube and flap) was Rs. 349, a payment of Rs. 360 was made for a THR tyre alone. Government was also forced to pay for THR tyres the price applicable to Polish tyres which was of superior quality than THR type, and the landed cost of which was also higher by Rs. 18.24 per set. This gave a further benefit of at least Rs. 18.24 per set to M/s. Ramkrishan Kulwant Rai. This resulted in a total excess payment of about Rs. 2.90 lakhs to the firm. The Committee take a serious view of this lapse and desire that responsibility should be fixed for the same."

[S. No. 48 of Appendix XI of 4th Report of the P. A. C. (Fourth Lok Sabha)]

#### Action taken

This has been dealt with at serial No. 26.

[Deptt. of Supply Note No. 13 (17)/67, PI dt. 20-1-68].

### Recommendation

"As regards the firms, the Committee understand that the Central Bureau of Investigation is looking into the case against M/s. Ramkrishan Kulwant Rai. After the injunction of the High Court is vacated, the Committee would also like to be informed of the action taken against the firm. The Committee would also like to be ascertained whether there are any grounds for taking many of the other firms involved in the import and supply of these tyres."

*S. No. 51 of Appendix XI (Para 2.13) of 4th Report of the P. A. C. (Fourth Lok Sabha).*

### Action taken by Government

This has been dealt with at Serial No. 30.

[*Department of Supply Note No. 13(17)/67-PI dated 20-1-68*]

### Further information called for by the Committee

"The Department of Supply and Ministry of Commerce may be requested to intimate the results of examination of the question of taking action against other firms involved in the import of tyres."

[*Lok Sabha Sectt. D. O. No. 2(1)/29/67/PAC dated 7-8-1968*]

### Reply of Government

The matter has been examined and it is observed that no action against any firm other than M/s. Ram Krishan Kulwant Rai is called for.

[*Department of Supply Note No. 13(17)/67-PI dated 17-8-1968*]

## MINISTRY OF DEFENCE

### Recommendation

1.163. The Committee note that as many as 1,425 imported tyres (excluding 5,904 THR tyres which have been commented upon in para 1.159) were received by COD Kondivili (Malad) on 15th April 1963, and that the further accepted 1881 tyres after that date against the rate contract without obtaining the specific approval of the Army Headquarters. The Committee are not able to appreciate as to why Government have not chosen to take action against the concerned officer for non-compliance with their instructions.

*S. No. 35 of Appendix XI to the 4th Report of the Public Accounts Committee (Fourth Lok Sabha) 1967-68.*

### Action taken

There was no default on the part of the Officer Commanding, Central Ordnance Depot, in placing the two supply orders for ST tyres on 15th March 1963 and 18th March 1963 on the two firms in pursuance of a rate contract concluded by the D. G. S. & D. for ST tyres. The placing of the said orders was within the competence of the Officer Commanding. The Army HQ signal dated 15th April 1963 only stated that no further supply order should be placed on the two firms without their approval. The Army HQ instructions could not be interpreted to mean that the Officer



Commanding had to cancel the orders already placed. There is thus no non-compliance with the instructions of the Army HQ.

2. It will also be appreciated that M/s. Ramkrishan Kulwant Rai had already delivered 1425 tyres on 18th April, 1963 against the supply order dated 15th March, 1963, and only a balance of 1426 tyres remained outstanding on this firm after that date.

3. It will also be appreciated that cancellation of quantities outstanding against contracts concluded could also lead to financial implications.

4. It will further be appreciated that the circumstances of the above case are different from the case pertaining to THR/Universal Pattern tyres in respect whereof the Officer has been punished with a reduction of 1/3rd pension of which the commuted value is Rs. 30,095.45. In the latter case, the Officer Commanding wrongly intimated to the D. G. S. & D. on 12th April 1963 his willingness to accept THR/Universal Pattern tyres against the requirement of C. C. tyres. Further, on receiving the Army HQ signal of 15th April 1963, the Officer Commanding could well have realised that the D. G. S. & D. could not have entered into a firm contract by 15th April 1963 when he received the signal, and it was therefore, incumbent upon him to inform the D. G. S. & D. telegraphically that no action should be taken on his letter dated the 12th April 1963 until further advice. The Officer Commanding defaulted in this case because he well knew that he was accepting something of a different specification from what had been indented and that also without the knowledge of the Army HQ.

5. Government accordingly consider that there was no default on the part of the Officer Commanding in accepting after 15th April 1963 *i. e.* between 20th May 1963 and 21st August 1963 a total of 1881 ST tyres against the rate contract concluded by the D. G. S. & D. DADS has seen .

[Ministry of Defence Note No. 14(12)/67/D (O. I.) dt. 2-5-1968]

#### Recommendation

1.64. The Committee need hardly stress that Government should take stern action against all those who are found responsible for any irregularities in connection with the purchase of tyres against the rate contract.

*Sl. No. 36 of Appendix XI to the 4th Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.*

#### Action taken

The observations of the Committee have been noted.

2. In so far as OC, COD, Malad is concerned, penalty has already been imposed on him by reducing his pension by 1/3rd for lapses on his part which have so far come to light. Appropriate action will be taken against him if any further lapses are brought to notice as a result of investigation made by the SPE.

3. A separate note will be sent by the Department of Defence Production in so far as the Inspectorate side is concerned.

4. DADS has seen.

[Ministry of Defence Note No. 18(18)/67/D. (O. I.) dt. 27-9-1967]

**Further Information called for in Regard to the Action taken by the Ministry of Defence on the Latest Report of the C. B. I.**

[S. No. 36 of Appendix XI to 4th Report (Fourth Lok Sabha)]

The Ministry of Defence may please indicate the action taken on the latest report of the C. B. I.

### Reply of the Government

1. On the basis of the SP's Report in case No. RC. 6/67-CIA (I), the Superintendent of Police CIA (I) has suggested a Statement of charges against OC, COD, Malad as per Annexure attached herewith and has recommended departmental action against him.

2. The above charges of misconduct made against Major S. N. Singh had already been examined in the Defence Ministry and as a result thereof a penalty has been imposed on him by reducing his pension by 1/3rd for the said lapses on his part. In the Defence Ministry's reply to the recommendations made by the Public Accounts Committee at Sl. No. 36 in Appendix XI to their 4th Report (Fourth Lok Sabha), the Public Accounts Committee have been apprised of this position.

3. As no fresh lapse on the part of OC, COD, Malad has been disclosed as a result of the recent SP's Report, no further action is indicated against OC, COD, Malad who has already retired from the Service.

D. A. D. S. has seen .

[Ministry of Defence Note No. 12(5)/68 D O. I.) dt. 26-9-1968]

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### ANNEXURE

#### Statement of Charge against Officer Commanding, C. O. D., Kandivilli (Malad)

That Major S. N. Singh, while functioning during 1963 as Officer Commanding, C. O. D., Kandivilli (Malad) failed to maintain absolute integrity and devotion to duty and committed mis-conduct in the following manner:

- (a) He improperly conveyed to the Director General, Supplies & Disposals by his letter dated 12-4-63 (a holiday) in excess of his authority, his willingness to accept the offer of M/s. Ram Krishan Kulwant Rai to supply 7100 tyres size 8.25+20 12 ply rating THR/All Purpose Pattern in partial satisfaction of his indent No. KDD/IV6/MT14/S. Ad/ 28/63 dated 9 Feb., 1963 placed with D. G. S. & D. which was for supply of a different pattern of tyres, namely, cover pneumatic low pressure—825-20 TB CC 12 ply rating; without endorsing a copy of this said letter to the Director General, Ordnance Services, Army Headquarters, New Delhi; although he had endorsed a copy of an earlier communication to the D. G. S. & D. declining the offer of S. T. Pattern tyres against CC. pattern tyres indented for;
- (b) Although, he had been clearly informed by a signal dated 15-4-63 sent by Army Headquarters, New Delhi to the effect that no further supply orders should be placed on M/s. Ram Krishan Kulwant Rai without prior approval of Army Headquarters and although

he confirmed the receipt of the said signal, he failed to take any further action to inform the D. G. S. & D. that the aforesaid offer of this firm of T. H. R. tyres should not be considered.

**MINISTRY OF DEFENCE**

(DEPARTMENT OF DEFENCE PRODUCTION)

No. 1/19/66/D (Prod.)

Dated th 9th July, 1968.  
18th Ashadha, 1890 (S)

**OFFICE MEMORANDUM**

**SUBJECT :** *Action taken on the recommendation of Public Accounts Committee contained in the Fourth Report (Fourth Lok Sabha) on action taken by Government on the recommendations of the Committee contained in their 64th Report (Third Lok Sabha) regarding purchase of Defective Tyres.*

I am directed to refer to the Lok Sabha Sectt. O. M. No. 2(1)/29/67/PAC dated 22nd June 1968 and to state that the case was referred to the Central Vigilance Commissioner for advice.

2. The CVC has since been requested to expedite his comments. The Note on final action taken will be furnished as soon as the views of CVC are received and considered.

*Sd/-*

(S. No. 36 of Appendix XI (Para 1.164) of 4th Report (4th Lok Sabha)  
Lok Sabha Sectt.  
New Delhi.

**Recommendation**

1.165. The Committee also hope that Government will take appropriate action if any further irregularities on the part of officers are brought to notice as a result of investigations into these transactions by the S. P. E. S. No. 37 of Appendix XI to Fourth Report of the Public Accounts Committee (Fourth Lok Sabha)—1967-68.

**Action Taken**

The observations made by the PAC have been noted. Government will take appropriate action against officers who are found to be at fault for any further irregularities committed by them as a result of investigations made by the S. P. E.

2. D. A. D. S. has seen.

[Ministry of Defence Note No. 14(19) /67 /D (O. T.) dated 1-9-1967]

**Recommendation**

1.169. The Committee would like to be informed of the results of this inquiry and the action taken against the officers at fault.

[S. No. 38 of Appendix XI to 4th Report (Fourth Lok Sabha)]

### Action Taken

A Court of Inquiry was held on 28th September 1967 to investigate the question of inspection lapses, if any, and affix responsibility on officers and staff for acts of omission and commission. The Court of Inquiry concluded its deliberations on 5th October 1967 and its findings are being submitted to Army HQ through Bombay Sub Area, Maharashtra & Gujarat Area and Headquarter Southern Command. Further action will be taken after the report is received at Army HQ together with the recommendations of the various formation commanders.

2. A further note will be submitted to the Public Accounts Committee as soon as final decision on the findings of the Court of Inquiry is arrived at.

3. Director of Audit, Defence Services has seen.

[*Min. of Defence (Defence Production) i. o. No. 09932/PAC/G/TD-52 609/S/D (Prod) dated 16 Nov., 1967*].

#### Further information furnished by Government

The Court of enquiry instituted as per the commitment made by the Government at the PAC meeting on the subject held on 22nd July, 1967 examined the case and gave the following opinion:

“There were two main allegations that were investigated. Firstly, that a tread pattern other than the one indented for was accepted and secondly, tyres of a different ply grading than the one indented were accepted. As far as the tread pattern was concerned, the indent was for ‘Cross Country’. This is a military terminology and is not in commercial use. It is known that from time to time, Army authorities decide what commercial patterns are capable of cross country performance. The tread patterns accepted were at the time of acceptance classified as cross country. The Court has found no lapses as far as the tread pattern is concerned. As far as the ply grading is concerned, the indent was for 10 ply. The tyres accepted were for 12 ply. These being superior to the ones indented, the Court found no lapses on this aspect and no one has been blamed.”

The case was also referred to the Central Vigilance Commissioner for his advice. The CVC has gone into the case at great length and has advised that no action is called for in respect of any of the officials concerned.

In the light of the above, the case is being closed.

Director of Audit, Defence Services has seen.

*File No. 1/19/66/D(Prod)*

[*Ministry of Defence (Defence Production) Note No. 1/19/66/D (Prod) dt. 1-11-68*]

**Further information called for by the P. A. C. vide Lok Sabha Secretariat O. M. No. 2/1/29/67/PAC dt. 7-9-68**

*Serial Nos. 37 and 38 paras 1.165 and 1.169*

A copy of the note dated 14-8-68 furnished by the Ministry of Home Affairs (CBI) is enclosed. Please indicate the action taken by the Ministry of Defence/Deptt. of Defence Production on the latest Report of CBI.

### Reply of Government

SPE's report of investigation in PE No. 9/63-CIA dealing with four allegations relating to the purchase of giant tyres from East European Countries in 1960 and 1961 was received in this Ministry in January 1964. While three allegations pertained to the State Trading Corporation, D. G. S. & D. and Ministry of Economic and Defence Co-ordination, this Ministry was concerned with the following allegation only:

"The officers of the Directorate General of Ordnance Factories Calcutta purchased 3,000 sets of tyres from M/s. Gissco, in spite of the fact that their Technical Development Establishment had stated that tests have to be done by actual use only for long periods and hence no opinion could be given as to the quality of these tyres, which were needed by this unit for use in forward areas and have to stand the stress and strain of operational hazards in the Defence operations."

2. The finding of the CBI in respect of the above mentioned allegation was that no officer of the D. G. O. F. could be blamed except, perhaps one Shri ..... who made an attempt, which however did not succeed, for altering a warranty clause in favour of the firm. The CBI recommended that his conduct may be brought to the notice of the DGOF for taking such action as may be considered necessary.

3. The matter was examined in the Ministry and the DGOF was addressed *inter alia* that Shri .....conduct might be considered for such action as deemed necessary. The Directorate General of Ordnance Factories have replied that the idea of the amendment proposed by Shri .....was dropped by that Headquarters and there was no question of Shri.....working independently in this matter. Any action taken by Shri .....was with the full knowledge of his superior officer in the Directorate General of Ordnance Factories and so they did not agree with the remarks made by the SPE. The matter is again under consideration of the Ministry and DGOF.

D. A. D. S. has seen.

[Ministry of Defence (Deptt. of Defence Production Note No. 11(11)/Vig./64 dt. 23-11-1968].

## CHAPTER V

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

#### Ministry of Commerce

##### Recommendation

1.80. "The Committee are glad that Government have realised that more efficient procedures for securing reliable and experienced dealers to handle import and distribution work on behalf of the State Trading Corporation are called for. The Committee need hardly stress that the State Trading Corporation being a public undertaking, should adopt procedures which would be above all suspicion. The Committee consider that as far as possible, the State Trading Corporation should invite public offers so as to get most experienced and reliable distributors at the least margin of profit for the import and distribution of their goods."

[S. No. 18 of Appendix XI to the Fourth Report (Fourth Lok Sabha)]

##### Action taken

The Committee's observations have been noted. The State Trading Corporation has been asked to review its system of appointing its agents/distributors and to submit its review notes to the Ministry for further consideration.

[Ministry of Commerce Note No. 32(20)/66. ST dt. 12-1-1968]

##### Further information called for by the Committee

(a) When did the Ministry of Commerce undertake the review in the matter of appointment of agents and distributors so as to ensure that the most experienced and reliable distributors at the least margin of profit are appointed.

(b) Has the review been completed?

(c) If so, please furnish the details of the review and the action taken in pursuance thereof.

(d) If the review has not been completed, please state the reasons for the inordinate delay.

[LSS D. O. No. 2(1)/29/67/PAC dt. 7-8-1968]

##### Reply of Government

The Ministry had written to the STC on 16-1-1968 to undertake review and forward proposals to the Ministry. Accordingly the STC undertook a review of the system of appointing agents and distributors and submitted a note to the Ministry on 27th March, 1968. A copy of this note is attached (Annexure). It was noticed that the improvements suggested were not adequate. In the meantime, Government appointed an Expert Committee under the Chairmanship of Shri . . . . . to make a review of the trading techniques and methods of the State Trading Corporation and its present

organisational structure with a view to taking necessary steps for strengthening and improving its operational efficiency.

The system of appointment of STC's agents/distributors will be specifically covered by this Committee and Government will take suitable action on the receipt of the Committee's recommendations.

(Ministry of Commerce O. M. No. 32/20/66-ST, dated 14-8-68).

#### ANNEXURE

##### *Import, Distribution and Appointment of Agents by S. T. C.*

The State Trading Corporation's role in generality of cases of its imports is mainly of a regulatory nature. In order to enable it to exercise due control over the margin of profit of the importers and for proper distribution of the goods to the consumers, Government issues licenses to the Corporation with Letters of Authority, with or without certain conditions attached to it, to a third party who actually imports the goods. According to the conditions of the Letters of Authority contained in the Red Book, the holders of Letters of Authority are to act only technically as 'agents' of the licence-holders both at the time of clearance through the customs and also subsequent thereto. The object of this regulation appears to be to prevent trafficking in permits and import licences and to keep the Letter of Authority holders anchored to their licences and the goods imported under it and to ensure due performance of their obligations. The true relationship between the licensee viz., the Corporation and the holder of a Letter of Authority, however, depends upon the terms of the agreement that may be entered into between the two. For that reason all persons importing goods on the licences issued in the name of the Corporation do not necessarily become agents of the Corporation despite the use of the word 'agents' in the wording of the regulation. They may at best be described as 'Business Associates' whose relationship would be governed by the specific terms of the agreement entered into with them. This position has been recognised in Judicial pronouncements also. It has been held that this regulation under the import control orders cannot be stretched beyond the specific purpose for which it was issued without making serious inroads into the contractual rights of the parties and without avoiding manifestly absurd results.

The importing/selling/distributing agents utilized by the Corporation may be broadly categorised as follows :—

##### 1. *State Agencies :*

The S. T. C. tries to employ as far as it can, State agencies for selling/distributing the various items imported by it. In this category will also fall certain items which the S. T. C. handles departmentally.

##### 2. *Associations/Consortia of Erstwhile Importers/Actual Users:*

The S. T. C. gives encouragement to the formation of Associations, Consortia of erstwhile importers/actual users who take over the distribution of the items in preference to dealing with individual importers; selling and distributing agents in keeping with the Government's policies in this regard.

##### 3. *Indian Manufacturers/Actual Users:*

The S. T. C. imports a fairly large number of items required by the Indian manufacturers/actual users, one or more of which are utilised

as selling/distributing agents also. Such distribution, however, is based strictly according to the allocations given to the S. T. C. by the various technical authorities like the D. G. T. D., Drugs Controller, etc.,

#### 4. *Indian Agents of Foreign Suppliers :*

Where 'after-sale-service' is obligatory and essential or the imported goods are 'Proprietary' in nature and only the agents appointed by the principals/manufacturers are in a position to arrange for 'after-sale-servicing', training of Indian technicians for providing 'after-sale-service', etc., the S. T. C. accepts and utilises the services of such Indian agents of foreign suppliers, who are capable and have proficiency in their respective fields.

#### 5. *Imports of items by Licenced Dealers:*

In such a case the S. T. C. transfers the import licence to the licence holders who import and sell them. For instance, under the present licensing system no body can handle cartridges except the licensed dealers.

#### 6. *Ad hoc Arrangements :*

On rare occasions, where the S. T. C. has to import certain items to meet the critical shortage of the same within the country and there is no regularity of imports, it makes *ad-hoc* arrangements for import and distribution. For example, import and distribution of tyres were undertaken by the S. T. C. as a rescue measure to meet the internal shortage.

The above categories are broadly explained in the following paragraphs:--

##### 1st Category

In the 1st category of cases, the goods are imported directly by the Corporation for the use by the Government/Semi-Government Departments, Public Sector Undertakings, etc. After-sale-services are provided by the Indian agents appointed directly by the foreign suppliers in which the Corporation has no hand in respect of such products. Examples under this category would be rifles for Police Departments, drilling equipment for the Government/Co-operative Milk Schemes, marine diesel engines, fish finders, refrigeration units, road vans, etc., for the Ministry of Food and Agriculture, Department of Fisheries and Animal Husbandry, textile machinery for the Co-operative Societies as recommended by the Textile Commissioner, machine tools for the Hindustan Machine Tools Ltd., ball bearings for the Railways, Bharat Heavy Electricals Ltd., and Small Scale Industries Departments of State Governments.

Besides, in a few items the Corporation has also its own departmental distribution arrangements for a few imported materials. In such cases the Corporation imports the goods directly, stocks them and sells them directly under its own control and supervision. Direct distribution by the Corporation affords maximum scope for ensuring distribution in the desired manner and ensuring that the goods reach those who actually need them. The Corporation has in this manner already handled milk powder, mutton tallow, soyabean oil, mercury, sulphur, rock phosphate, etc., departmentally. Such departmental handling is resorted to in only a few selected cases and is helpful in rationed distribution and in checking malpractices by the middlemen in over-charging, adulteration and adoption of unfair trading practices. But the Corporation is not in a position to handle all items departmentally,



because firstly, it has limited staff and resources and secondly, the intention of the Government policy seems to be to utilise, as far as possible, the established distributing channels.

### *2nd Category*

There are certain items of high profit margin but the requirements of which are thinly spread out. There is a substantial gap between the imported prices and the retail prices of these items. The Government has entrusted such items to be imported and distributed through this Corporation with a view to mop up the substantial profit margins which would otherwise go to the middle-men. In the distribution of the items of this nature, the Corporation makes use invariably of the already established trading channels, viz., the established importers or the associations of established importers who arrange their distribution at prices and conditions laid down by the Corporation. For example, most of the chemical and pharmaceutical items imported by the Corporation are distributed through organisations like Chemicals and Alkalies Distributors Ltd., Dyes Distributors Ltd., India United Chemicals Distributors, Tatas, Imperial Chemical Industries, Northern India Chemicals Distributors, etc. Similarly, for the distribution of ball bearings through the established importers, the Corporation utilises the services of the Ball Bearings Distributor's Association. In these cases the Corporation obtains the import licences, negotiates the prices and transfers the licences to the associations after obtaining Letters of Authority and regulates the sale in the best interests of the consumers.

In the arrangements for the distribution of items like cloves, cassia, nutmegs, etc., the work of import, financing, unloading, transport and distribution is done by the United Spices Association who act on behalf of and on the strength of the import licences issued to the Corporation.

### *3rd Category*

The Corporation is also required to import a number of items for which allocations are given in advance by various technical authorities like the D. G. T. D., Drugs Controller, etc., for the use by the Indian manufacturers/actual users. These items generally go into the manufacturing process and the final product is then sold by the fabricators throughout the country. In such cases, though the Corporation procures the import licences, practically the entire work relating to imports and distribution is done by the Actual Users themselves on the basis of the Letters of Authority in their favour. The import of the Corporation is arranged to secure advantage of bulk purchasing, etc. While some of the items can be sold outright, for distribution and sale of other items, one or more of these manufacturers/actual users are appointed as the Corporation's agents. Examples under this category will be flour milling machines, tool and alloy steel, shoe grindery, motor cycle tyres and tubes, ball bearings, JLO engines and certain chemical items.

### *4th Category*

In certain cases, the very nature of the goods imported is such that they are covered by guarantees regarding performance and need after-sale-service for a specified period. Such goods also involve supplies of spare parts/components and replacements. The provision of these services is the responsibility of the firm supplying the machinery. As the Corporation has at present no arrangements of its own to undertake such services and cannot, therefore, handle the items, the Indian agents appointed by the foreign suppliers are recognised by the Corporation for the distribution and servicing,

provided the agents of the foreign suppliers do not have adverse reports in the past and are regarded as sound and competent to undertake the task. The prices at which these goods are imported and distributed as well as the margin/commission allowed to these agents are fixed by the Corporation, after taking all relevant facts into consideration. Before authorising imports, clearance from indigenous angle as well as certificates of essentiality of imports are obtained from the D. G. T. D. and other concerned authorities like C. W. P. C., D. G. H. S., Ministry of Education, etc. The items falling under this category are generally technical in nature and include various kinds of machinery and engineering goods and spare parts. Examples are machine tools, tractors, printing machinery, earth-moving machinery, laboratory and scientific instruments, dental, medical and surgical instruments, electrical and electronic instruments and apparatus and chemical items. The agents who handle them should have certain facilities recognised by the foreign suppliers. After effecting necessary checks as indicated above the Corporation approves their appointment.

The Corporation then enters into an agreement with the importing firms spelling out the specific responsibilities to be discharged by the firms in such matters as arranging imports, selling the imported goods to various consumers, the manner in which the sales are to be effected, the ceiling selling prices to be charged, provision of adequate after-sale-service and supply of spare parts/components needed for the proper maintenance of the machines, submitting periodical certified returns of sales, etc., to the Corporation and such other matters to ensure smooth and orderly import and distribution.

A specimen copy of such an agreement is annexed herewith. The salient features of such an agreement are:—

- (a) The Business Associates are required to sell the goods to the actual users within a ceiling selling margin on the CIF landed cost as prescribed by the Corporation;
- (b) The Business Associates are required to furnish to the Corporation periodical sales returns duly certified by a Chartered Accountant giving the particulars of the parties to whom the imported goods have been sold and also giving the price break-up; and
- (c) The Business Associates are required to guarantee satisfactory after-sales-service and supply of spare parts and components to the actual users for proper maintenance.

#### *5th Category*

In the case of big actual users it has been already stated that the licences are generally to be transferred to them under a letter of authority of import. The actual users convert these goods and sell according to the market conditions on which the Corporation exercises no control. In a rare case it may happen that the person who actually imports sells the articles without processing it. For instance, because of our licensing system nobody can handle cartridges except the licensed dealers. In such a case the Corporation transfers the import licence to the licence holder who imports the item and sells it.

#### *6th Category*

While most of the goods imported by the Corporation fall under one or the other category mentioned above, there are occasions when the Corporation import certain goods which cannot be classified in any of the above

mentioned five categories and are, therefore, treated on 'ad hoc' basis. The example under this rare category would be tyres which was undertaken only once so far, as a special case. The Corporation's imports and distribution of tyres stood on an entirely different footing. During the period since its inception, it handled imported tyres only under certain peculiar circumstances when the country was facing an acute shortage of certain specific varieties of tyres for meeting the internal requirements. The prices of tyres were also spiralling very high at that time. The Corporation's induction into the field was, therefore, mainly for rescue operations to meet the country's internal demand. The special nature of such goods is that though these do not require after-sale-service as such, they invariably require warranty of performance for a specific period. Sales of such goods to the ultimate users involve privity of contracts between the foreign suppliers and the distributors in which the Corporation has no specific responsibility to shoulder. *Ad-hoc* arrangements are made for distribution of the goods under this category for which reliable and experienced distributors are usually selected on the recommendations of the foreign suppliers.

A point has now been raised that the present system of selection and appointment of Indian agents of foreign suppliers for the imports and distribution of the goods should be re-examined and changed in as much as the present practice is believed to leave some scope for the agents to wield pressure through the foreign suppliers on the Corporation. It has been suggested that the importers or the sole distributors should determine their agents and not the foreign manufacturers/suppliers who can only insist on quality service, but not on the selection of individual dealers for their products.

Such a change has been suggested perhaps with a view to select such parties as can render best services in the sale of those imported goods and at the minimum margin of profit. For machinery items, these services primarily consist of providing after-sale-service, arranging repairs when necessary and providing spare parts, components, etc. It is in the interest of their trade with India that the foreign suppliers themselves entrust sales to such firms as can do justice to their products and create a good reputation for the manufacturers among the consumers in the country. Moreover, the suppliers from the East European countries are not enthusiastic in doing business through such firms as have connections with the suppliers from the other countries and *vice-versa*.

It may be recalled that India's trade with the East European countries has recorded a considerable increase and diversification during the last 10 to 15 years. The Corporation also played an important role in this growth and diversification. As a matter of fact, quite a substantial portion of the Corporation's imports, for which the Indian agents are nominated by the foreign suppliers for import and distribution, is from the East European countries. As the present trend indicates, India's trade with these countries will increase further in the years to come. At present most of the Indian agents of the East European suppliers are comparatively new comers who have been handling the imports and distribution of important items like machine tools, tractors, other machinery and instruments for the past 8 to 10 years. During this period, these firms have been able to build up an organisational structure and have acquired the necessary experience and expertise in providing after-sale-service for the machines of East European makes sold by them to a large number of users within the country. Any attempt to impose restrictions in the matter of selection of firms and to change these tie-ups is likely

to be resisted by the foreign suppliers and may not, even when changes have been made, result in any appreciable improvement in the service. It is further apprehended that any change in their present mutual understanding and relationship may retard the progress of future growth of the trade between India and these countries. Further-more, a substantial amount of trading risk is involved in the import of such materials, which may remain partly or wholly unsold for a long period upsetting all economies of import, etc. Only a party which has a long-term stake and interest may be prepared to do so. In this context, it is only the Indian agents of the foreign suppliers who would be most competent and best placed to handle such imports and their distribution. From the Corporation's point of view also, it would be advantageous to have such imports made through those Indian agents who could be held responsible, at least in part, for any short-comings of their principals, such as delays in supplies, defective packing or quality of material, etc.

It would not be out of place to mention here some of the recent experiences of the Corporation in attempting to bring about a change in the present system of selection and appointment of agents in the field of import and distribution of certain goods from the East European countries. The Corporation has already entered into contracts for import of 2,000 tractors from Czechoslovakia of which 1,000 will be in knocked down condition. At our insistence and persuasion the Czech suppliers have agreed to these tractors being imported and distributed through the Agro-Industrial Corporations of the State Governments. But in so far as imports of tractors from the U.S.S.R. is concerned for which the Corporation has entered into contracts for import of 4,000 tractors, it has not been possible to make the Soviet suppliers agree to these tractors being similarly imported and arranged through the State Agro-Industrial Corporations or any organisation other than their own nominees, agents. The Soviet suppliers are of the view that their tractors have got some special features and their techniques are quite different from those of other makes so much so that neither the Agro-Industrial Corporation of the States nor any organisation in the country other than those with whom they have already established business relationship in the form of training the necessary technical personnel, etc., would be in a position to handle this trade in a smooth and satisfactory manner. They, therefore, feel that the present system of import and distribution through their agents/nominees would be in the best interest of themselves as well as of India. Thus while we have been able to achieve some success in the field of Czech tractors, we are meeting a stiff resistance in the case of the U.S.S.R. tractors.

In these circumstances, it is felt that no single or uniform method for appointing agents of imported goods would be desirable or practicable. The agency to be utilised would differ according to the category of business to be handled. For commodities where it is possible to select a State-owned/supported agency or Agro-Industrial Corporation, the same would be preferred. There may be here and there an odd or exceptional case where we may have to lean on a private party even though no after-sales-service is required, for example, in the case of imported tyres, where a warranty may be necessary for its performance.

From the foregoing, it would be seen that the Corporation has been utilising as far as possible the services of the trading channels previously in existence in respect of the commodities falling within the categories Nos. 1, 2, 3 and 5 mentioned on page 2 of the note. These agencies are either the

actual users or the erstwhile importers or their associations or the licenced dealers or the State agencies. As regards the category No. 4, efforts are made to effect the imports and distribution of the goods through the agencies other than those nominated by the foreign suppliers. The Corporation will continue its efforts to effect such imports and distribution through the dealers or firms selected by the Corporation itself at the earliest opportunities possible.

In all cases, however, necessary vigilance and safe-guards as may be required from time to time will continue to be observed by the Corporation.

[S.T.C. Note, dt. 27-3-1968 submitted to Ministry of Commerce on Import, Distribution and appointment of Agents by S. T. C.]

#### **Further information called for by the Committee**

Please intimate when the Report by the Expert Committee under the Chairmanship of Shri P. L. Tandon to review the trading techniques and methods of the S. T. C. and its present organisational structure is likely to be received.

Please also furnish the precise terms of reference of the Committee.

[LSS D. O. No. 2(1) 29/67/PAC, dated 7-9-1968]

#### **Reply of Government**

The interim Report of the Committee under the Chairmanship of Shri Tandon has been received. The terms of reference of the Committee are indicated below :

- (i) To make a review of the trading techniques and methods of the S.T.C. and its present organisational structure with a view to take necessary steps for further strengthening and improving its operational efficiency;
- (ii) The Committee will in particular review :
  - (a) The trading techniques and practices of the STC in relation to such items of trade as have been canalised for exports and imports through the Corporation ;
  - (b) The organisation, programme and methods of work of the foreign offices of the Corporation; and
  - (c) The administrative and organisation arrangements at the Headquarters and the Regional Offices of the Corporation.
- (iii) In the light of this review, the Committee will submit its conclusions and recommendations on matters which require urgent decision and action within three months. It will submit its final report within a period of six months.

[Ministry of Commerce O. M. No. 32 20 66-ST, dt. 21-9-68)]

#### **Further information called for by the Committee**

In para 26 of the Interim Report submitted by the Committee set up to review generally the working of STC, the Committee have referred to the criticism about STC's Agency and distribution arrangements and stressed the need to review carefully their existing procedures and system with a view to securing reliable and experienced dealers.

The precise lines on which such reviews are proposed to be carried out may please be indicated. It may also be indicated when the final Report of the Committee is due.

[L. S. S. D. O. No. 2(1) /29/67-PAC, dated 30-11-1968].

#### Reply of Government

This was taken up with the Review Committee. The Ministry is informed that it is too early for the Committee to give an indication of the lines in which such reviews will be made. The final report of the Committee is expected by the end of May, 1969.

[Ministry of Commerce O. M. No. 32(20)/66-ST, 9-12-68].

#### Further information called for by the Committee

In para 14 of the Report submitted by Shri Joneja, Commissioner, Civil Supplies, Ministry of Commerce regarding the lapses on the part of the S. T. C. it has been suggested that the S. T. C. should have a fresh look into the system of indirect trade (stock and sale) and see if a provision should be made for some reasonable control being exercised on the quality of the material being imported with a view to protecting the interests of the consumer and conserving foreign exchange.

Please furnish a note showing the action taken by the Commerce Ministry on the suggestion made above.

[L. S. S. D. O. No. 2(1) /29/67-PAC, dated 30-11-1968].

#### Reply of Government

The recommendation made in the Report has been specifically brought to the notice of the STC Review Committee. The Ministry is informed that the Committee will examine the recommendation made by Shri Joneja.

[Ministry of Commerce O. M. No. 32(20)/66-ST, dt. 9-12-68].

#### Recommendation

1.81. "As regards the appointment of M/s. Ramakrishan Kulwant Rai as agents for the import of tyres from Hungary, the Committee do not desire to comment on it at this stage as it is understood that the matter is under scrutiny by the Central Bureau of Investigation."

[S. No. 19 of Appendix XI to the Fourth Report (Fourth Lok Sabha)]

#### Action taken by Government

It is understood that the Central Bureau of Investigation has not completed the scrutiny.

[Ministry of Commerce Note no. 32(20)/66-ST, dt. 10-7-1968].

### DEPARTMENT OF SUPPLY

#### Recommendation

1.129. "It is strange to note that a copy of the letter of February, 1963, on the file of the Inspection Wing of Director General, Supplies and Disposals addressed by the Inspectorate at Calcutta regarding unsatisfactory storage conditions of tyres in the stocks of M/s. Ram Krishan Kulwant Rai

was diarised in the office of the Director General, Supplies and Disposals but not put on the file. The Committee desire that this suppression of an important letter may be looked into with a view to fixing responsibility."

[S. No. 28, Appendix XI of the 4th Report of the F. No. (Fourth Lok Sabha)]

#### Action taken

This lapse of suppression of an important letter has been examined and additional change for this has been framed against the Deputy Director and the dealing Assistant concerned. Department Enquiries are in progress.

[Deptt. of Supply, Note No. 13 (17)/67-PI, dt. 20.1.68]

#### Recommendation

1.135. "After the injunction of the High Court is vocated the Committee would like to be informed of the action taken against this firm. As a result of the enquiry by the Special Police and the results of the disciplinary proceedings against the officer concerned, the Committee would like to know whether there was any collusion between the officers and this firm. The Committee would also like it to be ascertained whether there are any grounds for taking any action against any of the other firms involved in the import and supply of these tyres."

[S. No. 30 of Appendix XI of the 4th Report of the P. A. C. (Fourth Lok Sabha)].

#### Action taken

The injunction of the High Court against the firms M/s. Ram Krishan Kulwant Rai, has not yet been vocated. Further action against the firm is, therefore, pending. The result of the enquiry by the Special Police Establishment and the results of the disciplinary proceedings against the officers concerned are still awaited. Action taken to be taken against other firms is under examination.

[Deptt. of Supply Note No. 13 (17)/67-PI, dt. 20-1-68].

#### Further information called for by the Committee

"The Department of Supply and Ministry of Commerce may be requested to intimate the result of examination of the question of taking action against other firms involved in the import of tyres.

[Lok Sabha Sectt. D. O. No. 2(1)/29/67PAC, dt. 7-8-68]

#### Reply of Government

The matter has been examined and it is observed that no action against any firm other than M/s. Ram Krishan Kulwant Rai is called for.

[Deptt. of Supply Note No. 13(17)/67-PI, dt. 17-8-1968]

NEW DELHI;  
April 28, 1969  
Vaisakaha 8, 1891 (Saka)

M. R. MASANI,  
Chairman,  
Public Accounts Committee.

## APPENDIX

### *Summary of Main Recommendations/Observations of the Eighty-Fourth Report of the Public Accounts Committee*

Sl. No.	Para No.	Ministry concerned	Conclusions/Recommendations
1	2	3	4
1	1-2	Commerce Deptt. of Supply	The Committee hope that final replies in regard to those recommendations to which only interim replies have so far been furnished will be submitted to them expeditiously after getting them vetted by Audit.
2.	1-11	Commerce	The Committee observe that under the present system of 'indirect trade' adopted by the State Trading Corporation there is possibility of collusion between suppliers and their agents in India which may result in the sub-standard goods being imported. The committee would like Government to take effective steps to remedy this weakness in the system, so that the interests of consumers are protected and precious foreign exchange is not dissipated in such imports. The Committee note in this connection that this question is under examination by the State Trading Corporation Review Committee.
	1-12	Do.	The Committee note that an Expert Committee set up to review the working of the State Trading Corporation have in their interim Report underlined the need for reviewing the existing agency and distribution arrangements of the Corporation with a view to securing the services of reliable and experienced dealers. The Committee hope that the Expert Committee would be able to spell out in their final Report the precise lines on which the arrangements in this regard should be reorganised.
	1-13	Do.	The Committee appreciate that, in the matter of imports, the State Trading Corporation acts largely as an agent of Government. The experience of the Corporation with the transaction relating to tyres suggests that Corporation will have to evolve what the Expert Committee have termed "a system of regular consultation with Government, Industry and Trade", so that import requirements could be realistically assessed and decisions in this respect reviewed in the light of market conditions and modified if necessary. The Committee observe in this connection that a substantial proportion of imports made by the



1	2	3	4
			Corporation is from East European countries. The imports from these countries are generally regulated by periodical Trade Plans. The Committee would like all proposals for imports under these Plans to be critically examined, so that only items that are really necessary and competitive in quality and price are imported. In this connection, the Committee would like to invite attention to their observations in paragraph 2-28 of their Fifty-fifth Report (Fourth Lok Sabha.)
3.	1-18	Commerce	The Committee trust Government will examine in the light of the findings of the Central Bureau of Investigation what action against these officials is called for.
4	1-22	<u>Deppt. of Supply</u> <u>Defence/Defence production.</u>	The Committee hope that Government will consider in the light of the findings of the Central Bureau of investigation the question of taking appropriate action against various officials.
5	1-26	Deppt. of Supply	The Committee trust that speedy steps would be taken by Government to recover the excess payment of Rs. 1-83 lakhs made to M/s. Ramkrishan Kulwant Rai.
6	1-30	Commerce	The Committee note from the opinion of the Solicitor General that the State Trading Corporation had no legal or financial liability in terms of the agreements for imported tyres which were not sold or for the loss incurred by the importers in the transaction. The Committee note that a number of other issues were also posed before the solicitor General. They hope that in the light of the Solicitor General's opinion on these issues, action will be taken by Government to streamline the existing arrangements between the corporation and its business associates, agents etc.
7	1-42	Deppt. of Supply	The Committee note that the question of taking appropriate action against M/s Ramkrishan Kulwant Rai is under the consideration of Government. They would urge that a decision on this issue should be taken by Government expeditiously.
8	1-50	<u>Commerce</u> <u>Deppt. of Supply</u>	The Committee observe from the information furnished to them that the four firms which imported tyres received the following sums from their principals abroad, for payment of compensation for defective tyres supplied by them to various parties:

1	2	3	4
		Name of the firm	Amount (in lakhs of Rs.)
		1. M/s. Ram Krishan Kulwant Rai	6.19
		2. M/s. General Industrial Store Supplying Co.	6.17
		3. M/s. Khema & Co.	2.24
		4. M/s. Consolidated Equipment Co.	0.21

While three of these firms have agreed to pay compensation and are in the process of settling claims on this account, M/s. Ram Krishan Kulwant Rai has not agreed to pay any compensation on the plea that claims are time-barred. The Committee consider this attitude unethical and would like Government to consider what action could be taken against the firm in this regard. The Committee would also like the Department of Supply and State Trading Corporation to ensure that pending compensation claims are expeditiously settled by the other three firms.

1-51

Commerce  
Deptt. of Supply

The Committee have earlier in this Report drawn attention to the necessity to ensure that imports arranged by the State Trading Corporation through their business associates are of the specific quality. The experience in this case suggests that it might be necessary for the Corporation to evolve some arrangements to ensure that where imports arranged by their business associates turn out to be sub-standard, the actual users are adequately compensated.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
<b>DELHI</b>					
24.	Jain Book Agency, Connaught Place, New Delhi.	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sant Narakari Colony, Kingsway Camp, Delhi-9.	96
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	<b>MANIPUR</b>		
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27	<b>AGENTS IN FOREIGN COUNTRIES</b>		
32.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C.-2.	59

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