P.A.C. No. 179

PUBLIC ACCOUNTS COMMITTEE (1967-68)

TWENTY-SIXTH REPORT

(FOURTH LOK SABHA)

[Appropriation Accounts (Civil) 1965-66 and Audit Report (Civil), 1967 relating to the Ministries of Finance, Industrial Development & Company Affairs (Department of Industrial Development) and Steel, Mines & Metals (Departments of Iron & Steel and Mines & Metals) and Action taken by Government on the recommendations of the Public Accounts Committee contained in 20th Report (Fourth Lok Sabha)]

LOK SABHA SECRETARIAT
NEW DELHI

April, 1968/Chaitra, 1890 (Saka)

Price : *Rs.* 1·55

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(1967-68)

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Shri R. M. Bhargava—*Under Secretary.*

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*Declared elected on the 30th November, 1967 *vice* Shri Mohammed Yunus Saleem ceased to be a Member of the Committee on his appointment as Deputy Minister.

**Ceased to be a Member of the Committee w.e.f. 1-4-1968.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, do present on their behalf this Twenty-sixth Report (Fourth Lok Sabha) on Appropriation Accounts (Civil), 1965-66, Audit Report (Civil), 1967 and Audit Reports (Commercial) 1966 and 1967 relating to the Ministries of Finance, Industrial Development and Company Affairs (Department of Industrial Development) and Steel, Mines and Metals (Departments of Iron and Steel and Mines and Metals) and Action taken by Government on the recommendations of the Public Accounts Committee contained in 20th Report (Fourth Lok Sabha).

2. Audit Report (Commercial) 1966 was laid on the Table of the House on 17th May, 1966. The Appropriation Accounts (Civil), 1965-66 together with the Audit Report (Civil), 1967 was laid on the Table of the House on 7th April, 1967. The Audit Report (Commercial) 1967 was laid on the Table of the House on 20th June, 1967. The Audit Report on the Accounts of the Coal Board for the year 1965-66 was laid on the Table of the House on 23rd June, 1967.

3. The Committee examined these cases at their sittings held on 25th October, 1967 (AN), 26th October, 1967 (FN) and 28th October, 1967 (AN). The Committee considered and finalised this Report at their sitting held on 8th April, 1968. Minutes of the sittings of the Committee form Part II* of the Report.

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

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

6. They would also like to express their thanks to the officers of the Ministries of Finance, Industrial Development and Company Affairs (Department of Industrial Development) and Steel, Mines and Metals (Departments of Iron and Steel and Mines and Metals) for the co-operation extended by them in giving information to the Committee.

NEW DELHI;
April 11, 1968.
Chaitra 22, 1890 (*Saka*).

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

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CHAPTER I

MINISTRY OF FINANCE

Audit Report (Commercial), 1966.

Kolar Gold Mining Undertakings—Section XXIV—Pages 253-261

Introduction, Para 1.

1.1. The Kolar Gold Mining Undertakings were taken over from 1st December, 1962 by the Government of India from the Mysore State under the Mines and Minerals (Regulation and Development) Act, 1957. Prior to this, the Undertakings were worked as a departmental concern of the Mysore State Government from 29th November, 1956, when they were taken over from the erstwhile Kolar Gold Mining Companies. The compensation payable by the Government of India for the acquisition of the Undertakings from the State Government, after making certain adjustments, amounted to Rs. 307.47 lakhs, out of which a sum of Rs. 306.39 lakhs was paid up to 31st March, 1965, leaving a balance of Rs. 1.08 lakhs to be adjusted against a sum of Rs. 6.21 lakhs due from the State Government. The Undertakings are now working as a subordinate office under the administrative control of the Department of Economic Affairs of the Ministry of Finance.

1.2. The primary object of nationalisation of the mines was to prolong their longevity by maximising the working of the low grade ore and intensifying the developmental and exploratory work, so that the industry might offer continued employment and bring larger revenues to Government. The position of ore reserves, both payable and low grade, since nationalisation is indicated below:—

	Payable reserves	Low grade reserves	Total reserves
	(Figures in lakhs of M.		tons)
As at the end of December, 1956 .	19·76	18·47	38·26
,, ,, ,, March, 1958 .	19·96	20·44	40·40
,, ,, ,, March, 1961 .	21·37	22·40	43·77
,, ,, ,, March, 1962 .	21·22	23·23	44·45
,, ,, ,, March, 1963 .	20·20	21·90	42·10
,, ,, ,, March, 1964 .	19·82	22·84	42·66
,, ,, ,, March, 1965 .	18·32	21·46	39·78

Agreement with consultants—Para 2.

1.3. The services of Messrs John Taylor and Sons who were appointed by the Government of Mysore as the Consulting Engineers for a period of 5 years from 29th November, 1956 (the date of nationalisation) and re-appointed for a further period of 5 years from 29th November, 1961 have been retained up to 29th November, 1966 by the Government of India on the take-over of the Undertakings under a new agreement dated 20th March, 1963.

1.4. Under the terms of the agreement the Consulting Engineers are responsible for assisting and advising the Undertakings in the mining operations including development and expansion programmes, proper maintenance and working of the plant and machinery and purchase of plant, machinery and stores from abroad and also for training and guiding the Indian employees, particularly the technical, so as to fit them for positions of higher responsibility. They were entitled to an annual remuneration of Rs. 4 lakhs (tax deductible at source) in addition to free furnished quarters and other fringe benefits for their two representatives at Kolar Gold Fields. They have also one of their representatives on the Board of Management of the Undertakings.

1.5. On 21st July, 1964 Government requested the Consultants to prepare a comprehensive report on past mining operations for gold in India indicating the promising areas where prospecting and exploration work could be undertaken. They were paid a sum of Rs. 16,000 in September, 1964 towards fees for the preparation of the report, plans, etc. The report has not, however, been received so far (December, 1965).

1.6. The Shipping Companies were allowing an immediate rebate of 9½ per cent. or a deferred rebate of 10 per cent. on freight for all shipments from Europe made by the Consultants in London for the Undertakings. The Consultants did not pass on the benefit of the rebate to the Undertakings.

1.7. At the instance of Audit, the matter was taken up in September, 1960 with the Consultants who agreed in February, 1962 to pass on all the rebates, but asked to be allowed to retain the rebates received upto 29th November, 1961 on the ground that the amounts realised by way of rebates were expended to facilitate shipping. In January, 1963 orders were issued by Government allowing the Consultants to retain the rebates received by them from the date of nationalisation *viz.* 29th November, 1956 to 31st May, 1961 amounting to Rs. 45,556. The rebate due after 31st May, 1961 is being credited to the Undertakings.

Utilisation of the Milling Plants—Para 3.

1.8. The following table gives the rated capacity of the milling plants in the mines of the Undertakings and the utilisation thereof during the period from April, 1962 to March, 1965:—

Particulars	April, 1962 to November, 1962 (8 months)	December, 1962 to March, 1964 (16 months)	1964-65	Remarks
1	2	3	4	5
(i) *Mysore Mine*				
(a) Rate capacity (M. tons)	1,30,637	2,61,274	1,95,956	Plant could not be worked to capacity bacause of the closure from July, 1959 of the bottom section of the mine which contained low grade ore.
(b) Ore milled (M. tons):	83,010	1,53,059	1,21,340	
(c) Percentage of utilisation.	63·54	58·58	61·92	
(ii) *Champion Reef Mine*				
(a) Rated capacity (M. tons)	1,30,637	2,61,274	1,95,956	The shortfall during the period from December, 1962 to March 1965 was due to outbreak of fire during 1962-63 and unprecedented rock bursts in November, 1962, July, 1963, and August, 1963 which rendered the rich ore reserves of the southern wing of the mine inaccessible for mining.
(b) Ore milled (M. tons)	1,33,720	1,78,060	1,04,049	
(c) Percentage of utilisation	102·36	68·15	53·10	
(iii) *Nandydroog Mine*				
(a) Rated capacity (M. tons)	1,74,183	3,77,396	2,83,047	The shortfall during 1st December, 1962 to 31st March

1	2	3	4	5
(b) Ore milled (M. tons)	1,88,858	3,56,590	2,62,826	1964 was mainly due to the break-down of the armature of the winder motor of the main shaft of the mine.
(c) Percentage of utilisation	108·43	94·49	92·86	

1.9. It will be seen from the above table that the capacities of the mills have not been utilised to the full.

Cost of production—Para 4.

1.10. The table below indicates the total cost and the cost per metric ton of the ore milled and the quantity of gold extracted and the cost thereof during the last four accounting periods:—

	1961-62	April, 1962 to November, 1962 (8 months)	December, 1962 to March, 1964 (16 months)	1964-65
(a) Total ore milled (M. tons)	5,55,690	4,05,588	6,87,709	4,88,215
(b) Total cost on revenue account (in lakhs of Rs.)	457·94	318·41	558·75	386·95
(c) Cost of ore per M. ton (in rupees)	82·41	78·51	81·25	79·26
(d) Value of ore recovered (Gms) per M. ton.	7·64	6·92	6·69	7·88
(e) Total gold extracted (in lakhs of Gms.)	42·46	28·07	45·99	38·46
(f) Cost of gold extracted (in rupees) per Gm.	11·80	12·46	13·01	11·3

Cost reduction measures—Para 5

1.11. With a view to achieving reduction in the working cost, the Management requested the Consultants on 27th January, 1963 to examine the working of the mines and allied establishments. The Consultants in their Report submitted in February, 1963 attributed the high working cost to the following factors:—

1.12. (a) The cost of mining had gone up over the years with increasingly difficult working conditions, inflationary tendencies, the provision of greater benefits to employees and ancillary public services and the ever increasing taxation. According to the Consultants an analysis of the cost structure showed that 69 per cent. of the total expenditure was the maximum that could be controlled by the Undertakings.

1.13. (b) The labour cost alone amounted to Rs. 6.60 per gram of gold produced which is nearly 23 per cent. more than the International Monetary Fund price of Rs. 5.36 per gram for gold. This made the working of the mines impossible even on break-even basis.

1.14. The Consultants recommended in February, 1963 that reduction in the cost of production could be achieved by increasing the scale of production by exploiting new areas of rich ore and that the immediate saving lay in axing the labour expenses by a process of combination of retrenchment of unproductive labour and increase in the productivity of the labour retained. They also recommended centralisation of various standardised functions, accurate budgeting and costing, the speeding up of the presentation of cost figures for prompt control and adoption of certain specific economy measures (such as the closing down of redundant hoisting shafts, intensifying the search for high grade miscellaneous ore, increasing supervision, etc.)

1.15. In July, 1963 the Management appointed two Committees to examine in detail the report of the Consultants and to suggest ways and means for its implementation. The recommendations of the Committees submitted in December, 1963 were considered by the Management in April, 1964 and certain proposals for reduction of working costs based on these recommendations were approved by Government in June, 1964. With the full implementation of the approved economy schemes the Management expect to effect an annual saving of Rs. 80 lakhs (approximately).

The details of the schemes and progress made so far in the implementation thereof are indicated below:—

Sl. No.	*Brief description of the approved schemes*	*Progress made in implementation*
1	2	3
1	Amalgamation of Mysore and Champion Reef Mines	The mines were amalgamated on 1st January, 1965, but the object of eliminating overheads and establishment charges of one unit has not been achieved, as the proposal to effect economy to treat the ore of both the mines at the Champion Reef Mill has not materialised so far. Action to effect the necessary alterations in the Mill is stated to be in progress.
2	Centralisation of workshop services	The Mysore Mines Workshop started functioning as a miniature Central Workshop with effect from 1st October, 1964. Its expansion at a cost of Rs. 24·75 lakhs to cater to the needs of the mines and outside parties was referred to the National Industrial Development Corporation Limited for scrutiny. The report of the Corporation is understood to have been submitted to the Ministry of Finance.
3	Centralisation of civil engineering services	The Committee had recommended the constitution of a Central Estate Department which would have resulted in a reduction of 300 labourers. The Management, however, decided that the Works of recurring and permanent nature should be done departmentally instead of being entrusted to contractors.
4	Centralisation of purchases	The purchases have been centralised in order to secure benefit of bulk purchases and to eliminate over-stocking. As a result of centralisation, 7 clerks are expected to be surplus.
5	Retrenchment of surplus personnel	As a result of amalgamation of Mysore and Champion Reef Mines and

1	2	3
		centralisation of the services at serial Nos. 2, 3 and 4 above, the Management anticipate surplus staff of 3,282. A special scheme known as "Voluntary Retirement Scheme" was introduced in November, 1964 at a cost of Rs. 58·21 lakhs as an incentive to workers to seek retirement. The scheme was open up to 28th February, 1965. The services of 642 personnel out of 1,472 applicants were retrenched up to 31st March, 1965, the total payment towards special compensation being Rs. 13·67 lakhs.
6	Revision of the basis of accident pay and sick pay benefits.	The revision of the present basis of the calculation of accident pay and sick pay benefits is under consideration.
7	Revision of basis for calculation, of Undertakings' contribution to pension fund.	In respect of the covenanted staff the Management have decided that only a contribution at the rate prescribed for recovery from the foreign employer in the case of Government servents on foreign service should be charged to the Revenue Account with effect from 17th February, 1965 as against the existing rate of 25 per cent. of the basic salary.

1.16. In addition, the Management have taken the following other steps to reduce the cost:—

(Rupees in lakhs)

Steps taken	*Anticipated annual savings.*
1	2
(a) Stoppage of further recruitment	16·12

1	2
(b) Stoppage of normal overtime works	1·15
(c) Elimination of casual labour at Mysore and Champion Reef Mines	0·57
(d) Reduction in Sunday work for sanitary staff	0·40
(e) Stoppage of special increments	0·10
(f) Reduction in domestic power consumption . . .	0·04
(g) Discontinuance of insurance except for marine and third party risks	1·20
(h) Sundries—contributions, donations, etc.	0·07
(i) Introduction of new scales of pay for the covenanted staff with effect from 26th August, 1964	2·50
TOTAL	22·15

1.17. One of the two Committees also recommended that (i) a study team from the Central Labour Institute of the Ministry of Labour, Employment and Rehabilitation and the Staff Inspection Unit should be requested to conduct a time and motion study to assess the work-load as well as the adequacy or otherwise of the daily rated personnel and the staffing requirements of monthly rated personnel and (ii) a team of high level technical experts should be requested to examine the mining techniques employed at present and suggest further improvements with a view to maximising the production with minimum cost.

1.18. As regards (i) above, a team from the Central Labour Institute is currently making the study; regarding (ii), the Undertakings requested Government in April, 1964 to take necessary action. Government constituted a Technical Committee for this purpose in January, 1965. The report of the Committee is still awaited (November, 1965).

1.19. The Committee desired to be furnished with a note on the following points:—

1. Note showing the results achieved after the schemes recommended by the Consultants were implemented.
2. What were the actual savings during each of the years 1964-65 to 1966-67 under the various heads as a result of the steps taken by the management.

3. To what extent the labour cost per gram of gold had come down after the implementation of economy schemes.

4. What steps had been taken to increase the productivity of labour and with what results during 1964-65, 1965-66 and 1966-67.

5. A statement showing the main recommendations of the Technical Committee constituted by Government in January, 1965 and the action taken by Government thereon. If the Report had not been received, the likely date of its submission.

1.20. The Ministry of Finance have intimated that in pursuance of the recommendations of the Consultants the following economy measures have been taken:

(1) *Amalgamation of Mysore and Champion Reef Mines (which were woking separately) into one unit*

1.21. The amalgamation was made effective from 1st January, 1965. The decision to work only one mill instead of two mills has also been implemented, with the difference that instead of working the Champion Reef Mine Mill, now the Mysore Mine Mill is being worked. This decision was consequent on the production at the Champion Reef Mine being less, being affected by the closure of the Glen Ore Shoot and subsequently the Northern Folds. It may be added that the position now is that compared to the strength of the staff which had been included in the budget of 1963-64, for the Mysore and Champion Reef Mine sections, there has been a depletion of the strength by 2887 men upto 1964-65, 440 men in 1965-66 and a further 252 men in 1966-67 in the amalgamated mine. As a result of these measures, it is estimated that the savings that accrued were of the order of Rs. 60 lakhs per annum computed on the basis of the wage structure etc., taken into account in the Budget for 1963-64.

2. *Centralisation of Workshop services*

1.22. The Kolar Gold Mining Undertakings were operating one workshop for each of the three mining units where manufacturing as well as maintenance and repair jobs for the particular unit were being undertaken. There was also a Tungston Carbide Tipping Plant in each unit. It was considered that centralisation of manufacturing work and employment of mass production techniques would lead to economy in costs.

1.23. The Mysore Mines workshop started functioning as a miniature Central Workshop w.e.f. 1st October, 1964. This has resulted in the immediate achievement of certain economies on account of such centralisation. The effect of this has been assessed as involving a saving of about Rs. 7.73 lakhs per annum. However, it may be added that it was envisaged that a new Central Workshop would have to be constructed, as the Mysore Mine Workshop requires substantial internal re-arrangements, and there was no scope for the expansion of the workshop as the ground around is subject to subsidence which precludes installation of modern workshop machinery therein. This matter was reviewed in consultation with the National Industrial Development Corporation and construction of a Central Workshop involving a capital expenditure of about Rs. 19 lakhs has been sanctioned on 28th April, 1967. When this is constructed, there would be further economies, by manufacture of certain items on a mass production scale and expansion of production of Tungston Carbide tipped drill rods, which are being sold on commercial basis to outside parties.

3. *Centralisation of civil engineering services*

1.24. The Consultants had recommended the constitution of a Central Estate Department and the entrustment of a substantial part of the work to contractors or by engagement of casual labour. It was however, decided by the Board of Management that the work of a recurring and permanent nature should be entrusted to regular staff. The position now is that the staff strength has undergone a reduction of 109 men during 1964-65, 1965-66 and 1966-67 resulting in an annual saving of about Rs. 2 lakhs.

4. *Centralisation of purchases*

1.25. As a result of centralisation of purchases, a certain reduction in the clerical strength has been effected resulting in a saving of Rs. 0.15 lakh per annum.

5. *Revision of the basis of Accident Pay and Sick Pay benefits*

1.26. The position in this case is that the dearness allowance paid in addition to the accident pay computed under the Workman's Compensation Act has been frozen at the rate that was admissible on the 31st March, 1965.

6. *Revision of basis for calculation of the Undertakings' contribution to Pension Fund*

1.27. The contribution to the pension fund was revised during the year 1964-65 and is now based on the rate prescribed for recovery from foreign employers in the case of Government servants on foreign service. This has resulted in an annual saving of about Rs. 1.5 lakhs.

1.28. In regard to the actual savings during each of the years 1964-65 to 1966-67 under the various heads as a result of the steps taken by the

management, the Ministry of Finance have stated that the actual savings during each of the years 1964-65 to 1966-67, were as under:—

	1964-65	1965-66	1966-67
		(Rs. in lakhs)	
(a) Stoppage of further recruitment	16·12	16·12	16·12
(b) Stoppage of normal overtime work	1·15	1·15	..
(c) Reduction of casual labour at Mysore & Champion Reef Mines	0·57	0·57	..*
(d) Reduction in Sunday work for Sanitary Staff	0·40	0·40	0·40
(e) Stoppage of special increments	0·10	0·10	0·10
(f) Reduction in domestic power consumption	0·04	0·04	0·04
(g) Discontinuance of Insurance except for marine and third party risks	1·20	1·20	1·20
(h) Reduction of contributton, donaons, etc.	0·07	0·07	0·07
(i) Introduction of new scales of pay for Convenanted staff w.e.f. 26-8-1964	1·45	2·50	2·50
	21·10	22·15	20·43

*Savings did not accrue due to mining conditions such as flooding of the mine, repairs to the Mine buildings on account of rockbursts etc.

1.29. In regard to the labour cost per gram of gold the Ministry of Finance have stated that the cost of labour in the total extraction costs was as follows:—

	Rupees per gram
1961-62 (As per report of Consultants)	6·60
April November, 1962 (8 months)	7·04
December, 1962 March, 1964 (16 months)	7·89
1964-65	6·57

1.30. During 1965-66 the cost would have been Rs. 6.63 per gram, but for increases in the wages and dearness allowances from 1st April, 1965 following an agreement with labour, in conciliation proceedings. This pushed up the actual figure to Rs. 7.33. During 1966-67 the figures of labour costs, excluding the rise in the level of wages and dearness allowances would have been Rs. 7.15. The actuals were over Rs. 8.97 per gram on account of such revision. It may also be added that the present I.M.F. rate is Rs. 8.44 per gram. It may be stated that during 1965-66 and 1966-67 there was a loss of gold production due to natural calamities, which has pushed up the *pro rata* cost per gram.

1.31. As regards the steps taken to increase the productivity of labour during 1964-65, 1965-66 and 1966-67, the Ministry of Finance have stated that "The mines in the Kolar Gold Mining Undertaking have had incentive schemes devised and in force for nealy 15 years now. In order that the productivity of labour could be further improved to the extent possible, the question of revising the incentive bonus scheme was remitted to a Technical Committee which was appointed in 1965 to review the mining techniques employed and suggested further improvements. Six working groups were formed and the non-resident members visited the Undertakings for a field study in June, 1965. The Committee met a few times, but before it could make appreciable progress, it had to be reconstituted in August, 1966, as many of its members had retired and a few were transferred to other places. The reconstituted Committee met once in November, 1966 and again in February, 1967 and three working groups were formed. A draft report of one of the groups has been prepared and the Committee will consider it shortly. The Chairman of the Committee, who has been requested to expedite the submission of the Report, has stated that on present anticipations, their Report may be ready in about three months' time. However, as the Report of this Committee has unfortunately not yet become available, an *ad hoc* Committee of the Management of the K.G.M.U. has been recently constituted to review the incentive schemes and suggest improvements which might lead to increased labour productivity. In this connection, it may be mentioned that the overall productivity of labour is affected by the mining conditions prevailing in the mines. Mining conditions in the Kolar Gold Mines, which are very old and amongst the deepest in the world, are admittedly very difficult. Maintaining over all productivity under such conditions would itself need effort. During 1965-66 and 1966-67 particularly, the mining conditions have been considerably affected by several natural calamities, which in turn, have affected production, especially in the Champion Reef Mine. In the Nundydroog and Mysore Mines, however, the productivity measured in terms of ore mined per machine shift has been maintained."

1.32. The Study Group of the Public Accounts Committee during their visit to the Kolar Gold Mining Undertakings in January, 1968 were informed that the Central Mining Research Station, Dhanbad and National Metallurgical Laboratory have not been able to help in any significant way in tackling the problems of gold mining.

1.33. In a note furnished at the instance of the Committee the Ministry of Finance have stated that the financial results for 1966-67 were as follows:—

(Rs. in lakhs)

Value of Gold & Silver		210·77
Sundry Receipts :		
Revenue Account.	10·26	..
Profit & Loss A/c	2·02	12·28
		223·05
Deduct		
Costs	389·87	..
Royalty	25·97	..
Depreciation.	19·27	435·11
	Loss .	—212·06
Interest on Capital.	..	25·26
		—237·32
Government capital employed as on 31-3-1967.	..	523·61

1.34. As regards the broad reasons for the losses incurred in 1966-67 and the measures taken to minimise the losses, the Ministry of Finance have stated that there has been a shortfall in gold production during the last two years on account of two factors:

(i) shortfall in the tonnage of ore milled; and

(ii) decline in the grade of ore.

The second factor is not really a controllable item, more so when natural calamities have restricted the mining operations and the sequence of stoping etc., to be followed. In regard to the shortfall in the tonnage itself, it may be explained that there have been major natural calamities in the Kolar Gold Mining Undertakings which have rendered large areas temporarily inaccessible for mining and affected production. The major calamities and factors are enumerated below:—

Champion Reef Mine

1.35. (1) A major rockburst took place on 26th November, 1962 in Champion Reef Mine affecting the whole of the Glen Ore Shoot and the Sourthern Ore body of this mine. This section of the mine was contributing about 40 per cent—50 per cent of the total budgeted gold (per annum) for this mine.

(2) An outbreak of major fire occurred in the Northern Folds section of Champion Reef Mine, resulting in sealing off the area from July, 1965 to February, 1966.

(3) During 1966-67, there were three short fires which retarded production.

(4) Due to unprecedented rain during September|November, 1966, parts of the mines were flooded and, therefore, mining operations were affected. (Against an annual average rainfall of 23 inches, during 1966 the rainfall was 58 inches most of it in a short span.)

(5) In December 1966, due to ground movement, the sub-Auxiliary shaft and associated levels were damaged by a series of rockbursts.

Mysore Mine

1.36. The Mysore Mine which is a very old mine, has limited reserves and considering the technical aspects like sequence stopping, etc., production has to be restricted. It may also be stated in this connection that even when the Centre took over the Kolar Gold Mining Undertakings it was known that the Mysore Mine had got limited reserves and would get exhausted soon. However, there was a discovery of fairly rich reserve of ore in the Kempinkote area of the mine in 1964 and exploration and development has already established the presence of about 50,000 short tonnes (45,360 tonnes) of ore reserves. Even so, as already stated above, mining has to be restricted on technical consideations. Quite apart from this, the unprecedented rains during September|November, 1966 have flooded certain areas in the mine and this has also affected production in 1966-67.

Nundydroog Mine

1.37. During 1965-66, accident to No. 2 auxiliary shaft retarded the production. The production in 1966-67 was affected due to unprecedented rains which flooded parts of the mine.

1.38. The gold produced at Kolar Gold Mining Undertakings is priced at the I.M.F. rate, after the Central take over. (The I.M.F. price in dollars was fixed decades ago, and there have been substantial increases in material costs and wages, dearness allowance etc. since then which have affected the cost of production; the only revisions in the rupee prices have been the changes brought about by the change in the par value of the rupee.) This accounts for the losses in Kolar Gold Mining Undertakings. It has also to be mentioned that the Kolar Mines are very old and very deep mines, and this factor has to be kept in view in considehing the cost of production and the losses. The loss for 1966-67 was Rs. 237.32 lakhs.

1.39. The Undertakings have been passing through a difficult phase on account of various natural calamities and increases in working costs due to rise in material costs and wages with increases in dearness allowance etc. The losses in the Undertkings would tend to lessen when production at K.G.M.U. increases, and the temporary difficulties caused by the present adverse mining conditions, (following several natural calamities) are overcome. With this object in view, an Expert Committee was set up early in 1967 to recommend measures to be taken (including the mining techniques to be adopted), to re-open the Northern Folds of the Champion Reef Mines which are rich in ore. The report of the Committee has been received recently. The Committee have reported that it would be feasible to mine substantial quantities of gold at a reasonable cost by reopening the section, adopting the measures that they have indicated. These recommendations are now under examination by the Inspectorate of Mines Safety. This scheme, when implemented, would result in increased production from the Champion Reef Mine, in about 12 to 18 months. The cost of production of gold would then show a decline and the loss would thus tend to be reduced.

1.40. Quite apart from this, there is also a scheme for expanding the production of ore at the Nundydroog Mine which has been taken up and which is expected to be implemented in the course of another 12 months or so. This would expand the production at the Nundydroog Mine to 28,000 S. Tons of ore a month and would also tend to reduce the cost of production and hence the losses.

1.41. The Committee pointed out that the object of taking over the mine was to get larger revenues and desired to know whether that obejctive had been achieved. The witness stated that there had been some setbacks, but the working life of the mines would undoubtedly be prolonged as a result of taking over the mines and in due course an increase in the output and revenue was expected.

1.42. The Study Group of the Public Accounts Committee during their visit to the Kolar Gold Mining Undertakings in January, 1968 were informed that the most promising mine, with a richer gold content was Champion Reef but unfortunately it suffered rock bursts in November, 1962, *i.e.* a few days before it was taken over by the Central Government. Rock bursts were stated to be a peculiar phenomenon in Kolar as the rock formation there was comparable to layers of glass put together rather than layers of card-boards with the result that when pressure became unbearable, the rocks flow apart like pieces of glass, causing extensive damage.

1.43. The mining operation in Champion Reef Mine had to be suspended below 8,000 feet because of the rock bursts. Continuous research work had also been done on these problems in the University at New Castle Upon Tyne through the good offices of the Consultants. The latest report by a Committee headed by the Chief Director of Mines and Safety had recommended adoption of certain new techniques to resume the mining in Champion Reef. The Report had been set formally to the Directorate of Mines Safety for according permission to resume mining. It would take about two years to reopen this area of the mine and another five years to reach optimum conditions for exploitation. The reserves in this mine were estimated at present at 1,00,000 ounces of gold and it was anticipated that the cost of the production might work out less han the I.M.F. price of gold. Another advantage of resumption of mining in this area might be to provide significant clues for mining new areas with promising gold content.

1.44. The Committee desired to know whether the Ministry had analysed the reasons for the deterioration in the utilisation of milling plants and if so, what steps were proposed to be taken to improve the position. The Secretary, Ministry of Finance stated that these mills were installed over five decades ago with a capacity relevant to the period of working. It was decided to combine the work of the two mills and to use the other one as a standby. But the important fact was that some of the ore streaks were running out and the total output was somewhat on a diminished scale in the last two or three years. As the level of output increased, the level of utilisation of these mills would also increase.

1.45. On being asked whether there was any proposal to dispose of the Champion Reef Plant, the witness stated "Government expect to get further life out of it. Will be renovated in time to avail of the increased output when it comes up in 18 or 24 months." The cost of renovation of plant was estimated at about Rs. 5 lakhs.

1.46. The Committee pointed out that according to Audit per metric ton cost of ore milled during 1965-66 was Rs. 88.90 while the cost per gram of gold extracted worked out to Rs. 12.85. These figures indicated that per tonne cost of ore milled during 1965-66 was the highest so far. The increase had been stated to be due to decline in the average gade of the ore and increase in the wages and dearness allowance paid to the employees. The Committee desired to know the position during 1966-67. The Secretary Ministry of Finance stated "I am afraid the dearness allowances continued to increase with the increase in cost of foodgrains etc. So, the position did not improve." The representative of the Ministry added that the present cost was Rs. 16,2 per gram. In reply to a question, the Secretary, Ministry of Finance stated that now the cost of gold was 57 per cent higher in terms of rupees. He added: "Unfortunately, during the next year, we do not expect any lowering in the *per capita* labour cost for gold production. We have reduced labour by several throusand people, of course not faster than the decrease in production." The productivity would have to be increased by various means.

1.47. The representative of the Ministry of Finance added "We are consideḥing the question of a system of new incentive bonus under which a group will be given a contract to work at a place and they will be paid on the basis of the results. It is still under consideration."

1.48. If the scheme to pay by results was introduced successfully, the labour cost would come down. "If the output increases and the labour cost comes down we can expect to restore something like the position that existed a few years earlier."

1.49. The Secretary, Ministry of Finance stated in reply to a question that the retrenchment of the surplus personnel since 1963 had been of the order of not less than 3,000 employees. The surplus personnel were reduced by availing of voluntary scheme of retirement and the normal annual wastage. The witness added it was very difficult to estimate the net economy achieved from each measure because "on the one side 3000 men have been reduced whereas on the other side wages *per capita* have been going up, but substantially cost reduction has been gong on....."

1.50. The Study Group of the Public Accounts Committee during their visit to the Kolar Gold Mining Undertakings in January, 1968 were informed that although staff were not retrenched on the occurrence of the rock bursts in Champion Reef, a decision was taken not to fill up vacancies which arose due to retirement, death etc., of staff. The result had been that the total strength of staff had been reduced from 18,000 in 1963 to about 12,900 at present. It was stated that there was scope for effecting further economy in manpower but the management were anxious that it should be achieved without disturbing the industrial peace.

1.51. The Committee desired to know whether the term of the Central Labour Institute had submitted the report, if so, the decision taken on the recommendations of the team. The representative of the Ministry of Finance stated that the report was under discussion between the management and the Labour Institute team. There were some differences of opinion. He added: "I am told they have come to some agreement and the report will be submitted soon."

1.52. The Committee hope that an early decision will be taken in consultation with the Directorate of Safety of Mines to reopen the Northern folds of the Champion Reef Mines which were closed towards the end of 1962 due to rock burst so as to exploit the rich gold ore in the mine. The Committee have nodoubt that while reopening the deep mine adequate safety precautions will be taken to avoid any mishap.

1.53. The Committee note that the mill at Mysore Mine had been working very much below its capacity and the other two mills had not been utilised to their full extent except during the period April to November, 1962. The utilisation of the mill at Nandydroog Mine has also been showing a progressive decline since the date of taken over by the Central Government. The Committee understand that the ore from Champion Reef Mine is being milled at the Mysore Mill and that the milling plants in the Champion Reef Mines did not work during 1965-66. The Committee understand that there is a proposal for expanding the production of ore at the Nandydroog Mine and for reopening the Northern folds of the Champion Reef Mines, which are rich in ore. The Committee would like Government to review critically the working of the milling plants with reference to the production programme of the three mines so as to ensure the most efficient and economic working.

1.54. The Committee also suggest that the Central Mining Research Station, Dhanbad, and the National Metallurgiral Laboratory which are under the C.S.I.R. should be more intimately associated with the Mining problems of the Kolar Gold Mining Undertakings. The advice of the Central Mining Research Station, Dhanbad, may in particular be taken about the dumping and disposal of rejects after the gold is extracted from the ore.

1.55. The Committee note that the Consultants had recommended that excess labour expenses should be curtailed by retrenchment of unproductive labour and an increase in the productivity of the labour retained. The Committee note that the Undertaking has been able to reduce the strength from about 18,000 men in 1963 to 12,900 at the end of 1967. In view of the imperative need for effecting further economy, the Undertaking should work out and introduce an appropriate incentive scheme to improving efficiency and effecting economy.

1.56. The Committee also recommend that the Undertaking should examine and implement the other suggestions of the Consultants for centralization of various standardized functions, accurate budgeting and costing and speeding up the compilation of cost figures for various operations to facilitate exercise of effective control over expenditure.

1.57. The Committee are unhappy that the Technical Committee, which was constituted by Government as far back as in January, 1965, has not so far submitted its Report. They need hardly stress that the Technical Committee should expedite its Report so that Government can initiate concerted measures in the light of its suggestions to improve efficiency and effect economy.

Financial results—Para 6. Sub-para (A)

1.58. The following table summarises the financial position of the Undertakings for the four accounting periods ending 31st March, 1965:—

	1961-62	April, 1962 to November 1962 (8 months)	December 1962 to March, 1964 (16 months)	1964-65
(a) Government capital employed (Rupees in lakhs)	320·10	293·88	357·65	512·67
(b) Total sale proceeds of gold produced (sale of gold including stock less opening stock). (Rupees in lakhs) . .	515·20	334·68	246·99	207·21
(c) Net profit (+) or loss(—) (Rupees in lakhs) . .	+0·32	—25·81	—359·79	—243·6 3

1.59. Though the Undertakings were taken over by the Government of India on 1st December, 1962 no formal sale deed has been executed so far July, 1965).

1.60. In a note furnished at the instance of the Committee the Ministry of Finance have stated that "A draft sale deed was prepared by the Mysore Government and sent to the Government of India. It was returned to them with some modifications in November, 1963. The sale deed contained a schedule notifying the mining areas, which were being transferred to the Central Government. For purposes of clearly specifying the mining areas in the schedule of lands covered by the agreement, it was necessary to conduct a detailed survey of the entire area. The Mysore Government undertook the survey, which has now been completed. The details of the survey, are being examined by them. The limited rights granted to third parties such as for cultivation had also to be reconciled. It is understood that the proposed draft sale deed is under detailed examination of the various Departments of that Government. It is expected that the deed may be finalized in about three months."

1.61. The Committee regret to note that though the Undertaking was taken over by the Central Government on 1st December, 1962, no formal sale deed has been executed so far. They hope that the sale deed will be finalised without further delay.

Tax on the supply of electricity—Para 7.

1.62. According to the provisions contained in Article 287 of the Constitution, the electricity consumed by the Government of India, or sold to the Government of India for consumption by that Government is exempt from tax. The Government of Mysore, however, charged tax on electricity consumed by the Undertakings even after 1st December, 1962 *i.e.* the date on which the Undertakings were taken over by the Central Government.

1.63. After a detailed appraisal of the case the Government of Mysore have agreed to refund the tax already charged by them. The Government of India have simultaneously agreed to the payment to the State Government of a grant-in-aid equal to the amount of the tax. The tax of Rs. 28,93,298 paid by the Undertakings up to 30th November, 1964 is still to be refunded by the Government of Mysore.

1.64. The Secretary, Ministry of Finance stated that the undertaking which was owned by the Government of Mysore was paying electricity tax to the Government of Mysore. At the time of fixing the price, the Government of Mysore had pointed out that they would lose the revenue which they were getting from the undertaking. Then a temporary settlement was arrived at. "After 1st April, 1966, the Finance Commission has taken into account these facts and I think I am right in saying that neither we will give the grant nor they will charge a tax from us. So, it was an interim arrangement which was intended to provided for this factor taking note of the price, that was fixed for taking over the mines."

1.65. In reply to a question, the witness stated that the Government of Mysore had no right to levy the tax on electricity and the tax had been refunded. The Constitution is not circumvented by giving grant-in-aid in view of the facts. The Finance Commission took this into account. They have also recognised this. I would not call it circumventing the constitution."

1.66. In reply to a question, the witness stated "The undertaking perhaps thought that it was payable".

1.67. On being asked whether the approval of Parliament was obtained when the payment of this grant-in-aid was decided upon, the witness stated that this specific grant had been brought to the notice of the Parliament through the Explanatory Memorandum.

1.68. The Committee are enter me by unhappy at with the manner in which the Central Government agreed in Contravention of Article 287 of the Constitution to pay the State Government a grant-in-aid equal to the amount of the tax refunded by the State Government on electricity consumed

by the Undertakings. If the State Government had to be compensated for the loss of duty on electricity consumed by the Undertakings, it would have been better to provide for it specifically while settling the total amount payable for the acquisition of the Undertakings. The Committee the stress that such irregular practice will be strictly eschewed in future.

Stocks and stores—Sub-para (C).

Closing stock and stores:

1.69. The position of stock and stores held by the Undertakings as at the close of the last three accounting periods and the consumption of stores during these periods are indicated below:—

(Rs. in lakhs).

	April, 1962 to Nov. 1962 (8 months)	December, 1962 to March, 1964 (16 months)	1964-65
(a) Value of materials in stock (including in transit) as at the close . . .	115·77	108·93	102·14
(b) Value of materials consumed. . .	83·57	178·37	117·22

1.70. The value of inventories held as on 31st March, 1965 represented about ten months' consumption.

Physical verification of stock and stores:

1.71. The stock and stores in each of the mines were being annually verified by the respective store-keepers of the mines up to July, 1963 when the perpetual inventory system of stock verification by an outside agency was introduced as an experimental measure. Only about 40 per cent. of the total items could be verified during 1963-64 under the new system. This system could not succeed for want of sufficient staff. The Undertakings have again reverted to the previous procedure which is contrary to the normally accepted procedure.

1.72. The Committee pointed out that according to Audit, the stock as on 31-3-1966 represented 13.5 months' of the consumption during 1965-66 and desired to know whether the inventory holding was not excessive. The Secretary, Ministry of Finance stated that the inventory holding must be judged in relation to the nature of the stores. The value of 10 months' consumption was in relation to the monthly rate of issue but there were certain standby stores of a large value which had to be maintained and which might be used once in three years or five years.

1.73. The Committee desired to be furnished with a note on the following points:

(1) What was the value of inventory holding on 31-3-1963 and 31-3-1967 and how many months consumption did it represent.

(2) Measures taken to improve the inventory control.

1.74. The Ministry of Finance have stated that the position regarding inventory holding is as follows:

	Value of inventory holding	Number of months' consumption based on the value of con-consumption of stores during that year.
	(Rs. in lakhs)	
31-3-1963	109·95	9·7
31-3-1967	120·44	12·6

It may be explained that the inventory of stores also includes certain essential stand by items such as wire ropes, sheave wheels and other imported spares etc. for the specialised machinery in Kolar Gold Mining Undertakings. It has been assessed that the value of such items alone would be of the order of about Rs. 37 lakhs in the inventory.

1.75. As regards the measures taken to improve the inventory control, the Ministry of Finance have stated that a certain amount of increase in the inventory has been found necessary in view of the longer time taken for importing certain materials used by the mines. The stocks of certain other essential indigenous materials had also to be augmented on account of the difficult supply position caused by building activity of the Bharat Earth Mover Factory in the Kolar Gold Field area. However, the Managing Director is being instructed to review the inventory levels of the indigenous and the imported items, with a view to keeping them at only reasonable levels.

1.76. The Committee would like the Undertakings to review the inventory levels of the indigenous and imported items of stores with a view to effect maximum economy consistently with requirements.

MINISTRY OF FINANCE

Audit Report (Commercial), 1967

Government Opium Factories at Ghazipur, Neemuch and Mandsaur—Section XXIV, Pages 268-275

Introduction—Para I.

1.77. The main functions of the Government Opium Factories at Ghazipur, Neemuch and Mandsaur are to manufacture (i) excise opium, (ii) export opium, (iii) medical opium, and (iv) alkaloids. The raw opium for the manufacture of the above products is purchased from licensed cultivators after the necessary test for moisture contents and adulterants.

Working results—Para 2.

1.78. (a) The working results of the factories for the four accounting periods ending 31st March, 1965 are indicated below. (with effect from 1st April, 1965, the accounting year which was previosuly from October to September has been changed to April to March. For this reason, the Department has compiled the accounts for the half year ending 31st March, 1965):—

(Rupees in lakhs)

Name of the Factory and the year.	Government capital at the close of the year.	Sales	Net profit.	Percentage of net profit to	
				Capital	Sales
1	2	3	4	5	6
Ghazipur					
Year ending September, 1962	382·83	358·78	106·68	27·87	29·73
Year ending September, 1963	432·78	309·53	45·36	10·48	14·65
Year ending September, 1964.	487·69	303·42	12·48	2·56	4·11
Half Year ending March, 1965 . . .	401·76	194·60	2·51	0·62	1·29

1	2	3	4	5	6
Neemuch.					
Year ending September, 1962	97.14	48·83	10·94	11·26	22·40
Year ending September, 1963	145·99	4·70	0·56	0·38	11·91
Year ending September, 1964	84·33	24·84	—4·80	. .	. .
Half year ending March, 1965	117·48	6·96	—1·31	. .	. .
Mandsaur					
Year ending September 1962	The factory commenced operations on 6th May, 1962.				
Year ending September, 1963	85·[illegible]	(a)	Nil(a)	. .	. .
Year ending September, 1964	7[illegible]·3[illegible]	(a)	Nil(a)	. .	. .
Half year ending March 1965	42·7[illegible]	. .	—1·09		. .

(a) The opium manufactured by the Mandsaur factory is transferred to other factories at cost; there is, therefore, no profit or loss. The small profits of Rs. 284 and Rs. 484 shown in the *pro forma* accounts for the years 1962-63 and 1963-64 represent the 'miscellaneous receipts' of the factory e.g. recovery of house rent from the staff, sale proceeds of Government material, etc.

(b) The loss in 1964-65 was due to the charging of interest on capital in the Profit and Loss Account instead of in the Production Account.

1.79. It will be seen that the profits of Ghazipur factory decreased from Rs. 106.68 lakhs in 1961-62 to Rs. 12.48 lakhs in 1963-64 and to Rs. 2.51 lakhs in the half year ending 31st March, 1965 and that the Neemuch Factory which made a profit of Rs. 10.94 lakhs in 1961-62 incurred losses of Rs. 4.80 lakhs and Rs. 1.31 lakhs in 1963-64 and the half year ending 31st March, 1965 respectively. According to the Management, the factors mainly responsible for the reduction in profits and the incuring of losses were increase in cost of production, less sales and the sale of export opium at a price below the cost of production.

(b) Sundry debtors.

1.80. An amount of Rs. 60.35 lakhs was outstanding for recovery in the accounts of Ghazipur factory as on 31st March, 1965. Out of this Rs. 0.69 lakh were more than 3 years old.

1.81. Explaining the reasons for the losses in the opium factories, the Chairman, Central Board of Excise and Customs stated that the production of opium depended on its demand. Opium was produced for export and for medicinal purposes. "So if demand falls (there are certain overhead charges which remain more or less static) the cost of production goes up." The price of opium abroad was regulated by the price that was charged by the competitors. The export price of opium in recent years had been going down successively. The cost of production in India consisted of two factors, namely, the amount that was paid to the cultivators and the staff who were employed for looking after the collection and manufacture of opium. "In 1965 we had produced relatively a small quantity. This year we have almost doubled it. That is due to demand abroad. This year the cost of production will automatically come down." In reply to a question, the witness stated that there was loss in 1965-66. In 1966-67, there was an overall profit of Rs. 1.14* crores. On being asked whether the opium was exported at a price lower than the cost of production, the witness stated "Not after devaluation. We sell in dollars. The rupees value has gone up. It is a good foreign exchange earner in its own way. We earned 4 crores nearly in foreign exchange."

1.82. The Committee note that the declining trend in profits in these factories in 1963-64 to 1965-66, has given place to a substantial margin of profit in 1966-67 devaluation. The Committee suggest that Government should make a careful assessment of the future demand for the export of opium products for medicinal and other uses so that the production of opium and its products and the working of the factories can be suitably regulated to achieve the best possible results.

Costing system—para 3.

1.83. (a) Under costing system introduced in 1925 cost of manufacture of opium is arrived at by taking into account the quantity of products estimated to be manufactured instead of the actual quantity produced.

1.84. The following observations are made in this connection:—

(i) The system adopted by the factory does not indicate the true cost of production.

(ii) The abkari losses (i.e. manufacturing losses) continue to form part of closing stock till the sanction for their write off is

*Rs. 1.15 crores according to Audit.

received. The manufacturing losses for the years 1954-55 to 1962-63 included in the closing balance of export opium for the period ending September, 1964 amounted to 1,36,761 Kgs. of the value of Rs. 58,46 lakhs. The fictitious closing balance resulting from the inclusion therein of the manufacturing losses completely vitiates the cost of production worked out by the Department.

(iii) The non-adjustment of the manufacturing losses in the Profit and Loss Account results in inflation of profits and this in turn increases the amount of 'Capital' as profits are adjusted to 'Capital' in Departmental Undertakings. With the increase in the amount of 'Capital' the liability of interest charges goes up leading to higher cost of production.

(iv) For the purpose of Profit and Loss Account, the closing stock of the semi-finished alkaloids is valued at 9/20th of the selling price of the drugs manufactured therefrom, whereas in the Production Account closing stock is valued on a different basis.

1.85. As regards items (i), (iii) and (iv) the Ministry have stated (February, 1967) that action has been initiated to have the costing system examined by the Cost Accounts Officer in the Ministry of Finance. Regarding item (ii), it has been stated that "the question of writing off of losses is under active consideration of the Government and as soon as losses are written off the closing balance column will represent truer picture."

1.86. (b) No standards for evaluating the operational efficiency have been laid down in respect of factories at Neemuch and Mandsaur. Certain experiments regarding operational processes like drying of opium without stirring, mixing of opium, stamping of opium cakes, etc. were undertaken from time to time, but these have not reached any conclusive stage so far (November, 1966).

1.87. The Committee desired to know whether the examination of the costing system by the Cost Accounts Officer had since been completed. The Chairman, Central Board of Excise and Customs stated that the officer had completed the examination and had sent a report. The officer had come to the conclusion that the method followed by the Department was by and large correct.

1.88. On being asked about the basis on which the cultivator was paid, the witness stated "We compare it with other cash crops. We calculate how much profit he will make by growing it. Every year we hold a conference to go into the question how much area is to be licensed and what is the price that will be remunerative for him and on that basis we fix the payment."

1.89. The Committee enquired whether any decision had been taken in regard to the write off of losses, the witness stated "So far as writing off is concerned, the matter is under active consideration of the Government and we wanted the Narcotics Commissioner to go into the question very carefully before we took action to write them off. His report has just come and it is under our consideration."

1.90. The Committee desired to know as to when the standards for evaluating the operational efficiency in respect of the factories at Neemuch and Mandsaur were expected to be evolved. The Chairman, Central Board of Excise and Customs stated "We keep on experimenting all the time whether we can improve the system either in drying or packing and so on. This question refers to experiments which had been conducted at Mandsaur at that point of time. Even in Ghazipur we have for example, done research about the effect of fertilisers on the morphine content of poppy. We have been experimenting with various kinds of containers whether they absorb morphine. So far as these two-three experiments (at Mandsaur) are concerned, no definite conclusions could be reached."

1.91. The Committee note that under the costing system introduced in 1925 the cost of manufacture of opium is arrived at by taking into account the quantity of products estimated to be manufactured instead of the actual quantity produced. This system is defective as:

(i) it does not indicate the true cost of production;

(iii) the abkari losses (i.e. manufacturing losses) continue to form part of closing stock till the sanction for write off is received;

(iii) the non-adjustment of the manufacturing losses in the Profit and Loss Account results in inflation of profits and this in turn increases the amount of capital as profits are adjusted to capital in departmental undertakings; and

(iv) for the purpose of Profit and Loss Account, the closing stock of the semi-finished alkaloids is valued at 9/20th of the selling price of the drugs manufactured therefrom, whereas in the Production Account closing stock is valued on a different basis.

1.92. It is evident that all these factors are bound to affect in various ways the Profit and Loss Accounts of these Undertakings. The Committee hope that Government will take suitable measures, in consultation with the Cost Accounts Department of the Ministry of Finance, to resolve all these anomalies and ensure the preparation of the Profit and Loss Accounts on a standardised and acceptable basis. Government should also take early action about writing off the manufacturing losses in the light of the recent Report of the Narcotic Commissioner.

1.93. The Committee would like the Department to intensify its research to improve operational processes for the drying and mixing of opium and the [illegible] of opium so as to improve operational efficiency.

Cost of production— para 4.

1.94. (i) The following table indicates the output and cost of production of the major products of the factories for the four accounting periods ending March, 1965:—

	Year ending 30-9-62		Year ending 30-9-63		Year ending 30-9-64		Half year ending 31-3-65	
	Output	Cost of production	Output	Cost of production	Output	Cost of production	Output	Cost of production
	Kgs.	Rs.	Kgs.	Rs.	Kgs.	Rs.	Kgs.	Rs.
Export opium								
Ghazipur factory . . .	3,96,748	59·60	5,00,587	63·02	3,01,077	68·94	2,76,117	67·01
Neemuch factory . . .	1,55,112	58·28	1,53,970	64·19	1,54,037	66·33	Not available.	
Mandsaur factory . . .	..	..	53,213	61·28	1,10,268	65·76	Do.	
Excise opium (Ghazipur) .	3,104	49·60	2,219	41·37	3,097	95·09	*	
Medicinal opium (Ghazipur)								
(i) IMO Powder . . .	2,783	75·71	3,003	77·06	3,597	79·32	2,499	78·09
(ii) IMO Cake . . .	1,016	61·59	805	69·21	924	68·76	860	63·73
Alkaloids (Ghazipur)								
Morphine and Morphine salt .	215	522·37	246	527·14	302	523·96	246	5[illegible]·76
Codeine and Codeine salt. .	2,051	431·66	2,111	544·20	2,896	497·33	1,420	690·80
Ethyl Morphine Hydro chloride	234	591·66	217	808·36	283	758·30	160	638·8[illegible]

*The production accounts of excise opium and export opium were amalgamated during the period ending 31st March, 1965.

(a) Export opium

1.95. The increase in the cost of production of export opium during the years 1962-63 and 1963-64 was mainly due to the high cost of raw opium, production of larger quantities of inferior opium, increase in the rate of dearness allowance given to the employees and in interest charges, etc.

(b) Excise opium

1.96. It will be seen that the unit cost of production of excise opium in Ghazipur factory went up from Rs. 41.37 per Kg. in 1962-63 to Rs. 95.09 per Kg. in 1963-64. The increase was primarily due to disproportionate allocation of overheads to the closing stocks during the two years. The Ministry have stated (February, 1967) that "the accounts of excise and export opium have been amalgamated with effect from 1st October, 1964."

(c) Medicinal opium

1.97. The increase in the cost of production of medicinal opium during 1962-63 and 1963-64 was generally due to increase in the cost of raw opium, manufacturing charges, etc.

(d) Alkaloids

1.98. During the years 1962-63 and 1963-64 large quantities of good opium were used for the manufacture of semi-refined morphine and semi-refined codeine resulting in high cost of production of the end products. There was also a general increase in the other charges.

(ii) *Increase in district charges at Ghazipur factory*

1.99. The average cost of raw opium purchased from licensed cultivators includes the district charges which are incurred in connection with the cultivation and collection of opium. The district charges for Banaras opium went up from Rs. 1.45 per Kg. in 1961-62 to Rs. 3.50 per Kg. in 1963-64 owing to employment of staff in excess of the norm laid down in the Opium Manual.

The Ministry have stated (February, 1967) as follows:—

> "It is conceded that there has been some surplus staff. Unlike other commercial commodities, opium cultivation is strictly controlled in the light of demand|carry over stock. International Bodies like Narcotics Commission, Drug Advisory Board, etc. exercise strict control over the operations connected with the narcotics. A certain amount of excess staff, therefore, becomes unavoidable when the output is low..... Major portion of the excess staff is permanent and steps are being taken to adjust them to the best advantage of the Government and to utilise them on prevention duties."

1.100. The Committee drew the attention of the Chairman, Central Board of Excise and Customs to the Table on page 271 of the Audit Report (Commercial), 1967 and pointed out that the cost of production of the export opium, medicinal opium (I.M.O. cake) and Alkaloids Morphine and Morphine Salt and Ethyl Morphine Hydro-chloride during 1965-66 had increased over that for the half year ending 31st March, 1965 notwithstanding the increase in the output and enquired the reasons for the increase in the cost of production. The witness stated that "So far as opium itself is concerned, it goes up a little when the area under cultivation or production of opium comes down. They add up to the cost." In 1966-67 the cost of production of the opium at Ghazipur had come down to Rs. 65.10 per kg. as compared to the cost of production of Rs. 67.01 per kg. the half year ending 31st March, 1965.

1.101. In reply to a question. the witness stated that the district charges referred to establishment charges. Establishment charges, freight for bringing the opium from the individual, cultivators and also the handling charges were generally included in the district charges.

1.102. The Committee understand from Audit that the cost of production of the various products manufactured by the three factories during the year ending 31st March, 1966, was as follows:—

	Out-put	Cost of production per Kg.
	Kgs.	Rs.
Export Opium.		
Ghazipur Factory	3,84,942	68·00
Neemuch Factory	1,33,324	62·03
Mandsaur Factory	89,037	60·29
Medicinal Opium (Ghazipur)		
(i) IMO Powder	4,356	74·02
(ii) IMO Cake	1,645	64·66
Alkaloids (Ghazipur)		
Morphine and Morphine Salt	278	591·33
Codeine and Codeine Salt	2,731	638·18
Ethyl Morphine Hydro-chloride	346	801·53

1.103. It is observed that the cost of production of export opium, Medicinal opium (IMO Cake) and Alkaloids (Morphine and Morphine salt and Ethyl Morphine Hydrochloride) during 1965-66 had increased over that for the half year ending 31st March, 1965, notwithstanding the increase in the output.

1.104. The Committee would like the Department to take the help of the Indian Council of Agricultural Research in order to improve the yield and quality of opium.

1.105. The Committee note that the Department have "conceded that there has been some surplus staff" and that this is one of the main reasons for the increase in district charges. The Committee would like Government to review carefully the strength of the staff in consultation with the State Government so as to effect economy consistently with security considerations.

1.106. Opium losses occur because of adhesion, assay variation and handling at various stages, for instance, in procuring, storing, drying, etc. The loss is not worked out at each stage. The table below indicates the manufacturing and storage losses (in terms of percentage) over and above the normal prescribed limits and their value during the three years ending September, 1964:—

(a) Ghazipur factory

	Year ending 30-9-1962	Year ending 30-9-1963	Year ending 30-9-1964
Manufacturing loss			
Actual loss	3·12%	2·62%	The manufacturing losses have not been worked out after 1962-63. The manufacturing losses during the years 1954-55 to 1960-61 ranged between 1·71 per cent and 4·43%.
Loss beyond prescribed limit (2%)	1·12%	0·62%	
Value of loss beyond prescribed limit (Rupees in lakhs)	3·22	1·63	

1.107. The Ministry have stated (February, 1967) that "the circumstances under which losses have risen to 4.43 per cent. are under investigation."

(b) Neemuch and Mandsaur factries

1.108.

	Neemuch			Mandsaur		
	30-9-1962	30-9-1963	30-9-1964	30-9-1962	30-9-1963	30-9-1964
Manufacturing and storage loss.						
Actual loss . .	5·03%	5·99%	4·39%	4·17%	5·68%	3·56%
Loss beyond prescribed limit (3·5%)	1·53%	2·49%	0·89%	1·67%	2·18%	0·06%
Value of loss beyond prescribed limit (Rupees in Lakhs)	1·71	2·29	0·52	1·06	0·54	0·04

(c) *Transit losses*

1.109. During April, 1963 Mandsaur factory despatched 20,521 Kgs. of up-graded opium to Ghazipur factory against which the latter acknowledged only 18,797 Kgs. The value of the quantity of 1,724 Kgs. not received amounted to Rs. 1.13 lakhs (approximately). The Ministry have stated (February, 1967) as follows:—

"The Deputy Narcotics Commissioner has reported that according to the practice then in vogue, dried opium consignments received from Mandsaur and Neemuch factories were not previously weighed bag-wise and sampled immediately on receipt. The quantity at 70 C of such dried opium was determined at the time of packing in the Akbari Section. As such the loss noticed in the consignment sent from Mandsaur is not the total transit loss only. It is attributed to turn of scale, assay variation and to some extent transit loss. The correct practice of weighing the bag on receipt is now being followed."

1.110. Sanction of the write-off of the losses mentioned in sub-paras (a) to (c) above is still (December, 1966) awaited.

1.111. The Committee desired to know (i) the circumstances under which the manufacturing losses had gone up in 1962-63 and (ii) whether the investigation in regard to the circumstances under which the manufacturing losses had risen to 4.43 per cent had been completed. The Chairman, Central Board of Excise and Customs stated, "An enquiry was made. We have collected statistics over a period of ten to twelve years. These losses have been varying from about 2 per cent to 4.4 per cent and the average comes to about 3.2 per cent. The reasons for the losses are due to various difficulties in assay, in weighment and so on."

1.112. In reply to a question the witness stated that upto the limit of two per cent the field officers had been given powers to waive the loss. "Beyond that, they have to come to Government. We can then make a thorough enquiry if we so desire."

1.113. The Chairman, Central Board of Excise and Customs stated that the opium was transported under security guards. "Unfortunately, it was weighed only when the opium was being packed." "This was a natural loss and not only transit loss. The loss may have occurred on account of difference in weighment. This is a sticky substance. The sample from the same bag can be different at different levels. There are also sometimes differences in what is called 'assay'. Some loss comes in transit in the wagon itself. When a wagon starts from the other end, the opium is kept duly sealed. If weighment had been done at both ends, as soon as it reached the destination, we could have known as to whether there was loss in transit in the opium's weight."

1.114. In reply to a question, the witness stated "Some new system has been recently introduced and we hope that this uncertainty (regarding transit loss) will be eliminated."

1.115. In a note (Appendix I) furnished at the instance of the Committee, the Ministry of Finance have stated that "Opium being an extremely viscous substance, some irrecoverable loss at different stages in its handling is inevitable. It is also difficult to keep any accurate quantity account of opium in terms of weight, as its weight varies from layer to layer and even at different spots of the same layer in a vat depending on the moisture content. The losses may be attributed to the following factors:—

(1) Loss due to oozing out of opium from bags.

(2) Handling of opium at different stages.

(3) Sticking of opium to the bags, vats and floors, trays and to the hands and feet of workers.

(4) Difficulty in making the opium thoroughly homogenous with the result that it is difficult to ascertain the correct moisture content of the lot as a whole, the moisture content varying in different layers thereof.

(5) Errors in sampling or chemical analysis for determination of moisture content.

1.116. It would be observed from the above that both because of the nature of the material and because of the nature of processing to which it is subjected, some irrecoverable loss becomes inevitable. In the factories, adequate security arrangements exist and as such, chances of pilferage are remote."

1.117. In regard to the reasons for losses in manufacturing, the Ministry have stated that "In Abkari Section, the manufacturing losses occur at the following stages:—

(i) *Sun-drying.*—Some opium leaks out from the joints and crevices of the trays or at the time of stirring of opium manually. Though every attempt is made to prevent such losses yet it is inevitable.

(ii) *Handling and Adhesion losses.*—Some wastage of opium takes place at the time of kneading and cutting into loaves. Opium being a sticky substance gets adhered to the hands and feet of the workers and various implements used.

(iii) *Loss due to assay variation.*—Variation in assay means variation in the consistence of opium as determined at the time of receipt of opium in Abkari and again determined at the time of issue after manufacture. Sometimes even at the same stage if different samples are drawn, different results may be arrived at. This is because of the fact that the opium is plastic in nature and being an agricultural produce is not homogenous in composition."

(iv) *Other losses.*—Opium trickles down from the trays when shifted from one place to another for exposure or while the hard operation is carried out. Losses also occur when the broken trays are taken up for re-conditioning or repairing. New trays utilised in the Abkari Yard absorb some quantity of opium. The opium which cannot be scrapped out of such trays results in further loss.

1.118. Besides, some opium is also lost during the rains when the oozing from the trays flow with water and are swept away making any recovery impossible."

1.119. In regard to the manufacturing loss being in excess of the prescribed limit of 2 per cent the Ministry of Finance have stated that "Figures of losses in manufacture in Ghazipur Factory during the period from 1954-55 to 1962-63 are as under:

Year	Manufacturing loss percentage 90°		Value	Percentage of loss with reference to the quantity handed
1954-55 . . .	252·6117	Mds.	2,82,901·89	3·41
1955-56 . . .	258·8135	Mds.	3,17,642·04	3·35
1956-57 . . .	362·7144	Mds.	5,84,193·75	3·30
1957-58 . . .	574·4147	Mds.	10,90,095·90	4·42
1958-59 . . .	565·9781	Mds.	11,20,641·58	4·08
1959-60 . . .	693·6239	Mds.	13,73,473·65	4·37
1960-61 . . .	229·7378	Mds.	4,73,688·64	1·71
1961-62 . . .	15,681·555	Kgs.	8,95,746·43	3·12
1962-63 . . .	10,907·959	Kgs	6,88,199·70	2·62
			68,26,583·58	3·37 (Average)

1.120. In regard to the reasons for losses in storage, the Ministry of Finance have stated that "Opium is handled at different stages in Malkhana, *viz*:

1. Dumping of opium from opium bags to the storage vats;
2. Scrapping of opium bags;
3. Transferring of opium from main vats to mixing vat;
4. Sampling in Import Section and Malkhana;
5. Issuing to the manufacturing sections; and
6. Opium is also handled by the workers of Malkhana to prevent growth of fungus.

All the above operations are responsible for some loss of opium."

1.121. As regards the reasons for losses in transit, the Ministry of Finance have stated that "Opium purchased in the States of M.P. and Rajasthan are taken directly to the factory at Ghazipur, since the bulk of the opium is processed at this factory and exported through the port of

Calcutta. However, about 100 tonnes of opium purchased in the M.P.—Rajasthan area is processed at the factory at Mandsaur. Previously, some opium used to be processed at the factory at Neemuch also. As bulk of the opium supplied to customers abroad is despatched from Ghazipur, the opium processed at Mandsaur/Neemch has to be transported to Ghazipur unless it is despatched directly for export through the port of Bombay at the request of the buyer. Where processed opium is transported from Mandsaur/Neemuch to Ghazipur, the packages are sealed and the consignments are escorted by armed guards in sealed wagons. The question of pilferage in transit is therefore ruled out. However, some difference in weight between the weight recorded at the time of despatch from Mandsaur/Neemuch and the weight recorded at the time of receipt at Ghazipur, is usually noticed."

1.122. The Committee would like to draw attention to the wide variations in the percentage of losses on the quantities handled. It varied from 1.71% in 1960-61 to 4.42 in 1957-58. The Committee consider that as the factors responsible for the losses, *viz.* sun-drying, handling and adhesion losses, assay variations are common from year to year, there might have been other peculiar factors which markedly increased the percentage of losses in one year as compared to another. The Committee suggest that action may be taken on the following lines to reduce losses:

(i) Loss statements for each of the factories should be prepared on a yearly basis, as was being done till 1962-63. The loss occurring at various stages of handling and manufacture should be located and compared with the norm which may be prescribed by Government for losses at different stages of handling and production. Where the losses are markedly high, full investigations should be carried out without delay to locate the reasons and take remedial action.

(ii) As regards losses in transit Government should improve the arrangements for the packing and transport of opium, eliminate errors in weighment by ensuring that weighing scales are accurate and in general tighten security arrangements.

(iii) The Committee would also like Government to intensify research so as to reduce losses in manufacture to the minimum. If necessary, the help of the Council of Scientific and Industrial Research may be taken in this behalf.

1.123. It is understood from Audit that the matter regarding the rise in the percentage of losses to 4.42 per cent and the question whether any norm should be prescribed is being referred to an Enquiry Committee. The Committee will like to be furnished with a copy of the report of the Enquiry Committee as well as of the action taken thereon.'

Stores—Para 6.

1.124. The closing stock of stores at the end of the four accounting periods ending 31st March, 1965 is indicated below:—

(Rupees in lakhs)

	30-9-1962	30-9-1963	30-9-1964	31-3-1965
Raw opium				
Ghazipur	156·65	174·26	178·30	97·09
Neemuch	89·90	89·04	57·44	39·61
Mandsaur	..	57·62	45·88	11·65
Sundry Stores.				
Ghazipur	1·64	2·39	4·65	4·60
Neemuch	0·12	0·05	0·05	0·08

Ghazipur factory

1.125. (i) Physical verification of stock required to be carried out annually was not conducted for the last four years. The Ministry have stated (February, 1967) as follows:—

> "So far as opium is concerned monthly stock estimation is done and the report is submitted by the Factory regarding the book balance and stock as estimated. As regards general stores it appears that there was administrative lapse. The Deputy Narcotics Commissioner has now taken steps to verify the stock."

(iv) An air-conditioning plant purchased in September, 1954 at a cost of Rs. 15,200 for maintaining the temperature inside the opium store room at 70 F. and relative humidity at 45 per cent. to 50 per cent. for which an additional expenditure of Rs. 2,390 on the provision of false ceiling and air-tight room was incurred has not so far (February, 1967) been put to use. The Ministry have stated (February, 1967) that the Director General, Supplies and Disposals has directed the supplier to rectify the defects and put the plant into commission.

1.126. The Committee pointed out that physical verification of stores had not been conducted for the last four years in the Ghazipur Factory. The Chairman, Central Board of Excise and Customs stated "Unfortunately, that is a fact. This has now been done. It has revealed certain surpluses and some minuses. But, the whole thing is being reconciled now."

1.127. In regard to sub-para (iv) of Para 6, the Ministry of Finance have furnished a chronological note (Appendix II) indicating the circumstances leading to the non-commissioning of the air-conditioning plant. The Ministry of Finance have stated that "Drugs generally deteriorate if they are not kept in a cool and dry atmosphere. It is also essential that pollution of drugs should be prevented during the stage of packing. This can be ensured if the room is air-conditioned. It was in view of these considerations that the Director of Medical and Health Services, U.P. Lucknow, advised the Department as early as 1953 to arrange for an air-conditioned room for the purpose of packing and storage of these drugs. There have been no complaints from the public in regard to the quality of drugs supplied but this is probably because there is a seller's market for these drugs owing to the chronic shortage. In this connection, it may be mentioned that as Government is a monopoly producer of these drugs, it becomes all the more essential to guard against any criticism about the standard and quality of the drugs manufactured. Such standard and quality control can be maintained during periods of long storage only through the use of an air-conditioned room for such storage."

1.128. "The indent for the purchase of an air-conditioning plant was placed with the D.G.S. & D. on 20-1-1954. The D.G.S. & D. approved the tender of M/s. Bombay Ammonia and Refrigeration Co. Ltd., and placed the contract with the firm on 20.5.1954. The Department felt as early as 5.6.1954 that the type of starter included in the accepted tender would not serve our purpose and that an automatic self-starter fitted with an overload release device should be used instead There was some correspondence between the D.G.S. & D. and the firm and the D.G.S. & D. and the Department till 11.3.1955 when the Erector of the firm first visited Ghazipur to start the erection work of the plant He, however, left for Delhi on 16.3.1955 and later requested further time for erection. Thereafter there was further correspondence. Ulitimately on 11.7.1955, the Department informed the D.G.S. & D. that when the air-conditioned room was tested by the firm's engineer, the required temperature of 70 F and the required relative humidity between 45 and 50 per cent could not be maintained. From this it appears that the fact that the equipment as supplied by the firm was defective in practice was first noticed some time about July, 1955 even though it was felt by the Department as early as June, 1954 that the plant might not work satisfactorily without an automatic starter."

1.129. "The contracting firm has not yet commissioned the plant in spite of considerable correspondence with them. As the firm have still failed to hand over the equipment in perfect working condition and have thus failed to perform the terms of the contract, the D.G.S. & D., after consulting the Ministry of Law have written to the firm on 25-10-1967, asking them to:

(a) pay back the sum of Rs. 17,000 received by them, with interest at the usual Government rate thereon for the period for which the amount was with the firm;

(b) remove the equipment within one month of the date of issue of the letter; and

(c) pay storage charges for the period the equipment was in the consignee's custody."

1.130. The Committee regret to note that physical verification of stock was not conducted in the Ghazipur factory for the last four years. The physical verification conducted now has revealed certain surpluses and certain shortages. The Committee expect Government to take necessary remedial action and ensure that in future verifications are conducted after prescribed intervals in regard to stocks in all the three factories so as to check misuse or malpractice.

1.131. The Committee are surprised that the air-conditioning plant which was installed in 1955 has not become operative and that it is only now after a lapse of twelve years that Government have written to the suppliers asking them to refund the amount received and to remove the equipment. The Committee hope that the matter will now be finalised without further delay and that proper air-conditioning facilities will be provided at the earliest, to prevent deterioration and pollution of opium drugs during packing. The Committee would like to be informed of the action taken in the matter as also of the progress of recovery of the amount from the suppliers.

CHAPTER II

MINISTRY OF INDUSTRIAL DEVELOPMENT AND COMPANY AFFAIRS

(DEPARTMENT OF INDUSTRIAL DEVELOPMENT)

Non-maintenance of proforma accounts—*Para* 40—*pages* 54-55.

Under Section 3 of the Salt Cess Act, 1953, a cess in the nature of an excise duty is being levied on all salt manufactured in India, and under Section 4 *ibid*, the proceeds of the duty after deduction of the cost of collection, are to be utilised for meeting the expenses incurred by Government on the Salt Organisation and on the measures taken in connection with the manufacture, supply and distribution of salt.

2.2. The following table shows the receipts on account of cess and expenditure. during the five years ended with 1965-66:—

(In lakhs of rupees).

Year.	Receipts	Expenditure	Excess of receipts over expenditure
1961-62	83·83	47·24	36·59
1962·63	83·75	43·22	40·53
1963-64	86·97	39·32	47·65
1964-65	83·84	56·27	27·57
1965-66	96·14	60·04	36·10
TOTAL	434·53	246·09	188·44

2.3. No *pro-forma* accounts of the receipts on account of cess and the expenditure therefrom, as required under Rule 18 (1) of the Salt Cess Rules, 1964, had been prepared so far (December, 1966) by the Salt Commissioner, although the form for the same was finalised as early as in 1959. Government had stated (December, 1966) that the question of setting up a Statutory Cess Board was under consideration, that a regular cess account would be maintained when the Board was established, and that the Salt Commissioner had been instructed to maintain the accounts in the prescribed *pro-forma* from the year 1966-67 onwards, notwithstanding the fact that there is no separate Cess Fund in existence.

2.4. The Secretary, Ministry of Industrial Development and Company Affairs stated during evidence, that the requirement for the preparation of the proforma accounts arose not in 1959 but in June, 1964 when the Salt Cess Rules were amended, and that the proforma accounts were not required earlier. The witness added that it was an omission on the part of the Salt Department in not having prepared the proforma accounts since 1964.

2.5. In regard to the responsibility and action taken against the defaulters, the Secretary stated that it was for the Salt Commissioner to have had them prepared and that they had been asked to be more careful in future. The accounts for the current year were under preparation. He further explained that the proforma accounts were actually thought of in connection with setting up the Salt Cess Fund and since the fund was not established the Salt Department thought that the proforma accounts were to be maintained only when the Salt Cess Fund was created as such. He said further, "Since the fund was not created, they overlooked this requirement, and I think it was a clear oversight on their part."

2.6. The Committee hope that pro-forma accounts of the receipts on account of Cess and the expenditure therefrom will now be maintained as required under Rule 18(1) of the Salt Cess Rules, 1964.

2.7. In regard to accumulation of the collected Cess with no commensurate expenditure on the objectives envisaged in the Act, the witness stated that the Ministry was aware of this imbalance and had, therefore, had several discussions with the Salt Commissioner for revision of procedures and other details to equalise expenditure with income from the cess.

2.8. The representative of the Ministry elaborated that in regard to the expenditure out of the Cess, rules were to be framed for disbursing the money for improvement of Salt industry. A Committee headed by the then Minister of Industries soon after the Act was passed recommended appointment of a Central Salt Board. In 1962, in one meeting, the Cabinet decided that such a Board should be formed, but in another meeting in 1962 itself, it decided that there was no need for it. Therefore the rules could not be framed till that time. They were ultimately framed in June, 1964. As there were considerable difficulties in obtaining sanction for money for development activities the question about forming such a Board was again discussed in 1966. As a result of these discussions between the Ministries of Industry and Finance some improvements in the procedure were made and it was decided to give trial to the revised procedure and if it did not work, the proposal to set up a Central Salt Board would be pursued. The witness added that during the past few months many of the proposals for grants for development purposes proposed by the Ministry of Industrial Development were approved by the Ministry of Finance. He said, "It is felt that for sometime we should watch the results before reviving the proposal to form a Board".

2.9. Asked when the Cess was levied, the witness stated that the original cess in the nature of an excise duty was introduced in 1948 when the salt duty was abolished. Keeping in view the original intentions of the Gandhi-Irwin Pact, certain exemptions were given. It was later found that the decision to exempt smaller work might not be legal which was legalised by the Salt Cess Act, 1953. There were several objectives behind levying the cess, such as, to bear the expenditure of the department which was to assist in the development of this industry, to give grants for increased production to make the country self-sufficient, to promote exports and to improve the quality of salt in the small-scale works.

2.10. In regard to the assistance rendered by the Salt Department to small-scale manufacturers of salt to improve quality, increase production and in general make their product competitive both in price and in quality, the Department of Industrial Development have, at the instance of the Committee, furnished a note which is reproduced below:

> "The small-scale manufacturers of salt are encouraged to consolidate their holdings so that their manufacturing area can form into a compact block with consequential improvements both in quality and quantity. If any assistance for realigning their holdings is needed by them, this is provided free of charge and they are advised on how best to lay out their salt works on scientific lines with a view to improving quality. Whenever any area in a multiple licensee factory is released, preference in leasing the area is given to the adjacent licensee so that the area of his holding increases and he is enabled to produce more salt economically. Common services like brine supply channels etc. are kept free of siltation so as to ensure constant and uninterrupted supply of brine to the small-scale manufacturers and help increase in production."

> "Even in the day to day manufacture, our Inspectors and other supervisory staff who are technically qualified to guide them in the manufacture of Salt, visit their salt works and advise them on how to eliminate impurities and to progressively improve quality of salt. This guidance is also given free of charge. They are given necessary guidance in the recovery of gypsum in the precrystallisers and to get better salt by washing their produce after scraping and heaping it in the pans etc. They are also advised to eliminate bitterns at regular intervals whereby the quality of salt would improve. Small-scale manufacturers are also provided the facilities of free analysis of salt samples whereby it can be determined whether the salt manufactured by

them is upto the standard or otherwise. In order to demonstrate scientific methods of manufacturing good quality salt with a view to improve its quality, the Salt Department started a number of Model Salt Farms at important salt producing centres. These farms functioned successfully for about 15 years or so during which period the manufacturers received detailed technical advice and practical guidance in scientific lay-out of salt works, technique of salt manufacture and recovery of by-products etc. These proved to be very educative and by and large, the salt manufacturers appreciated the importance of re-alignment of salt works. In due course of time, it was felt that these Model Farms are no longer required to be maintained and they had amply justified their existence. These were, therefore, progressively closed but there is no gain-saying the fact that the establishment of these Farms did help to educate the small-scale manufacturers appreciably in following scientific methods of manufacturing salt with a view to improve its quality."

"Small-scale manufacturers are regularly advised to form themselves into Co-operative Societies so as to get the benefit of help both from the Centre and the State. By taking on loan the services of an Officer of the Co-operative Department from the Government of Maharashtra, a set of model by-laws were also framed for the guidance of prospective co-operative Societies of small-scale manufacturers. As a result of these efforts, as many as 88 Co-operative Societies are at present engaged in the manufacture of salt. A seminar on the Salt Co-operatives on an all India basis was also organised at Surendranagar in Gujrrat in January, 1966 with a view to highlight the problems faced by the small scale and Co-operative Societies and to find out their satisfactory solutions."

"The Small-scale manufacturers are fully exempt from the levy of cess on salt under the Salt Cess Act, 1953, which, at present, is Rs. 3.50 per tonne of salt produced and issued. This exemption affords a very substantial financial assistance to the small scale sectors and enables them to compete successfully with the major sector of this industry."

"This helps them a great deal in competing with major licensees. One of the objects of the salt cess is to carry out works for the benefit of the salt manufacturers and for the labour working in the salt works. In respect of small-scale manufacturers, cost of these works is borne by the Salt Department to the extent of 2|3rd as against a much lesser proportion in respect of major licensees. Thus, the incidence of development and labour welfare works on the small-scale manufacturers is comparatively much less."

"Small-scale manufacturers comprise generally of people belonging to labour class and, therefore, various welfare measures like rest sheds, drinking water facilities etc. are provided to them in preference to major salt units."

2.11. Asked whether the cess was to be a source of income to Government as the expenditure therefrom was always less than the collections, the witness said, "That is not something on which I can express a view", and added that it was an excise duty proceeds of which accrued to the General Revenues.

2.12. The Secretary stated that they were not considering lowering the quantum of cess but ways and means of increasing the developmental expenditure. The expenditure had been increasing from Rs. 40 lakhs in 1963-64 to Rs. 60 lakhs in 1965-66. The witness added, "We are trying to catch up."

2.13. The Committee pointed out to the witness that apart from technicalities one had to go to the intention of the law and that Mahatma Gandhiji had very strong feelings on this subject of a duty on salt. In case the proceeds of the cess could not be expended for the specified purposes, the obvious course was to cut down the rate of cess which could be enhanced later if the money could be utilised for developmental purposes. The Secretary agreed that this could be one solution and added that the other alternative would be to maintain a separate fund to ensure continuity of expenditure out of balances left over from previous years.

2.14. Section 4 of the Salt Cess Act, 1953 provides:

"The proceeds of the duty levied under this Act, reduced by the cost of collection as determined by the Central Government, shall, if Parliament by appropriation made by law in this behalf so provides, be utilised on all or any of the following objects, namely:

(a) meeting the expenditure incurred in connection with the salt organisation maintained by the Central Government;

(b) meeting the cost of measures taken in connection with the manufacture, supply and distribution of salt by Union agencies and the regulation and control of the manufacture, supply and distribution of salt by other agencies; and in particular measures for:—

(i) the establishment and maintenance of research stations and model salt farms;

(ii) the establishment, maintenance and expansion of salt factories;

(iii) fixing the grades of salt;

(iv) promoting and encouraging co-operative effort among manufacturers of salt; and

(v) promoting the welfare of labour employed in the salt industry.

2.15. The Department of Industrial Development have, at the instance of the Committee, furnished a statement showing the expenditure incurred by the Salt Department on these counts which is reproduced below:

Year	Items I & II	Item III	Item IV	Item V
	Estt. and maintenance of research station and model salt farms, fixing the grades of salt	Establishment, maintenance and expansion of salt factories	Promoting and encouraging co-operative effort among manufacturers of salt	Promoting the welfare of labour employed in salt industry
	Rs.	Rs.		Rs.
1963-64	38,205	6,79,619	Nil.	19,459
1964-65	24,840	8,13,683	Nil.	7,988
1965-66	29,101	6,39,454	Nil	14,753
1966-67	16,168	*5,55,883	Nil	Nil.

*Rs. 5,51,369 according to Audit.

2.16. It is also noticed from the Report of the Salt Department for the year 1965-66 that the expenditure on establishment (both direction and supervisory) of the Salt Organisation during the years 1963-64 to 1965-66 under the head '35—Industries' was as under:

(Rs. in lakhs)

Year	Total expenditure	Expenditure on Direction and Supervisory
1963-64	52·72	35·30
1964-65	53·31	37·25
1965-66	59·12	39·52

2.17. An extract from the Annual Report of the Department of Industrial Development for the year 1966-67 in respect of Central Advisory Board for Salt is reproduced below:

"The Central Advisory Board for Salt advises the Government of India on the administration of the proceeds of the salt cess levied under Section 3 of the Salt Cess Act, 1953 and makes recommendations generally for measures conducive to the development of the salt industry, *e.g.*:

(i) establishment and maintenance of research stations, model farms and salt factories;

(ii) fixing the grades of salt and improving its quality;

(iii) development of exports;

(iv) promoting and encouraging co-operative efforts among manufacturers of salt;

(v) promoting the welfare of labour employed in the salt industry; and

(vi) any other matter pertaining to the development of the salt industry in general.

The Board was last re-constituted in October, 1965.

Similarly, there are six Regional Advisory Boards for the Regions—Madras, Andhra Pradesh, West Bengal, and Orissa, Maharashtra, Gujarat and Rajasthan. These Regional Boards make recommendations to the Central Board on the above lines in so far as their respective areas are concerned."

2.18. The Committee find from the details of expenditure that the Fund collected from the Salt Cess has not been utilised fully for the purposes of development of the Salt industry as was envisaged in Section 4 of the Salt Cess Act, 1953, but the bulk of the expenditure was actually incurred on the establishment and administration of the Salt Organisation. The Committee, would like measures for improving the quality of the Salt promoting the welfare of labour employed in the Salt Industry and for the development of small scale units, particularly those in the co-operative sector, to be intensified.

2.19. Now that the Central Salt Cess Act has been in operation for the last fourteen years, the Committee suggest that a comprehensive review of its working should be conducted to find out how far the objectives of the Act have been fulfilled. The Committee suggest that the help of the Central and Regional Advisory Boards for Salt should be enlisted to achieve the objectives underlying the levy of the Cess.

Okhla Industrial Estate—Appendix I to Para 58—Pages 182-183.

2.20. The Okhla Industrial Estate (Phase I) constructed during 1957-58, by the National Small Scale Industries Corporation, was allotted to small scale industries units under a deed of licence, pending, execution of a lease deed on payment of subsidised rent which was half the economic rent. From April, 1959 the control of the Estate was transferred to the Delhi Administration. A test check of the accounts of the Estate, conducted in December, 1965, brought out the following points:

(i) According to the terms of the deed of licence, in case of default by the factory owners, rent could be recovered from their sureties. The terms also provided for cancellation of allotment and re-entry upon the premises if rent fell into arrears and remained unpaid for two months. Rents aggregating to Rs. 8.21 lakhs fell into arrears upto November, 1965, but no action was taken to enforce the provisions regarding cancellation of the allotments or re-entry upon the premises. The Collector was, however, approached for effecting recovery of Rs. 2:90 lakhs, as arrears of land revenue, in 24 cases in October, 1965.

The Ministry had stated that if all the cases had been referred to the Collector it would have involved protracted litigation besides delay in the recoveries. It had been added that the Directorate of Industries had been able to recover an amount of Rs. 4.90 lakhs by persuasion. No recovery was made through the Collector.

(ii) In April 1962, the Delhi Administration decided to charge full economic rent from the tenants from September, 1962 and to adjust the amounts so recovered towards hire-purchase premium. The hire-purchase terms had, however, not been finalised so far. Due to delay in finalisation of the hire-purchase terms, the payment of house tax, which was the liability of the industrialists, was being made by the Delhi Administration; the total payment made upto March, 1965 amounted to Rs. 3.73 lakhs.

The Ministry had stated that the hire-purchase terms were still under consideration in consultation with the Ministry of Finance, and that all payments made on account of municipal taxes would be recovered from the allottees of the Estate at the time of the recovery of the cost arrived at on the basis of the hire-purchase agreement with them.

(iii) Physical measurement of the covered area of each factory taken in October/November, 1963, by the C.P.W.D. at the request of the Delhi Administration disclosed under-assessment of rent for the period from December, 1957 to March, 1959 by the National

Small Scale Industries Corporation. The failure of the Delhi Administration to verify the area while taking over the Estate from the N.S.I.C. resulted in short recovery of Rs. 72,826 from the tenants for the period April, 1959 to June, 1965.

It had been stated that the difference, if any, in the covered area actually allotted to each tenant and that shown in the books supplied by the N.S.I.C. would be taken into account and necessary adjustments made at the time of final allotments of sheds.

(iv) The lessees are required to keep the factory buildings insured in the name of the lessor and furnish the insurance policies and the premium receipts to the latter. Out of 120 cases, in which leases were executed, insurance policies had been executed by the factories only in 30 cases.

It had been stated that efforts were being made to ensure that all the factories execute insurance policies and furnish the same along with the premium receipts.

2.21. The Department of Industrial Development have furnished notes, at the instance of the Committee, on various points dealt with in the Audit para.

2.22. The Department have stated in their note that though ordinarily the State Governments undertake the construction of Industrial Estates, the immediate responsibility for the construction and management in the case of Okhla Industrial Estate was vested with the National Small Industries Corporation in the interest of expeditious completion of the construction. On completion of the first phase the Estate was transferred to the Delhi Administration with effect from 1st April, 1959. The particulars of the Estate spread over an area of 110 acres with more open land available for development are as under:

Phase I	—35 sheds	
Phase II	—46 ,,	
Phase III	—41 ,,	(These are sports goods unit).
Phase IV	—	Open land (61 plots—about 20 acres).

2.23. In regard to the arrears of rent, the Department have stated, in their note, that by 31st May, 1967, a sum of Rs. 9,05,178.24 paise was recovered from the allottees of the sheds, since November, 1965. The total outstanding at the end of October 1967 including penal interest @6 per cent was Rs. 13,80,562.59 paise, in respect of all the three phases.

2.24. The note further states:

> "....The extreme measure of evicting the industrialists from the sheds has not been considered expedient on account of promotional considerations involved in the establishment of the Industrial Estate by the Government with the object of providing necessary facilities for development and growth of small scale industries."

A penal interest @ 6 per cent provided for in the lease deed was being actually imposed and recovered in cases of default of payment on due date.

2.25 Through persuasion a sum of Rs. 2,25,093 out of the arrears of Rs. 2,43,220 as on 15th September, 1965 was recovered. The cases filed under the Public Premises (Eviction of Unauthorised Occupants) Act. 1958 in respect of 24 parties were, therefore, withdrawn on 29th July, 1967.

2.26. In respect of the delay in finalisation of the Hire-Purchase terms the Department have stated that although the Delhi Administration, while seeking the approval of the Ministry of Industrial Development and Company Affairs in 1962 to their proposal for treating the rents paid by the factory owners as provisional payment towards hire-purchase premium, mentioned the scheme, the actual proposal for hire-purchase was received from them in July, 1966 only. As this proposal itself was incomplete, the Delhi Administration was asked to give certain clarifications and details. On receipt of the clear-cut proposal in November, 1966 the issue, after examination by the Ministry of Industrial Development & Company Affairs, was referred to the Ministry of Finance in January, 1967. The Department's note states:

> "Since then the file has travelled from Ministry of Finace and this Ministry on as many as nine occasions because the Ministry of Finance called for information on various points in instalments. Although this Ministry had suggested to the Ministry of Finance in May, 1967 that in case any further information was required the matter may be discussed at Joint Secretaries level and finalised, the Ministry of Finance did not give the importance and urgency which this case deserved. In order

to avoid any further delay a D.O. letter has been sent by the Secretary (Industry) to the Secretary (Finance) and it is hoped that a decision will be taken shortly."

2.27. It has been added that all payments made on account of municipal taxes would be recovered from the allottees at the time of recovery of the cost arrived at on the basis of the hire-purchase agreement with them.

2.28. In regard to the under-assessment of rent on account of incorrect measurement of the area, the Department have stated, in their note, that as the Estate was taken over from the National Small Industries Corporation who had completed the work of admitting all the 35 allottees of the first phase and determined the rent in the case of each of the tenants, the re-verification of the area and revision of the rent could not be made subsequently. The matter was, however, being examined by the Judicial Department of the Delhi Administration with a view to exploring the ways of realising rent on the excess area in possession of the allottees. As the total amount recoverable on the basis of actual area under occcupation of the allottee would be determined after taking into account the payments made till then at the time of finalising the hire-purchase agreement, there would be no loss to Govrenment.

2.29. On the question of insurance of buildings, the Department have stated, in their note, that during the current year, due to the persistent efforts of the Delhi Administration, 52 units had got their sheds insured and had submitted their papers to the Department. Notices have been issued to the parties who had not carried out the insurance formalities.

2.30. The Department have stated in their note on the progress of execution of lease deeds that when the Estate was transferred to the Delhi Administration all the 35 sheds of the first phase were already under the occupation of the allottees admitted by the National Small Industries Corporation. In their cases only an agreement to execute a lease deed had been entered into. Actual lease deeds had not been executed. Out of 35 allottees, 2 parties left the premises and these sheds were subsequently re-allotted to other parties by the Delhi Administration. In the case of these two parties, regular lease deeds were executed.

2.31. All the 46 allottees of the Second Phase have executed the necessary lease deeds.

2.32. Out of the 41 allottees of the Third Phase one has left and the shed is vacant. So far as remaining 40 allottees are concerned, six have executed the lease deeds. In the case of 3 parties, the lease deeds have been executed but they are pending for registration at present. In the case of remaining 31 parties, the lease deeds have been drawn up but they are yet to be submitted by the parties for finalisation and registration.

2.33. The Committee are not able to appreciate why it has taken Government more than five years to finalise the hire-purchase terms on which the industrial sheds in Okhla are to be offered to tenants though a decision was taken as far back as 1962 that the full economic rent charged from tenants would be adjusted against the amounts to be recovered towords the hire-purchase premium. The Committee would like Government to finalise these terms without further delay and make necessary recoveries/adjustments.

2.34. The Committee also note that the arrears of rent which stood at Rs. 8.21 lakhs in November 1965 have risen to Rs. 13.80 lakhs (including penal interest at 6%) in October, 1967. It is obvious that the measures taken so far by the Delhi Administration have not yielded the desired results. The Committee would like Government to take more stringent measures to recover these arrears and also to ensure that recoveries of current rent are not allowed to fall into arrears.

2.35. Steps should be taken to complete the execution of deeds of lease with the remaining 31 allottees. The allottees should also be made to take out the requisite insurance as prescribed in the deeds of lease.

2.36. The Committee would like to watch progress made in the above respects through future Audit Reports.

Appropriation Accounts (Civil), 1965-66

(DEPARTMENT OF INDUSTRIAL DEVELOPMENT)

Grant No. 65—Industries: Group-head D—Expenditure in connection with the Institution of the Projects—Pages 137—138.

		Total Grant or Appropriation.	*Actual Expenditure*	*Saving (—)*
		(In lakhs of rupees).		
Original	71·00			
Re-appropriation	(—)60·89	10·11	4·71	—5·40

2.37. The saving was explained as due to (i) non-finalisation of the 'Power Boiler Sceneme' and contract with a foreign firm, (ii) non-sub-mission of detailed project reports by foreign experts and feasibility report by the National Industrial Development Corporation, and (iii) land given free by State Government.

Grant No. 133—*Capital Outlay of the Ministry of Industry and Supply—Pages* 142—143.

Group-head		Total Grant	Actual Expenditure	Saving (—)
				(In lakhs of rupees)
A.1(1)—Heavy Structural Project.				
Original	50·00			
Re-appropriation . .	(—)50·00	..	..	..
A.1(2)—Heavy Plates and Vessels Project.				
Original	5·00			
Re-appropriation . .	(—)50·00	..	..	.
A.1(3)—Pumps and Compressors Project.				
Original	15·00			
Re-appropriation . .	(—)15·00	..	..	..
A.1(4).—Cast-Iron Roll Project				
Original	50·00			
Re-appropriation . .	(—)50·00	..	..	..
A.1(5).—Fabrication Shop for the Manufacture of Fertiliser and Chemical Equipment.				
Original	50·00			
Re-appropriation . .	(—)50·00	..	..	..
A.1(6).—Machine Tool Plant				
Original	50·00			
Re-appropriation . .	(—)35·50	14·50	14·29	(—)0·21
A. 2(1).—Purchase of Shares of Heavy Electricals (India) Ltd.				
Original	700·00			
Re-appropriation . .	(—)499·93	200·07	200·07	..

2.38. The saving occured as the authorised Capital of the Heavy Electricals (India) Ltd. was fully subscribed with the release of Rs. 200.07

lakhs and it was decided to make further releases in the form of loans and not as share capital.

2.39. The original provision of Rs. 60 lakhs made under the group-head "A. 2(2)—Purchase of Shares of Heavy Engineering Corporation" was augmented by a further sum of Rs. 3.35 crores out of savings available within the grant.

2.40. In regard to the savings under Grant No. 65, the Special Secretary, Ministry of Industrial Development and Company Affairs stated, during evidence, that at the time of finalising the targets for the Fourth-Five Year Plan, the estimated gap, both qualitative and quantitative, for power boilers was more than a million kilowatts even after expansion in the public and private setors. Collaboration negotiations were, therefore, started with a foreign firm and budget provision was made at that stage with expectations of substantial expenditure during the year. The agreement was finalised on 1st January, 1966 and, after a great deal of discussion, it was finally circulated on 1st June, 1966. The total estimated cost was about $ 2,40,000 on the basis of 50 p.c. division. Further understanding was, after the study of the production report, to have a joint venture for manufacturing programme. As there was a slight downward revision of power targets, the Study Team was expected in India during January, 1968. The project would be considered after examination of the Study Team Report. Because of the downward revision of targets, the project was expected to materialise in the second or third year of the Fourth-Five Year Plan.

2.41. In regard to the selection of the foreign experts, the witness stated that the foreign collaborators offered the project before the second agreement was being discussed and the Ministry felt that other considerations being favourable, there would be good collaboration.

2.42. At the instance of the Committee, the Department of Industrial Development have furnished notes on each case of savings/surrenders under the various group-heads in Grant No. 133.

2.43. In regard to the group-head—A.1 (1)—Heavy Structural Project, the Department have stated that as a result of a post-budget decision, a new company under the name of Triveni Structurals Ltd., with an authorised capital of Rs. 2 crores to be subscribed by the President of India and the firm (and its nominee) in the ratio of 51:49 was incorporated in July 1965 in collaboration with a foreign firm. As the expenditure on this new Company constituted expenditure on a "New Service", a token grant of Rs. 1,000 was obtained under a new sub-head.

2.44. Apart from an expenditure of Rs. 5.10 lakhs for the purchase of equity shares in the above ratio, no other expenditure was incurred during 1965-66.

2.45. As at the time of formulating the Budget provision it was not known when the Company was to be formed, a Budget provision of Rs. 50 lakhs was made under the group-head A.1(1), for meeting expenditure on land, site prepartation, steel structures, erection equipment, offices and furniture and residential quarters.

2.46. In respect of the surrender of the entire Budget provision of Rs. 50 lakhs under the group-head A1(4)—Cast Iron Roll Project, the Department have stated in their note that during 1964 the Indian Steel Industry was entirely dependent on imported Rolls which caused a considerable drain on foreign exchange resources of the country. "The industry is highly capital intensive and foreign technical know-how is essential for its establishment." Further the requirement of cast iron rolls was estimated at about 42,000 tonnes *per annum* while the estimated demand of all types of rolls was expected to be of the order of 78,000 tonnes *per annum* by 1970-71. The production at Heavy Engineering Corporation, Ranchi, where a capacity of 11,500 tonnes per year was being created was expected to materialise only by 1972-73.

2.47. In view of these factors in addition to the fact that a number of schemes licensed in the private sector for the manufacture of rolls had not made any progress, Government considered the establisment of the Cast Iron Rolls Foundry in the public sector. The Ministry have added: "the proposal was discussed in the Planning Commission on 23rd January, 1964 and a decision was taken that the project should be proceeded with." A provision of Rs. 1 lakh was, thereafter, made in the Budget Estimates of 1964-65 to meet the expenditure on Feasibility Report etc., the preparation of which was entrusted to the National Industrial Development Corporation in June 1964. After further discussion with the Planning Commission, the project was approved for advance action and financial provision in 1965-66.

2.48. On an estimated cost of Rs. 5 crores with a foreign exchange content of about Rs. 2 crores, for the Cast Iron Roll Foundry with an initial capacity of 10,000/12,000 tonnes *per annum*, a Budget provision of Rs. 1.25 crores was proposed for inclusion in 1965-66 to complete ordering of 50 per cent of equipment needed to be imported during 1965-66 and for acquisition of land, site levelling and other charges. This provision was suggested in the expectation that collaboration agreement would be finalised in early 1965 and the Detailed Project Report would be ready within six months thereafter. The Finance Ministry agreed for a provision of Rs. 50 lakhs in 1965-66 to meet expenditure of 50 per cent of the cost of the Detailed Project Report and for import of equipment as it was not necessary to actually disburse or open letter of credit for more than 33⅓% of the total price, *i.e.*, Re. 1 crore in that year.

2.49. The Feasibility Report from the NIDC was received in January, 1965. The collaboration proposal, however, broke down finally in October, 1965. on the question of equity participation by the foreign collaborators.

2.50. The Planning Commission had, in the meantime, revised substantially the targets of steel production downwards during the Fourth Five Year Plan. Two Schemes in the private sector had also made good progress. One of them was expected to start trial production by the end of 1967 or early 1968 and the other, to go into production in 1969.

2.51. The Department have stated in summing up:

> "Taking into account the reduced requirements of rolls and the progress made by these two parties, the proposed rolls project in the public sector was not included finally in the Fourth Plan. The provision of Rs. 50 lakhs made for this project in Budget Estimates 1965-66 had, therefore, to be surrendered."

2.52. On the surrender of the entire Budget provision of Rs. 50 lakhs under the group-head A-1(5)—Fabrication Shop for manufacture of Fertilisers and Chemical Equipment, the Department have stated that in the year 1965 there was little capacity in the country for the manufacture of Plate and Vessels equipment required in large quantity in the fertilizer and chemical industries.

2.53. The working Group appointed for the purpose recommended establishment of a Fabrication Shop for the manufacture of pressure vessels, heat exchangers etc. and emphasised the need for technical co-operation in view of the specialised design and manufacturing skills involved.

2.54. After obtaining the clearance for the project by the Planning Commission in September, 1964, a Budget provision of Rs. 2 crores (Rs. 1.75 crores of which was to be in foreign exchange) was proposed towards cost of imported plant and equipment, land acquisition and construction work at site. The Ministry of Finance ultimately agreed for a provision of Rs. 50 lakhs only.

2.55. A team of representatives of a foreign firm which had shown keen interest for collaboration in this project arrived in Delhi during May, 1965, but after a week's negotiations, they informed Government that they were not interested in purshing the proposal for a joint venture with the Government of India. The Department's note on this aspect states:—

> "....Though the precise reasons for their abrupt decision were not forthcoming, they appeared to feel that it would be difficult for them to come to a satisfactory arrangement with

Government in respect of certain guarantees they desired to have and the extent of the control of the management of the joint venture they expected to retain."

2.56. The note sums up:

"....After the breakdown of negotiations with...., collaboration with....(*another firm*) for the proposal was explored. However, as the new collaboration agreement with..(*the second firm*) was not likely to be finalised during the year, 1965-66, the amount of Rs. 50 lakhs provided in BE 1965-66 was surrendered."

2.57. In regard to unutilised provision under the group head A.1(6)—Machine Tool Plant, the Department have stated in the note that these projects were visualised under an agreement on economic collaboration between India and a foreign Government signed in May, 1964. The preliminary study received from the foreign firm was to be discussed with the various Departments of the Government of India and later with the foreign team arriving in India for this purpose. Thereafter a formal agreement was to be concluded with this firm for preparation of Detailed Project Reports.

2.58. As only a preliminary study was received at the time of framing the Budget Estimates, a Budget provision of Rs. 50 lakhs was made in the expectation that civil construction work would start sometime in December, 1965 and that a provision of Rs. 25 lakhs was necessary for this purpose. The other provision of Rs. 25 lakhs was estimated as the likely expenditure on payment to the firm for the Detailed Project Reports.

2.59. On the question of making the provision of Rs. 50 lakhs, the note states:

"....It was, therefore, assumed that the projects would in any case be approved finally and that the only points to be settled were the details of the products to be manufactured in the two plants. The projects had also been cleared by the Ministry of Finance and the Planning Commission for advance action. It was for these reasons that a token provision was not asked for and a provision based on the likely expenditure during the year was asked for."

2.60. From the notes furnished on savings under the group-heads A.1(2) and A.1(3), the Committee find that the reasons for surrender of entire Budget provisions were more or less similar to those in the cases of other group-heads.

2.61. The Committee find from the notes of the Department that, as against the original Budget provision of Rs. 991 lakhs under some of the sub-heads of Grant Nos. 65 and 133, there was a saving of about Rs. 772 lakhs which represented 77.9 per cent of the original provision. It is observed that the provision in the Budget estimates was not made on a realistic basis at all.

2.62. The Committee feel that the inclusion of such a major provision in the Budget estimates only to be surrendered at the end of the year leads to avoidable taxation and inflationary pressures on the economy of the country. The Committee, therefore, reiterate the observations contained in para 1.16 of their 21st Report (Fourth Lok Sabha) and suggest that each Department should exercise more close and strict control over the technique of budgeting so as to exclude such projects from the budgetory provision as are not likely to be taken up for execution during the year. The Committee hope that the Department of Industrial Development will prepare their Budget estimates more realistically in future and that the Ministry of Finance, before accepting the inclusion of a provision in the Budget, will satisfy themselves about the prospects of the amounts being utilised during the year.

CHAPTER III

MINISTRY OF IRON AND STEEL

IRON AND STEEL CONTROL ORGANISATION

Iron and Steel Equalisation Fund—Para 74, *pages* 97—99.

With the abolition of controls on the price and distribution of a major number of steel items with effect from 1st March, 1964, and with the setting up of the Joint Plant Committee to look after the work of planning, production and distribution of steel, there have been no new transactions under the Fund; accruals to and payments from the Fund arising from all previous transactions, however, continue to be adjusted with the Fund.

3.2. The expenditure on the maintenance of the Organisation of the Iron and Steel Controller (including the Price and Accounts Officer) increased from Rs. 31.10 lakhs during 1963-64 to Rs. 33.86 lakhs during 1965-66.

3.3. An account of the receipts into and payments from the Fund during 1965-66 and a balance sheet as on 31st March, 1966 are reproduced in Appendix. III, to this report. A summarised account of receipts and payments for the two years ending 31st March, 1966 is given below:—

Receipts	1964-65 (In lakhs of Rs.)	1965-66 (In lakhs of Rs.)	Payments	1964-65 (In lakhs of Rs.)	1965-66 (In lakhs of Rs.)
Opening balance .	6307·62	6424·89	Payments due to increase in the retention prices allowed to the main producers and adjustment on account of Railway freight on despatches made on f.o.r. destination basis. . . .	930·56	234·64
Surcharge on steel produced in India	1085·00	453·36			
Surcharge on imported steel. . .	89·51	76·37			
Other miscellaneous receipts. . .	6·51	1024·18	Payments of subsidy on imported steel. .	55·46	52·11
			Payments of subsidy on exports of steel	5·61	6·67
			Other miscellaneous payments. . .	72·15	274·44
			Closing balance .	6424·89	7410·94
TOTAL .	7488·67	7978·80	TOTAL . .	7488·67	7978·80

3.4. The balance in the accounts of the Fund increased from Rs. 64.25 crores as on 31st March, 1965 to Rs. 74.11 crores as on 31st March, 1966. Government have stated (December, 1966) that a decision has since been taken to transfer the balance to the Consolidated Fund of India, excepting Rs. 10 crores to be retained for meeting the existing and future claims on the Fund.

3.5. (A) *Sundry Debtors.*. The outstandings amounted to Rs. 381.02 lakhs as on 31st March, 1966. A yearwise analysis of this figure is given below:—

Year to which the outstandings relate.	Amount (In lakhs of Rs.)
Upto 1961-62	43·95
1962-63	29·64
1963-64	46·97
1964-65	119·00
1965-66	141·46
	381·02

3.6. The categories under which these dues fall and the position regarding their realisation are given below:—

	Amount outstanding at the end of March, 1966	Amount which remained outstanding at the end of September 1966	Amount out of column(3) which relates to the period upto March, 65'
	(In lakhs of rupees).		
(i) Surcharge from main producers	170·38	96·50	15·18
(ii) Dues against re-rollers	54·76	46·42	22·14
(iii) Surcharge on imported steel	153·26	114·23	105·63
(iv) Dues from controlled stockists	2·36	2·04	1·86
(v) Sundry dues	0·26	Nil	Nil
TOTAL	381·02	259·19	144·81

3.7. In addition to the dues mentioned above, an amount of Rs. 177.01 lakhs (estimated) comprising the following items was also outstanding for recovery as on 31st March, 1966, in respect of which the claim bills had not been issued to the parties concerned by the Iron and Steel Controller:—

(i) Rs. 110 lakhs recoverable from importers on account of liquidated damages and damages for breach of contract;

(ii) Rs. 40 lakhs representing the surcharge on imported steel recoverable from the importing firms;

(iii) Rs. 17 lakhs representing surcharge recoverable from the Main Producers; and

(iv) Rs. 10 lakhs representing surcharge recoverable from re-rollers.

3.8. Government informed Audit in December, 1966, that bills for a total amount of Rs. 64.08 lakhs have since been issued upto September, 1966, and that a decision has been taken to waive recovery of an amount of Rs. 75.44 lakhs on account of liquidated damages recoverable from a private firm, as the dues are not legally recoverable and the whereabouts of the firm could not be ascertained despite vigorous efforts.

3.9. Claim bills for the balance amount of Rs. 37.49 lakhs remained to be issued as in October, 1966.

3.10. The Committee desired to know whether the Ministry had taken final decision on the recommendation contained in para 3.14 of their 68th Report (Third Lok Sabha) that the Joint Plant Committee should be converted into a statutory body. The Secretary of the Ministry stated that a decision had been taken at the highest level that the Joint Plant Committee should be allowed to function in an informal manner as it was functioning at present. He added that "it would perhaps become very difficult if it is put on a rigid framework." He further stated that as steel had been decontrolled, functioning of the organisation had to be watched and if it was found necessary to put it on a statutory footing or to have it registered under the Companies Act, necessary action would be taken.

3.11. Now that the decontrol of steel has been in operation for the last three years, the Committee have no doubt that Government will make an early review of the functioning of the Joint Plant Committee and its future set up.

3.12. During evidence the Committee pointed out that despite decontrol of steel, the expenditure on Iron & Steel Controller's Organisation had increased from Rs. 31.10 lakhs in 1963-64 to Rs. 34.91 lakhs in 1966-67 and desired to know the reasons therefor. The Department of

Iron and Steel have furnished a note indicating the reduction in staff of the Office of Iron and Steel Controller and the consequent economies effected as a result of decontrol of steel. This note *inter alia* states:

"On 1-3-1964 the Office of the Iron & Steel Controller had a sanctioned strength of 33 gazetted posts and 601 non-gazetted posts. The Joint Plant Committee started functioning with effect from 1-8-1964. However, the work relating to planning of indents in respect of the indents received in the Iron & Steel Controller's Office till 31-7-1964 continued to be handled by the Iron and Steel Controller till January, 1965."

"As a result of partial decontrol and transfer of planning work to the JPC three posts of Officers (1 Deputy Iron & Steel Controller, 1 Assistant Iron & Steel Controller—Grade I and 1 Assistant Iron & Steel Controller—Grade II) were reduced in the main office during 1965-66. In addition, one of the posts of Deputy Price & Accounts Officer was downgraded to that of Assistant Accounts Officer during 1965-66. During the year 1966-67 a post of Deputy Assistant Iron & Steel Controller was abolished. Another post of Deputy Iron & Steel Controller was transferred from the main office to the Regional Office, Delhi (now Faridabad) as a result of increase in work in that office during 1967-68."

"The number of non-gazetted posts reduced during the years 1964 onwards till 27-11-1967 as also the saving accrued therefrom is as indicated below:—

Year	Staff reduced	Economy effected
1964-65	99	1,03,939
1965-66	32	87,724
1966-67	13	24,085
1967-68	97	*1,00,000 (approx.)

As for the Regional Offices located at Bombay, Madras and Faridabad which are mainly concerned with the licensing work, decontrol had no effect on the working of these offices and consequently no reduction in staff strength was effected in these offices."

* Rs. 85,000 according to Audit.

"While the decontrol and winding up of the Steel Equalisation Fund had resulted in savings on account of reduction in staff in the main office to the extent indicated above, there has, however, been increase in the overall expenditure during the years 1964-65 to 1966-67 as compared to the expenditure incurred during the previous years on account of various reasons such as, enhancement in the rates of Dearness Allowance (the DA rates were raised on 5 occasions during the period in review) and House Rent Allowance, increase in expenditure on account of legal and arbitration charges, additional expenditure on Committees (Two Committees were set up in 1965) and increase in T.A. expenditure, etc. etc."

"While comparing the expenditure for the year 1964-65 with that of the previous years *i.e.* 1963-64 there was a saving under 'Pay of Officers' to the extent of about Rs. 9,956. In the subsequent years, however, there was an increase in expenditure under this head to the extent indicated below:—

Year	Increase in expenditure under 'Pay of Officers' Rs.
1965-66	19,218
1966-67	28,633
1967-68	*18,000 (approx.)

The increase in expenditure under 'Pay of Officers' during the above years in spite of reduction in posts was on account of filling up/creation of posts in connection with the setting up of the Khadilkar Study Team. In addition a post of Deputy Iron & Steel Controller (Vig.) was created in the main office and also the post of Assistant Iron & Steel Controller (Grade I) sanctioned in the Regional Office, Delhi was upgraded to that of Deputy Iron & Steel Controller. At the instance of Ministry of Law a post of Additional Legal Adviser has been recently created to attend to legal/arbitration work."

"Towards the end of 1964, it was considered that a systematic study should be made of the reduction in the volume of work in the I&SC Organisation, so that a more realistic

* Rs. 10,000 according to Audit.

assessment of the staff requirement appropriate to the work left with the Iron & Steel Controller could be made. It was also decided that in respect of any arrears of work which no longer formed part of the regular work after decontrol, if any extra staff was needed it should be assessed separately indicating the period for which such staff was required. With this end in view a Work Study Team was deputed from the Department. The Team recommended a total of 365 posts in the ministerial cadres as against the sanctioned strength of 466 as on 31-10-1964 and 412 men actually in position on that date. Out of these 365 posts, 73 were suggested for a period of one year for clearance of arrears in the Price and Accounts Division. This figure of 365 was later raised to 373 (including 73 for clearance of arrears). Although no 'Work assessment' as such was done in respect of the gazetted posts in the main office, the position was, however, reviewed in this regard at the time of extending the posts. Only such of the temporary gazetted posts as were considered justified on the basis of workload were extended from time to time."

"The Khadilkar Study Team had recommended the clearance of arrears in the Price & Accounts Division within a period of two years up to 31-12-1968. With this end in view, the Team had recommended that special additional staff may be deputed to do the work so that the work could be disposed of within the stipulated time. While considering the recommendations of the Study Team the Empowered Committee decided that the S.I.U. of the Ministry of Finance might be asked to undertake a study of the work which remained to be done and evolve a yardstick for the disposal of this work. According the SIU was asked to conduct a study of the work left in the Price & Accounts Division so that on the basis of that if any extra staff was needed it may be sanctioned to liquidate the work. The report of the SIU is, however still awaited."

3.13. The Commiteee would like Government to take an early decision regarding the reduction in the staff of the Iron and Steel Controller's Organisation considering that, following decontrol, most of the regulatory work has devolved on the Joint Plant Committee, and that work connected with import and export was proposed to be transferred to the Chief Controller of Imports and Exports and that the Iron and Steel Controller's organisation would be left mostly with developmental work. As regards the

arrears of work in the Price and Accounts Division, the Committee agree with the Study Team on the Iron & Steel Control Organisation that these arrears should be cleared by 31-12-1968. The Committee would like Government to take all necessary measures, including designation of staff from the existing strength specially for arrears work, so that the target dated of 31-12-1968 is strictly adhered to.

3.14. The Committee would like to be informed of the measures taken to clear these long pending arrears by 31-12-1968 and to effect a reduction in the regular staff of the Iron and Steel Controller's Organisation so as to achieve maximum economy consistent with requirements.

3.15. The Committee were also informed during evidence that pursuant to the recommendations of the Khadilkar Committee the structure, functions and responsibilities of the Iron and Steel Controller (I.&SC.) would undergo a change. The Iron and Steel Controller would be designated as the Iron and Steel Commissioner and instead of dealing with the price and distribution of steel he would be dealing with the development of the steel and other allied industries to import and export policies etc.

3.16. In regard to the transfer of the import and export licensing work to the Chief Controller of Imports and Exports CCI&E the Department of Iron and Steel have in their note stated that the Study Team on Iron & Steel Control Organisation made the following recommendation in this respect:

"The arrangement proposed was that the export and import policy for iron and steel will continue to be decided by the Department of Iron and Steel, but the work of issue of licences will be transferred to the Chief Controller of Imports and Exports. The main advantages in transferring this work to the CCI&E were as follows:—

(i) The CCI&E is the principal authority exercising all the powers under the Import Control Order 1955, and issues licences for all commodities except iron and steel and ferro alloys. If the work is handled by one organisation, there will be better coordination at all levels and the arrangement will be more convenient for the applicants, for the sponsoring authorities and also for the purpose of collecting statistics.

(ii) The arrangement will help in introducing uniform procedures for the import of steel and other commodities against various loans and aids. At present, there is a time-lag between the decisions taken by CCI&E regarding procedures and the time when I&SC introduces these procedures in his organisation.

(iii) CCI&E's organisation has a wider net work of licensing offices. They have offices at Calcutta, Bombay, Madras, Goa, Ernakulam, Pondicherry, Vishakhapatnam, Bangalore, Rajkot, Amritsar, New Kandla, Shillong, Kanpur and Srinagar, besides their central offices at New Delhi. The Iron & Steel Controller's licensing offices are at Calcutta (Head Office), Bombay/Madras/Faridabad.

(iv) The working system in the CCI&E's organisation with regard to processing of the licensing applications is more systematic and codified.

(v) The CCI&E's organisation is better equipped with staff.

(vi) Handling of the work of import licensing in one office will lead to better matching of requirements of steel and non-steel items. The issue of common licence for steel and non-steel items would be of great convenience to the actual users. At present, they have to go to two different places for their import requirements of steel and non-steel items.

(vii) The transfer of work would also result in some economy. The CCI&E would not be able to take over this work without any addition to the staff, but the quantum of additional staff required would be somewhat less than the strength of staff and officers employed by the I&SC on similar work. There would be saving on overheads, accommodation, service branches, etc."

"The Empowered Committee agreed with the above recommendations. The matter was thereafter taken up in July, 1967 with the Ministry of Home Affairs for agreeing with the view that all staff dealing with Import/Export licensing work in the controller's organisation should be transferred to CCI&E organisation along with licensing work."

3.17. The Ministry have further stated:

"A reply has now (December, 1967) been received from that Ministry saying *inter alia* that they agree that it would be logical to transfer the entire licensing staff of the Iron & Steel Control Organisation to the CCI&E's organisation and the problem of surpluses—which might even otherwise exist in the latter organisation—be handled by the latter (CCI&E's organisation) on a unified basis. The matter will now be processed further."

3.18. The Committee hope that the work relating to the import and export of Iron and Steel along with the staff will be soon transferred to the organisation of the Chief Controller of Imports and Exports and that the problem of surplus staff would also be quickly settled. The Committee would like to be informed when this work is transferred to the Chief Controller of Imports and Exports as recommended by the Study Team on the Iron and Steel Control Organisation.

Sundry Debtors.

3.19. In regard to the recovery of dues from sundry debtors, the witness stated "About the surcharge from main producers, the position is that on 30th September, 1967, we had Rs. 29.64 lakhs still to recover from them. Out of this, Rs. 25.51 lakhs is due from the Indian Iron and Steel Company. We are taking steps to collect this from whatever is due to them on account of export subsidy. The balance of Rs. 4.13 lakhs is due from TISCO and from Bhilai." The witness added that "there is no difficulty about recovery, that is progressing." As regards the dues outstanding against the steel re-rollers, an amount of Rs. 35.87 lakhs was due on 30th September, 1967. Out of these dues, Rs. 34.38 lakhs had been accounted for against eight firms. Civil suits had been filed against two parties, recoveries were being made from the five firms in respect of which dues were fully covered by the counter claims of the firms and in the last case a sum of Rs. 1.09 lakhs was pending with the Director General of Supplies and Disposals who had been requested to make the amount available to the Department of Iron and Steel. The remaining amount of Rs. 1.49 lakhs was due against a number of people. The claims of these parties were being examined *vis-a-vis* the amount payable to the parties on account of their export subsidy claims.

3.20. The Committee note that some small progress has been made in recovering dues from sundry debtors. The Committee would like the work of recoveries to be expedited.

Liquidated Demages.

3.21. In regard to a case wherein a decision was taken by Government to waive recovery of an amount of Rs. 75.44 lakhs on account of liquidated damages, the Committee were informed that the case related to one contract of a total value of Rs. 89 lakhs. The original contract was for 31st December, 1956. Five extensions were given to the firm subsequently *viz.* upto 31st March, 1957, 31st May, 1957, 30th September, 1957, 31st March, 1958 and then upto 30th June, 1958, when the supply was completed.

3.22. Asked whether the financial standing of the firm was examined at the time of awarding the contract, the Department of Iron and Steel have stated in a written note that "in view of the fact that M/s........ were established importers of standing and that contracts for import of materials, for a total amount of Rs. 1,14,78,110 had already been placed on them, no formal examination of their financial standing was perhaps considered necessary at the time the aforesaid contract was placed on them in November, 1956 or the extensions afterwards."

3.23. Asked why the contract was not cancelled at the cost and risk of the firm when the firm failed to supply the steel within the stipulated date, the witness stated that at that time due to Suez Crisis shipping was not easily available and extension was given in this case and in a number of other contracts also.

3.24. To a query how a firm on which a contract of this magnitude had been placed could suddenly disappear, the Department of Iron and Steel have stated in a note that "in order to trace the whereabouts of the firm for making the claim on it on account of liquidated damages, a reference was made by the Iron and Steel Controller to the Registrar of Companies, West Bengal, Company Law Division, Calcutta (where the firm had a branch), to furnish the present address of the firm. In his reply dated April 28, 1965, the Registrar expressed his inability to furnish any information in regard to the firm and suggested that a reference be made to the Registrar of Companies, Madras. The Assistant Iron and Steel Controller, Madras, was thereupon asked to enquire about the whereabouts of the firm after contacting the Registrar of Companies, Madras. In his reply dated May 24, 1965 the Assistant Iron & Steel Controller, Madras, reported that the firm was not carrying on any business in Madras and that its whereabouts were not known.

"In view of the aforesaid report of the Assistant Iron & Steel Controller, the matter was not pursued further. No report was made in the matter to the police or to the Company Law Administration."

3.25. On being pointed out during evidence that if the matter had been reported to the police, they might have helped Government in locating the directors of the company, the witness replied "Because it was felt that this amount was not in any case recoverable. This is the only answer I can find."

3.26. Asked about the reasons for granting numerous extensions to the firm to complete their imports, the Secretary, Department of Iron and Steel stated:

"All these extensions between 1956 and 1958 were granted on the same basis and the view held was that when these were granted on the same terms and conditions which include the liquidated damages, it would be permissible to recover the damages later, but unfortunately the legal advice which came in 1958 said that this was not enough, that in addition to this, even when you grant an extension you must specify afresh that you reserve the right to recover liquidated damages."

The legal opinion was taken from the Branch Secretariat of the Ministry of Law, Calcutta. The witness added:

"This is in particular refrence to this case, but we had obtained the Solicitor General's advice also earlier on this point which was that at the time of granting extension, you must reserve the right to claim liquidated damages, otherwise it would not be permissible for you to get them later."

3.27. The Committee invited the attention of the witness to a letter dated the 28th January, 1957 when one extension was given, which read as below:

"with reference to your above letter we agree to extend the shipment period of the AT undr considration till 31st March, 1957 without any conditions. The AT may, therefore be treated as partially amended by this letter, other terms and conditions remaining the same", and pointed out that:

"You not only did not specifically say that your rights are protected, but you went out of the way to say that this was being extended without any conditions."

3.28. It was also pointed out that the Audit had raised the question of levying liquidated damages in June, 1958, and desired to know whether any action was taken by the Department to find out who was responsible for granting extension without any conditions. The Secretary of the Ministry stated. "This has been brought to my notice just now. On the basis of this we will certainly investigate as to who was responsible and why he put in this phrase 'without any condition' which really abnormal because all other extensions are given subject to other terms and conditions remaining the same." He also added "This particular letter it seems, has been over-looked by the Office. This is a letter of 1957."

3.29. The Department, in a note furnished subsequently, have informed that "it is proposed to obtain the explanation of the officer|official responsible for giving extension up to March 31, 1957 '*without any condition*'. Further action will be taken after examining the explanations."

3.30. Asked whether at any stage the Ministry had considered holding a thorough investigation in the whole matter, the witness stated that the Iron and Steel Controller had recommended in May, 1966 that the case might be dropped. The witness added that it was really not a case of waiving any recovery because it was not recoverable. The only question was whether this case was to be pursued at all or not.

3.31. Asked whether any action was taken in the Ministry to probe into the case and find out how such a large claim became irrecoverable, the witness stated that "in this case the consignee was not government and, therefore, there was really no loss to the Government." According to the legal advice, liquidated damages could be recovered only if a loss was caused. As there was no loss only token damages were recovereable. Levy of token damages where no loss was suffered by Government was limited to one per cent. Because the case had been dropped the Department did not actually go into the case as to how much was recoverable as *prima facie* it appeared to them that the amount was not recoverable.

332. In reply to a question, the witness stated the firm had been given several other contracts previously and all of them had been performed satisfactorily. In this case also the firm had completed the contract but could not complete it within time. The Committee pointed out that at the time the contract was given the price of imported steel was very high and the price when supplies were made, was much less than the contractual price. Moreover, the supplies involved an element of subsidy and it was necessary to find out at what price the supplies were made and at what price they were distributed. Thus apart from the delay, the firm made profit in the bargain.

3.33. The Department of Iron and Steel have stated in a note that during the period under review "The prices had actually been going up and if the firm had not made the purchases earlier, but had done so only during the period of extensions they would have lost on the deal."

> "It may be mentioned that the Iron and Steel Controller had entered into a contract at a fixed price. Even if there had been a downward trend in the price, he could not have taken advantage of it because for the purpose of determining the subsidy it was only the A|T price that was to be taken into account and not the actual price which the contractor paid to the foreign supplier."

> "It may also be stated here that the Column I price continued to rise in India during that period and the delay in shipment would have resulted only in a decrease in the subsidy."

3.34. The Committee enquired why it had taken seven years to start an enquiry into the matter in 1965, when the firm made the last supply before June, 1958. The Secretary of the Department stated that the first question was whether liquidated damages were recoverable from this firm. This matter was under discussion between the Iron and Steel Controller's Office, the Ministry and the Ministry of Law. After a decision was taken all the cases were gone through. These were about 1,100 cases and this case had come up in 1965.

3.35. In reply to a question whether letter of extension and other relevant papers were placed before the Ministry of Law while seeking their opinion, the witness stated 'All the papers and files were sent to the Ministry of Law. But no specific attention seems to have been drawn to this particular thing without any restrictions".

3.36. As regards granting of extension, the Ministry's note states:

> "In the meantime, however, Messrs......had forwarded a copy of letter No........ of March 7, 1957 from the consignee to their address stating that they would not be in a position to accept large quantities of the materials in one lot and they would like the quantity to be supplied in 7 equal monthly instalments at the rate of 1500|1600 tons per month commencing from March, 1957. M|s.........accordingly requested in their letter of the 18th March, 1957 that in accordance with the wishes of the consignee, the period of shipment may be extended to September 30, 1957. In view of the aforesaid position, the period of shipment was extended till September 30, 1957, and the extension was communicated in the Iron & Steel Controller's letter dated 29th March, 1957. While communicating the extension, it was again intimated that the extension was granted without prejudice to other contractual rights."

3.37. The note further states:

> "On January 7, 1958, Messers......the consignee, however, again requested the Iron & Steel Controller for further staggering of the import of the material till June 30, 1958, and M|s...... (the firm) also accordingly applied for further extension to the iron and steel controller on January 28, 1958. In view of the request of the importer this extension was also allowed vide Iron & Steel Controllers letter dated 3/6th February, 1958, on the existing terms and conditions'. The entire quantities of the material were, however, shipped before the 31st March, 1958. There was, therefore, no occasion to avail of this further extension."

3.38. As regards the levy of the liquidated damages, the Ministry's note *inter alia* states as under:

> "A provision was incorporated in the contracts to levy liquidated damages in case of failure of the contractors to ship the materials within the time fixed. In quite a large number of cases the parties had failed to deliver the materials within the period indicated. About 80 claims had been preferred on various parties by the year 1959. All these claims were contested by the contractors on the ground that the delay in shipment had occurred owing to circumstances beyond their control and in some cases they contended that force majeure conditions were responsible. The various aspects of the matter were examined in details and a number of discussions were held with the Ministry of Law, Ministry of Finance and the Ministry of Works, Housing and Supply. In March, 1962, the *Comptroller and Auditor General was also invited to attend these discussions so that a suitable procedure could be evolved. As a result of these meetings and discussions the following broad decisions were taken:—
>
> (i) Liquidated damages could only be levied when imports had been expressedly arranged against specific indents. Cases of general imports would not be covered.
>
> (ii) Each contract involving delay in shipments would have to be examined to see if force majeure conditions had affected the supply at the time of granting the extension. If the examination revealed that force majeure conditions did apply, liquidated damages should not be levied.
>
> (iii) The liquidated damages at full rate should be recovered only where Government has suffered an actual loss which will have to be calculated. This would apply only where the consignee was a Central Government department.
>
> (iv) In other cases where the contracts were placed for meeting the requirements of private parties it would only be possible to recover token liquidated damages as the contracting party, that is the Government, would not have suffered any loss. It was also decided that in cases of such token liquidated damages, recoveries could be levied to a maximum of 1 per cent of the landed cost of the unshipped

*According to Audit, the Comptroller and Auditor General had, in a meeting held in March, 1962, merely agreed to the formation of an *ad hoc* Committee with audit as one of the members serving on it, to decide pending the cases of liquidated damages. The broad decisions referred to by the Ministry were not taken in the meeting held with Comptroller and Auditor General goods within the specified delivery period. The Solicitor General had expressed the view conveyed in Ministry of Works, Housing and Supply Memorandum No. .... dated the 21st August, 1957 that the practice of charging 10% of 2% as token damages was not an unreasonable one."

"In the earlier stages till 1958, extensions were granted through amendments to the contracts. While communicating the amendments to the contractors they were informed that these amendments would be without prejudice to the rights of the purchasers under the contracts or under existing terms and conditions. At that time it was considered that this clause was wide enough to cover leviability of liquidated damages also. No special reservation of the right to levy liquidated damages used to be made while granting extension. Subsequently, however, an Office Order was issued on 17.9.1958 requiring the right to levy liquidated damages being specifically reserved while granting extensions."

3.39. The Ministry's note also states:

"The possibility of recovering the liquidated damages in this case was examined by the Iron and Steel Controller in consultation with the Ministry of Law. The opinion given was as follows:

'Section 55 of the Contract Act says that in case of a contract voidable on account of the promisor's failure to perform his promise at the time agreed, the promisee accepts performance of such promise at any time other than agreed, he cannot claim compensation for any loss occasioned by the non-performance of the promise at the time agreed, unless at the time of such acceptance he gives notice to the promisor of his intention to do so."

"In view of the aforesaid statutory provision, it is imperative on the part of the department to give a notice as envisaged therein. We are told that while granting extension of delivery periods on five occasions, the amendment letters did not provide for the recovery of liquidated damages for the delayed supply. If so, there is no scope, in law, to enforce the claim against the defaulting firm."

"As no specific reservation had been made about the recovery of liquidated damages while granting extensions, it was clear when the case was examined in the Ministry that the liquidated damages were not recoverable. In consultation with the Ministry of Finance and the Ministry of Law, the case was, therefore, dropped. The decision was conveyed to the Iron and Steel Controller on 26.9.1966. In view of the fact that nothing was recoverable, the question whether the liquidated damages had been correctly calculated was not considered very important and was not critically examined."

3.40. The Committee regret to note that no specific reservation was made about the recovery of liquidated damages while granting various extensions in this case. What is worse while communicating the extension in January, 1957, the date for shipment was extended upto 31st March, 1957, "without any conditions."

3.41. The Committee note that Government propose to call for explanations from the officers who gave this extension. The Committee would like to be informed of the action taken in this case.

3.42. The Committee also desire that, while granting the extension of delivery periods in such contracts, the Department should invariably reserve the right to levy liquidated damages in order to safeguard the public interest.

Levy of liquidated damages.—Para 76—*Pages* 102-102

3.43. In respect of contracts for the import of steel placed by the Iron and Steel Controller, it was noticed that there had been considerable delays in the assessment of liquidated damages for the delays on the part of the firms in making the supplies. The number of contracts in which a review as to the leviability of damages was pending as on 1st November, 1964 was 114.

3.44. In July, 1964, Government constituted a local committee consisting *inter alia* of the Iron and Steel Controller, the Price and Accounts Officer of the Iron and Steel Control, the Deputy Legal Adviser and a representative of the Ministry of Finance at Calcutta, to go into the pending cases of liquidated damages. The committee functioned till June, 1965, and during its tenure, it examined 58 cases. The remaining 56 cases were subsequently reviewed departmentally.

3.45. Of the 114 cases mentioned above, no liquidated damages were leviable in 27 cases; another 44 were closed without levy of such charges due to one or other of the following reasons:—

(i) Right to levy liquidated damages had not been reserved specifically while granting extensions in the period of shipment.

(ii) Allottee was a non-Government consignee.

(iii) No loss had been reported by the consignee.

(iv) Amount of token liquidated damages was small.

3.46. Of the remaining 43 cases, claims for the recovery of liquidated damages have not been assessed/preferred in 10 cases for want of:—

(a) shipment particulars and/or whereabouts of the firms in 9 cases; and

(b) records which are stated to be with the Special Police Establishment, in 1 case.

3.47. The amount assessed, and the amount recovered in the remaining 33 cases is reported (December, 1966) to be as follows:—

	Amount assessed	Amount recovered	Balance
	(In lakhs of rupees)		
Cases reviewed departmentally (4 cases)	0·30	0·18	0·12
Cases reviewed by local committee (29 cases)	6·98	0·37 0·05£	6·56

3.48. Government have stated (December, 1966) that the claims for Rs. 6.41 lakhs are being referred to arbitration and that the claims for the balance amount of Rs. 0.27 lakh are under pursuit with the parties concerned.

3.49. The Committee were informed by the witness that 9 cases out of 44, were such where damages could not be levied as the right to levy the damages had not been reserved specifically. This was so because the right to levy the damages was not stipulated in the letters granting extensions and as such no accounts were maintained in these cases.

3.50. As regards the general position regarding omission to reserve specifically the right of Government to levy liquidated damages at the time of granting extensions, this has already been dealt with in detail in para 3.40 of this report?

£Recovery waived.

3.51. The witness gave the following position of the 10 pending cases where the liquidated damages were yet to be levied:—

	No. of cases
Assessment completed and partial recovery made	4
No liquidated damage could be levied	1
Referred to the Legal Adviser	2
Files with the S. P. E.	3
TOTAL .	10

3.52. Further, the witness gave the following position of the remaining 33 cases and the amount of recovery involved:—

No. of Cases	Amount of recovery involved	Remarks
3	21,000	Recovery made.
1	9,000	Referred to the Ministry.
10	43,000	Recovery made. Cases reviewed by the Local Committee.
12	Not available .	Under arbitration.
6	Not available	Civil suits filed.
1	42,000	Legal Adviser expressed doubt about the leviability of liquidated damages and the case is under further examination.

3.53. The Committee have already recommended in para 3.13 of this Report all arrears of work should be cleared by 31st December, 1968. The Committee would like Government to intensify their efforts to finalise the remaining cases of liquidated damages.

3.54. The Committeee would like to watch the progress made through future Audit Reports.

Demurrage charges—Para 77, *page* 102.

3.55. Intimation was received by the Iron and Steel Controller on 14th February, 1964 that a ship (which carried 1415.532 tons of steel strips imported from U.K.) would sail on 13|14th February, 1964. The bill of lading in respect of this shipment was also received by the Steel Controller on 6th March, 1964, but agents to handle the consignments were appointed only on 2nd April, 1964. In the meantime, the ship arrived at the port of Calcutta on 24th March, 1964.

3.56. Due to delay in the appointment of handling agents, there was delay in clearing the consignments, and, consequently, port demurrage amounting to Rs. 14,113 was incurred during the period from 1st April, 1964 to 15th April, 1964. Payment of this amount from the Iron and Steel Equalisation Fund was sanctioned by the Ministry on 25th June, 1965 and the payment was made on 2nd June, 1966.

3.57. No responsibility has been fixed for the delay leading to payment of the demurrage charges.

3.58. The Committee desired to know the reasons for not finalising the arrangement when intimation of the sailing of the ship had been received nearly forty days before the arrival of the ship. The witness stated that with the announcement of partial decontrol on 1st March, 1964, certain doubts arose regarding levy of surcharge on all the supplies received after 1st March, 1964, and the conditions under which the handling agents had to function. The Minerals & Metals Trading Corporation who had desired that the work be given to them were entrusted with the contract on the 19th March, 1964, but they backed out, saying that they were not ready to take up the work. Immediately another handling agent was appointed but this party wanted five weeks time. Thus when two handling agents backed out a third party was engaged and this accounted for the delay.

3.59. The Committee pointed out that the intimation regarding the arrival of the ship was received on 14th February, 1964, and the Department knew that there would be a partial decontrol from 1st March, 1964. Even though the notification regarding decontrol was issued on the 29th February, 1964, the decision was taken by the Ministry earlier. Asked once the Department knew that decontrol was coming from 1st March, 1964, all changes should have been examined by the Department. The witness replied: "That is quite true; It should have been examined earlier. But in the process of decontrol there were so many other problems." The witness agreed that it was an omission and promised to look into the matter as to how it occurred both in the Iron and Steel Controller's Organisation and in the Ministry.

3.60. The Committee feel that with advance planning, better co-ordination and more initiative, the Ministry could have avoided the expenditure amounting to Rs. 14,113 incurred payment of demurrage. They hope that the Ministry, benefitting from this costly experience, will be more careful in future and ensure that such cases do not recur.

CHAPTER IV

MINISTRY OF STEEL, MINES & METALS

(DEPARTMENT OF MINES & METALS)

*Scheme for the movement of coal by road-*cum*-river route—Para* 48—*pages* 66—68.

This scheme which was a short-term experimental scheme, formulated in September, 1962 with the object mainly of developing an alternative means of transport in addition to Railways, and of ultimately having a long-term scheme for the movement of 3.5 lakhs tonnes of coal annually by road-*cum*-river route from the coalfields of Bihar to Uttar Pradesh was implemented in December, 1962. As the cost of transportation of coal under this scheme worked out to Rs. 88.60 per tonne, comprising cost of river transport (Rs. 56.69) and cost of road transport including charges for loading into barges (Rs. 32.00), as against the estimated cost of Rs. 60 per tonne, and against Rs. 17 per tonne by all-rail route, it was suspended in April, 1963 and later abandoned in December, 1964.

4.2. The total expenditure incurred on the scheme (excluding the cost of transport) upto November, 1965 amounted to Rs. 56.13 lakhs as follows:—

(a) *Capital* :

	(In lakhs of rupees)	
(*i*) Expenditure on development of National Highways (coal roads)	40·30	
(*ii*) 50 per cent of expenditure on State coal roads in Bihar . . .	12·75	
		53·05

(b) *Revenue* :

(*i*) Conservancy work on stretch between Buxar and Allahabad	2·76	
(*ii*) Making the channels and snags clearance between Buxar and Allahabad .	0·32	

Besides, an expenditure of Rs. 0.36 lakh was also incurred on the staff maintained for the scheme during the period from December, 1962 to February, 1964.

In addition, a capital expenditure of Rs. 12.75 lakhs representing 50 per cent of the expenditure incurred on State coal roads was borne by the State Government of Bihar, and the expenditure was treated as a loan from the Central Government.

4.3. It was noticed that the scheme was implemented with a part of the fleet of vessels of the Ganga Brahmaputra Water Transport Board of the Department of Transport, having a limited capacity of 500 tonnes, despite the fact that vessels of the requisite capacity which had been offered earlier by a river steam service company for the purpose of running the scheme did not become available, and without having adequate hydrographic surveys of the river as suggested by the Planning Commission and the Ministry of Irrigation and Power. Owing to inadequate draught in the river Ganga, the full capacity of the barges could not be utilised and the round trip from Ganga Ghat at Patna to Allahabad and back, took longer time resulting in high cost of transportation.

4.4. During the period of a little over three months of the running of the scheme, only 1,538 tonnes of coal were moved as against the estimated target of 12,000 tonnes.

4.5. At the instance of the Committee, the Department of Mines and Metals have furnished a comprehensive note on the scheme.

4.6. The Department have stated in the note, that during the years, 1961 and 1962, complaints about serious shortage of Coal, in Northern States, particularly in Uttar Pradesh, were received by Government. The real difficulty in increasing the supplies was the transport bottleneck at Mughalsarai, which had a limited capacity for handling coal wagons. Against an estimated demand of 3,200 wagons per day by the end of the Third Five Year Plan, the estimated availability of wagons with the Railway authorities was 2,600, leaving an unsatisfied demand of 600 wagons per day. This unsatisfied demand worked out to 4.8 million tonnes of coal per annum.

4.7. To relieve the pressure on the Railways, it was proposed to meet by transport the requirement of consumers within a radius of 50 miles of the coal fields. "This was discussed at length at the Coal Conference convened by the Ministry during September, 1961 to discuss the various problems relating to coal production and rationalisation of coal distribution. At the Conference the consumers were reluctant to take coal by road because the price of road-borne coal would be costlier as compared to railborne Coal". It was decided at the Coal Conference that the movement by road of coal of grade II and below and soft coke which was liberalised with effect from 24th June, 1961 by the introduction of coupon system would continue, pending the completion of the study of the possibility of road transport from the coal fields, by a Working Group set up in the

Planning Commission, having regard to such important factors as the availability of roads and bridges and of trucks and diesel-oil.

4.8. It was, however, necessary that, in addition to the movement of coal by road which had limited potentiality in view of the comparatively small loads that the indigenously manufactured trucks. could carry, other methods of bulk movement of coal should be thought of.

4.9. The note states: "It was, therefore, felt that the possibility of utilising the river Ganga for the transport of coal from collieries in Bihar to consumption centres in Uttar Pradesh should be examined."

4.10. Before preparing the outline of the road-*cum*-river scheme, the Ministry of Mines & Metals considered in detail the essential aspects of the scheme and had a series of meeting with the Ministries of Transport & Communications, Irrigation & Power, and Railways and the State Governments of Uttar Pradesh and Bihar. Two inter-Ministerial meetings were held in May and August, 1962 where the various aspects of the scheme, such as, conservancy, channelling, training of the Ganga, the construction of feeder and approach roads in Bihar, were discussed.

4.11. In regard to the road-*cum*-river scheme, an on the sport survey of the possible sites for loading and unloading of coal was made by a team consisting of the Development Adviser in the Ministry of Transport and Communications, the consultant (Navigation) in the Ministry of Irrigation and Power and an Officer of the National Coal Development Corporation. The Controller General in the Ministry of Defence was also closely associated with the formulation of the Scheme.

4.12. The information gathered from various sources revealed that the Ganga had good potentiality for river borne traffic. As till not very long ago the Ganga Despatch Service was known to operate some 15 vessels on these routes, it was considered that the possibility of moving coal through the Ganga could be explored both on short term and longterm basis. The Planning Commission was accordingly approached for its approval to the Scheme. To begin with it was proposed to move 40,000 to 80,000 tonnes of coal per year from Bihar to Allahabad for the short-term scheme. The landed price of coal at Allahabad was estimated at Rs. 80/- per ton. The Scheme received the general approval of the Uttar Pradesh Government, as they considered that the consumers would accept the coal at that price in the hope that in due course of time larger quantities of coal would move at a lesser cost.

4.13. The Scheme was finally considered by the Planning Commission at its meeting held on 20th September, 1962 attended by the representatives of the Ministries of Mines and Metals, Finance, Defence, Transport and Communications, Irrigation & Power and Railways. Approval was accorded to the project envisaging the movement of 40,000 to 80,000 tonnes of coal *per annum* subject to further details being worked out and bearing in mind the suggestions made at the meeting. The project included the following items of expenditure:

	Rs. lakhs
(*a*) Improvement of Roads	300
(*b*) River Conservancy	100
(*c*) Bandalling	22
(*d*) Loading and Unloading Facilities .	20
	442

4.14. The Ministry have stated that the improvement of roads was considered very essential because the then existing roads would not have been able to stand the pressure of additional movement of coal envisaged under the scheme. The Technical Team which had inspected the proposed sites for loading and unloading at the river side were, in fact, of the view that some approach roads might have had to be built or repaired.

4.15. After obtaining the concurrence of the Planning Commission, the Ministry of Finance was approached for funds and they agreed to the provision of funds on condition that the foreign exchange component required under the project should be met out of the foreign exchange allocations of the Ministry of Mines & Fuel. This condition was agreed to by the Ministry of Steel, Mines & Fuel.

4.16. In regard to the operation of the scheme, the Ministry have stated that in view of the urgency of arranging movement of Coal and in anticipation of approval of the scheme, they had invited tenders for movement of coal from colliery to Patna by road and also for movement from Patna to Allahabad by the river Ganga. A tender quoting originally at Rs. 32.50 per ton which was later reduced to Rs. 32/- per ton for movement to Patna by road including loading and unloading charges and loading coal into barges at Patna Ghat, was considered favourable and accepted.

4.17. In regard to the movement of coal by the river from Patna Ghat to Allahabad, the tender of a river Steam Service Company was considered reasonable. When the Scheme was originally drawn up this offered to place a part of their fleet with a total capacity of 6,500 per month at the disposal of the Ministry. Later on, they were not able to make the vessels available as, according to them, the conditions in the River would not permit the vessels being taken to Patna. Further, their tender contained other conditions like an arrangement for five to ten years and entrusting the work of operation for the long-term scheme to them. In view of these unacceptable conditions, the operation of the scheme was entrusted to the Ganga Brahmaputra Water Transport (G.B.W.T.) Board an organisation on which the State Governments of Bihar, Uttar Pradesh and Assam and the Central Ministry of Transport were represented. The available flotilla of the Board had a total capacity of about 500 tonnes and it was expected that the fleet would be able to make two trips in a month.

4.18. The break-up of landed cost of road-*cum*-river borne coal at Allahabad Ghat where from the Brick Kiln Owners took delivery of coal is:

	Rs per Tonne
(*i*) Cost of Coal	17·03
(*ii*) Sales Tax	0·37
(*iii*) Central Cesses	2·20
(*iv*) Cost of road transport from Kathara Colliery (Bihar) to Patna, loading and unloading in trucks and loading into barges of G.B.W.T. Board	32·00*
(*v*) Cost of river transport from Patna to Allahabad (without return Cargo)	26·00**
TOTAL	77·60

4.19. The break-up of the actual cost for river transport, incurred by the G.B.W.T. Board in the second trip is as follows:

	Rupees Per Tonne
(*i*) Direct charges (after deducting freight earned in return trip)	27·50
(*ii*) Indirect charges	21·20
(*iii*) Superior Supervision	2·92
TOTAL	51·62

*As per tendered rate of coal carriers.

**The rate of Rs. 26 per tonne for river transport was arrived at during discussions between the Ministry of Mines & Fuel and the Ministry of Transport on 19-10-1962.

The direct charges included the cost of fuel, lubricants, salary of the crew and ghat staff, stores and spares. Indirect charges included the depreciation of tugs and barges, insurance, interest on capital costs of tugs and barges.

4.20. The Department of Mines & Metals have stated in their note:

> "It will be observed from above that the actual expenditure which the G.B.W.T. Board had to incur in connection with movement of Coal by river from Patna to Allahabad were the charges mentioned against the head, "direct charges" *i.e.* Rs. 27.50 per tonne. These are, in fact, the working expenses of the Board on this movement. The indirect expenses are, no doubt, reckoned in business-like transactions but the Board would have incurred these expenses otherwise also even if they had not deployed a part of their fleet for movement of coal."

4.21. The flotilla of the Board made in all four trips carrying a total quantity of 1,538 tonnes of coal. Since the actual transport cost of movement of coal by the road-*cum*-river route was higher than the estimated cost and also since the draught in the river was very low with the onset of summer, the scheme was suspended in April, 1963, and finally abandoned in December, 1964.

4.22. In regard to launching the scheme without adequate hydrographic survey, the Ministry have stated: "With the limited capacity available from the G.B.W.T. Board, the trips to be undertaken would have necessarily to be trial runs. These trips, if successful, could serve as a pilot study for the short term scheme and eventually the long term scheme. The G. B. W. T. Board, at that time, was already operating experimental services between Patna and Rajmahal and Patna and Buxar. The above transport was also being utilised for movement of coal from Patna to Balia in Uttar Pradesh and some quantity of rice from Buxar to Chapra. For a fairly useful hydrographic survey of the river where the draught is limited and with numerous shoals, a very detailed study in the three seasons of high, middle and low water was necessary." This was a time-consuming process and would have also involved considerable expenditure, such as on marking channels and survey launches, the expenses on the latter alone being about Rs. 500/- per day.

4.23. The Ministry have added: "If we were to take advantage of the favourable season, the trips had to be started without delay. Hence the proving trips were started mainly in order to gain experience of the river conditions and other aspects relating to the movement of coal by river, for planning the long term scheme suitably. It is generally accepted that in any unchartered waterway a number of proving trips are necessary."

4.24. In respect of the expenditure on the road portion of the scheme and on the larger scheme of development of roads for coal movement, the Ministry have stated in their note that in connection with the formulation of the Third Plan Programme of Coal production and transport, a Working Group consisting of the representatives of the Planning Commission, the Ministries of Steel, Mines & Fuel, Transport & Communications, Railways and others was constituted.

4.25. This Working Group recommended that it would be useful to develop capacity of the Grand Trunk Road (N. H. 2) with a view to enable larger quantities of coal being moved along that road towards Calcutta and its industrial suburbs as this would give relief to the Railways and ensure supplies on a regular basis to the industries with comparatively lower priority in the allotment of wagons.

4.26. It was also considered by the Working Group that the improvement of the Grand Trunk Road, the road to Jamshedpur (N. H. 32) and feeder and approach roads in the collieries would, in addition to facilitating the movement of more coal, help substantially in the transport of men, materials and machinery to the colliery undertakings as well as sand for stowing.

4.27. The programme recommended by the Working Group was as follows:

	Rs. crores
(*a*) Calcutta to Topchahi, near Dhanbad, from improvement of the Grand Trunk Road	6·20
(*b*) Improvement of 247 miles of feeder roads outside Raniganj & Jharia coal fields	4·30
(*c*) Improvement of 150 miles of road within various coal fields	3·75
(*d*) Improvement of National Highway No. 32 to Jamshedpur about 160 miles .	2·60
	16·85

4.28. The need for improving the roads as recommended by the Working Group and the improvement works needed for the road-*cum*-river scheme were considered together. The Ministry of Transport approved in February, 1963 taking up the improvement works on National Highways Nos. 2 & 32 and asked Governments of Bihar & West Bengal to frame estimates.

They also approved the improvement of the National Highway No. 31 which was required in connection with the road-*cum*-river scheme.

4.29. In regard to the capital expenditure of Rs. 40.30 lakhs on development of NH (Coal roads), the Ministry have stated that the Government of Bihar indicated in February, 1966 that the expenditure on National Highway during 1963-64, 1964-65 and 1965-66 was Rs. 45.77 lakhs. The expenditure on State Government Roads during these three years was Rs. 25.50 lakhs. This expenditure comprises of the actual expenditure upto December, 1965 and anticipated expenditure from January, 1966 to March, 1966.

4.30. Though the Government of Bihar showed these items of expenditure as on development of road schemes for movement of coal by road-*cum*-river route, an amount of Rs. 43.80 lakhs for the National Highway was in pursuance of the sanction for the larger scheme. National Highways No. 2 and 32 were included in the larger scheme of movement of coal towards Calcutta and National Highway No. 31 formed part of road-*cum*-river scheme. In view of this, the expenditure on National Highways No. 2 and 32 should not be debited to the road-*cum*-river scheme. Only an expenditure of Rs. 1.97 lakhs (Rs. 45.77 lakhs *less* Rs. 43.80 lakhs) incurred on National Highway No. 31 could be debited to the road-*cum*-river scheme. Taking into account the expenditure incurred on the State roads, the total capital expenditure connected with the Scheme should be Rs. 14.72 lakhs (Rs. 12.75 lakhs on State roads *plus* Rs. 1.97 lakhs) and not Rs. 53.05 lakhs as mentioned in the Audit Report.

4.31. From the notes and the other data furnished by the Department of Mines & Metals, the Committee find that, at the meeting held in the Planning Commission on 20th September, 1962, the representative of the Ministry of Irrigation & Power had expressed the view that—

> "....because of the numerous awkward bends in the river Ganga, the ordinary inexpensive conservancy measures like bandalling would not do. It was necessary to have hydrographic surveys conducted and the type and size of the vessels and the specifications of tugs etc. could be decided in the light of the results of these surveys. The present estimates of costs of conservancy had been worked out in the absence of full knowledge of river conditions and were in the nature of preliminary guesses."

4.32. Government, however, decided to start the experimental trips without any hydrographic surveys, in order to gain experience of the river conditions and other aspects on the grounds that (i) the Ganga-Brahmaputra Water Transport Board had been conducting hydrographic surveys and also running services over a part of the route; and (ii) they had also conducted survey upto Allahabad.

4.33. When this decision was communicated to them, the Ministry of Irrigation and Power, while not agreeing to this view, stated in October, 1962:

> "....I can only restate what is our thinking in the matter to avoid any misunderstanding in the future. To evolve satisfactory short and long term measures for improving the navigability of the Ganga, we might seriously consider the desirability of carrying out model studies. Such studies could be conducted in a coordinated manner so that any measures for improving the navigability of Ganga would, at the same time, ensure enhanced flood disposal benefits in this area."

4.34. The Committee also find that at the meeting held in the Planning Commission on 20th September, 1962, the representative of the Ministry of Finance pointed out that the proposal in the short run required an investment of Rs. 3 crores for roads, a little over Re. 1 crore for river conservancy the actual cost of which might exceed that estimate and Rs. 20 lakhs on account of loading and unloading facilities. Moreover, the costs of trucks if these had to be acquired by a Government undertaking and of the barges to be produced at the Garden Reach Workshop had also to be taken into account. All this investment would be additional. The benefit to be derived immediately from the Scheme was small, the quantity of coal to be moved being just 6 to 7 wagons a day.

4.35. Another representative of Finance Ministry had pointed out at the meeting that "it was clear from the discussions that so far as the long term proposal was concerned, this would require detailed study. Although the consumers were willing to pay the higher price at present because of the difficult supply position of coal, the present situation could not be expected to continue indefinitely, and when the wagons supply position was easier, there might not be the same willingness on their part to pay the higher price for coal carried by the road-*cum*-river route."

4.36. The Committee further understand from Audit that the scheme was suspended in April 1963 because the charges for river haulage far exceeded the original estimate of Rs. 26/- per tonne. The relevant extracts from the files of the erstwhile Ministry of Mines & Fuel are as follows:—

> "....with the transport position easing, we cannot possibly continue moving these small quantities of coal to Allahabad by the river route at the existing higher costs. Even now the cost at Allahabad is Rs. 76/- per ton. This is on the basis that the freight for the river portion to be charged by the Ganga Brahmaputra Water Transport Board is only Rs. 26/- per ton.

The Ministry of Transport and Communications have, however, come up to say that the charges are Rs. 50/- and not Rs. 26/- per ton. This would make the cost extremely prohibitive and there would hardly be any justification left with us to move coal at this high cost........the entire economies of the Scheme depended on the long range proposal, according to which we were to obtain craft of the requisite draft and arrangements for dredging etc. were to be made available. Unfortunately, due to numerous difficulties, dredging facilities could not yet be available and the draught in the river is now very low......... But we should explain the position to the Finance Ministry, Planning Commission and the Transport Ministry and say that because the necessary clearance were not available in time, so that we could not obtain any dredgers etc., and the difficulty of foreign exchange was still there, the Scheme was suspended for the time being. In the meantime, we will continue our study of the long range scheme and if we are able to come to some definite indication about the availability of the requisite river craft and dredgers etc. we will start the scheme again......".

4.37. While the Committee appreciate the effort to find an alternative method for the movement of coal by resorting to a road-cum-river route, they are constrained to observe that as a result of the adoption of a scheme which was based more on assumptions than o nadequate investigation and preparation, an infructuous expenditure of several lakhs was incurred without any corresponding benefit to the industry or the consumer.

4.38. The Committee are not able to understand why Government did not undertake a detailed hydrographic survey of the river Ganga specially when the Ministry of Irrigation & Power had repeatedly pointed out the imperative need for such a survey. The Ministry of Finance had also clearly pointed out that the long term benefits of the Project were open to doubt as it was questionable whether the consumers would be [illegible] to continue to pay for the high transport charges in getting the coal by road-cum-river route, while in the case of the short term scheme, the total qutntities proposed to be moved were no more than 6 to 7 wagons per day.

4.39. It is obvious that the Planning Commission did not exercise any detailed check before according approval to this particular scheme, when it should have been evident quite early that the cost of transport would be even higher than the cost of haulage by the Railways.

4.40. The Committee suggest that a detailed study of this case should be made by Government with a view to finding out how such a costly scheme could have been rushed through in disregard of the doubts expressed by the Ministries of Irrigation and Power and Finance.

Audit Report on the Accounts of the Coal Board for the year 1965-66

4.41. The Coal Board set up under the Coal Mines (Conservation and Safety) Act, 1952, for the purpose of maintenance of safety in Coal Mines and conservation of coal, is financed from the net proceeds of excise duty levied on coal/coke raised/manufactured and despatched from collieries.

4.42. A summary of receipts and payments under broad heads during 1964-65 and 1965-66 is given below:—

RECEIPTS	1964-65	1965-66	PAYMENTS	1964-65	1965-66
	(in lakhs of rupees)			(in lakhs of rupees)	
			Revenue Expenditure		
Opening Balance	214·76	188·18	Administration of the Board . . .	25·00	27·42
Net Proceeds of excise duty received under Section 11 of the Act	560·00	700·00	Grant of stowing materials, other assistance	355·02	408·65
			Other measures connected with the Administration of the Act . . .	36·80	60·23
Loan from Govt of India	300·00	686·67	Protective works	19·35	10·16
Interest on investments	3·27	1·90	Contribution to Mining Research Station .	..	4·13
Repayments of Loan by collieries for purchase of stowing plant . . .	4·38	4·41	Assistance to collieries handicapped by adverse factors	209·26	189·93
			Central Ropeways Scheme . . .	10·00	27·57
Other receipts	1·99	1·44	Miscellaneous	0·98	6·15
			Capital Expenditure		
			Building for office accommodation . .	0·45	10·19
			Central Ropeways Scheme . . .	239·36	782·07
			Closing Balance	188·18	56·10
TOTAL .	1084·40	1582·60	TOTAL .	1084·40	1582·60

4.43. The Committee pointed out that though the Coal Board received Rs. 140 lakhs more by way of net proceeds of excise duty and Rs. 386.67 lakhs more by way of loan from Government, the closing balance at the end of 1965-66 was Rs. 56.10 lakhs as against the opening balance of Rs. 188.18 lakhs. The Committee desired to know the reasons for the sudden spurt of expenditure under the grant of stowing materials and other assistance and under the Central Ropeways Scheme.

4.44. The Chairman, Coal Board, stated during evidence that the expenditure on stowing was going up year by year as more and more coal was raised from mines already developed. Further the payment, on account of arrears of previous years was also more than in 1964-65 by Rs. 46 lakhs. A loan of Rs. 38 lakhs was also given for purchase of stowing plant.

4.45. Asked if the stowing plant was in use, the witness replied in the affirmative and added that hydraulic stowing was being carried out and that selected grades of coal were being exported to some extent.

4.46. In reply to a question, the witness stated that the rate of interest on the loan was 10½ per cent per annum and that repayment was being made regularly by instalments of Rs. 3.8 lakhs each.

4.47. In regard to the increased expenditure of Rs. 5.43 crores approximately on the Central Ropeways Scheme, the witness informed the Committee that payment for plant and machinery imported increased by Rs. 230 lakhs during 1965-66 and payment on account of customs duty on these was Rs. 200 lakhs.

4.48. The witness further stated that out of 2 schemes in Jharia and three in Raniganj, one each was working in these places. The other portions were expected to work during 1967-68. He stated that the expected total outlay on the scheme in the Third Five Year Plan was Rs. 22 crores out of which Rs. 7 crores remained to be utilised.

4.49. In reply to a question, the witness stated that the transport of coal by ropeways was cheaper than transport by trucks. There was also the difficulty of constructing roads in Jharia which was densely covered by coal mines.

4.50. In regard to the reasons for slow progress of the scheme, the Chairman, Coal Board, stated that the actual work started in 1962-63 but there was a delay of about a year and half due to the State Government's objection to the passage of the ropeway through the waste lands.

within the municipal limits of Dhanbad as a result of which the line had to be diverted. Further the ships coming *via* Chittagong on which some of the materials were shipped were seized by the Pakistan authorities, retarding the programme of operation of Ropeway.

4.51. The Committee draw attention to their recommendation contained in para 6.25 of their 62nd Report (Third Lok Sabha) and hope that, as assured during evidence by the Chairman, Coal Board, the remaining portions of the Ropeway have started working during 1967-68. They would like to be informed of the completion and commissioning of the Ropeway.

4.52. Delay in the recovery of dues—Rule 44 of the Coal Mines (Conservation and Safety) Rules, 1954 provides that:—

> "The Central Government or with the approval of the Central Government the Board may recover from the owner, agent or manager of a colliery either wholly or partially the cost of such measures or operations as are undertaken under Section 6 if it is satisfied on consideration of all facts and circumstances that such recovery of cost is justified."

4.53. Under these provisions, sanction was accorded by the Ministry in April, 1962 to the Coal Board to incur expenditure on excavation of an isolation trench between two collieries 'A' and 'B' at a cost not exceeding Rs. 4.83 lakhs (this was later increased to Rs. 9.90 lakhs in January, 1964) subject to recovery of cost from the collieries concerned. The total expenditure incurred by the Board on this account worked out to Rs. 8.38 lakhs upto January, 1966—Rs. 0.51 lakh in the case of colliery 'A' and Rs. 7.87 lakhs in the case of colliery 'B'.

4.54. The Board, however, decided in April, 1962, that no recovery should be made from the collieries except to the extent of the value of the coal that would be recovered during the process of trench-cutting, which would be made over to the owners, and that a value of Rs. 15.70 per ton was a reasonable rate for the coal recovered; the controlled selling rate of coal at that time was Rs. 18.70 per ton.

4.55. No coal was recovered in the case of colliery 'A'. In respect of the coal recovered in the colliery 'B', an amount of Rs. 1.81 lakhs became due from the colliery, of which Rs. 0.35 lakh only could be adjusted. In September, 1965, the Board decided to file a civil suit against the colliery for the recovery of the balance amount of Rs. 1.46 lakhs; but the suit had not been filed till March, 1967.

4.56. The Chairman of the Coal Board informed the Committee that a suit had been filed in August, 1967 against the colliery for recovery of the amount and that the case was *sub judice*.

4.57. As the case is *sub judice*, the Committee do not desire to comment on it. They would, however, like to be informed, in due course, of the final result of the case.

CHAPTER V

ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE CONTAINED IN 20TH REPORT (FOURTH LOK SABHA)

5.1. The Public Accounts Committee are glad to note that the recommendations contained in the 20th Report of the Public Accounts Committee, 1967-68 (Fourth Lok Sabha) on "Review of Defence Budget—Consolidation of Revenue Demands" have been accepted by Government.

5.2. The action taken notes received from the Ministry of Finance are at Appendix IV.

NEW DELHI;
April 11, 1968.
Chaitra 22, 1890 (*Saka.*)

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

APPENDIX I

MINISTRY OF FINANCE

Note on Para 5 Section XXIV of Audit Report (Commercial) 1967
(*Ref.*:—para 1.115 of this Report)

A detailed note on the following points may be furnished:

(1) What are the reasons for losses?

(2) What are the reasons for losses in manufacturing?

(3) Whether the reasons for the manufacturing losses being in excess of the prescribed limit of 2 per cent have been analysed?

(4) What are the reasons for losses in storage?

(5) What are the reasons for losses in transit?

Point No. 1—*What are the reasons for losses?*

Losses in opium referred to in para 5 of sec. XXIV of the Audit Report (Commercial) 1967 are the irrecoverable losses of opium which have occurred at different stages in the handling, storage and manufacture of opium. For a proper appreciation of the reasons for losses in opium at different stages, the method of collection. transport, handling, analysis, storage, manufacture and accounting of opium is indicated below:—

(1) *Intake of opium in the factory*:

(a) The opium is purchased from individual cultivators by the District Opium Officers at the weighment centres, provisional payment is made to the cultivators on the basis of the moisture content ascertained by hand parakh or test by the District Opium Officers and the opium is classified under various classes depending on the moisture content. At the time of purchase, normally the percentage of moisture in the opium varies from about 25 to 35 per cent. The opium of each class is packed together and is despatched to the Factory in Polythene bags, kept inside canvas bags with an outer covering of gunny bags. The opium is consigned to the opium factory either in Railway Wagons or by truck.

(b) On receipt of the consignment in the factory, the bags are separated and kept according to the classification recorded in the challan on the basis of the District Opium Officer's hand parakh. Each bag is weighed to determine the weight of opium.

(2) *Analysis of Opium*:

Samples of each bag of opium are drawn by means of borer in the presence of the Chemist. Samples so drawn from about 10 bags containing opium of the same classification are mixed together to form one composite sample. It is, therefore sent to the Chemical Control Section for determination of consistency (*i.e.* percentage of moisture), percentage of morphine, purity etc.

(3) *Storage of opium*:

Prior to the year 1950-51, the storage of opium was done on the basis of consistency as detailed below:—

Banaras Opium

1. 75° and over
2. 73-74°
3. 70-72°
4. 69° and under

Malwa Opium

1. 76° and over
2. 70-75°
3. 64-69°
4. 63° and under

Due to the above system of storage there were less chances for assay variation but in order to meet the requirement of opium of different morphine strength of individual Foreign purchasers, it was felt necessary to store opium on the basis of morphine content. Accordingly, the following grades were adopted for the storage of opium irrespective of its moisture content *i.e.* consistency:—

Grade	Morphine strength
A	12 per cent and above.
B 1	11 per cent and above but below 12 per cent.
B 2	10 per cent and above but below 11 per cent.
B3	Below 10 per cent.

At present opium is stored in 3 grades according to morphine content. (B1 and B2 are stored in the same Vat.)

On receipt of the assay results from the opium Chemist, bags are separated according to the morphine strength. The opium of the same grade is dumped in storage (Malkhana) Vats earmarked for the particular grade. Since opium is a sticky substance, some quantities remain sticking to the bags. The opium is scrapped to the extent possible and put in the Vat to which it belongs. Still some quantities of opium remain sticking to the bags in an irrecoverable condition but with a view to effect recovery to the maximum possible extent these bags are also washed in the washing Vats known as Dhoikhana. The washings are allowed to remain in Dhoikhana Vats for 2-3 years for raising their consistency by natural evaporation.

(4) *Accounting of opium*:

Each individual opium bag is weighed in the factory. After deducting its original tare weight *i.e.* weight of fresh un-used bag as recorded in the challan received from the District Opium Officers, the net physical weight of opium is ascertained and recorded in the challan. The weight of opium so determined in the Factory is converted at 70 degree consistence on the basis of the consistence of the opium as ascertained by the Opium Chemist and brought on to the books of Malkhana.

The entire stock of opium so taken into stock books of Malkhana as per weighment made in the Import Section includes losses due to handling, oozing, sticking to opium bags, floors etc. which cannot be determined unless the stock is physically exhausted.

(5) *Issue of opium for manufacture*:

Before issue of opium to the manufacturing section, it is taken out from the main Malkhana Vat to the mixing Vat. In the mixing Vat, the opium is stirred manually to make it as homogeneous as possible. About 8 samples are drawn from the different places of the mixing Vat and thereafter, one composite sample is prepared and sent to the analytical section for assay. On receipt of the assay report the opium is issued to the manufacturing section (Abkari) according to their requirements. The difference between the computed weight at 70 degree on receipt and the computed weight of the quantity issued constitutes the storage loss.

(6) *Manufacturing process of opium*:

(a) Bulk of the opium is issued from Malkhana to the Abkari Section where it is manufactured and cakes are prepared for export as also for internal consumption. The account of opium in this section is maintained at 90 degree consistence, seasonwise.

(b) On receipt of opium from Malkhana, it is exposed to sun in trays having capacity of about 36 Kgs. each. When the consistence of opium reaches about 88 degree, opium of two trays is mixed and kneaded together. This process is called preparation of Dhundhia.

(c) From Dhundhia, sample is drawn and sent to the analytical section for determination of consistency and Morphine strength. On receipt of the analytical results the Dhundhia opium is cut into leaves of different weights as required by our customers, the normal size being of 5 Kgs. Computed weight of Dhundhia is taken into account in the book of the manufacturing section for purpose of issue. The difference between the computed weight of the raw opium received and that of finished cakes constitutes the loss in the process of manufacture.

(7) *Reasons for losses*:

Opium being an extremely viscous substance, some irrecoverable loss at different stages in its handling is inevitable. It is also difficult to keep any accurate quantity account of opium in terms of weight, as its weight varies from layer to layer and even at different spots of the same layer in a Vat depending on the moisture content. The losses may be attributed to the following factors:—

(1) Loss due to oozing out of opium from bags.

(2) Handling of opium at different stages.

(3) Sticking of opium to the bags, vats and floors, trays and to the hands and feet of workers.

(4) Difficulty in making the opium thoroughly homogeneous with the result that it is difficult to ascertain the correct moisture content of the lot as a whole, the moisture content varying in different layers thereof.

(5) Errors in sampling or chemical analysis for determination of moisture content.

It would be observed from the above that both because of the nature of the material and because of the nature of processing to which it is subjected, some irrecoverable loss becomes inevitable. In the factories, adequate security arrangements exist and as such, chances of pilferage are remote. The reasons for losses are explained in somewhat greater detail in the replies to points No. 2 and 4.

Point No. 2—*What are the reasons for losses in manufacturing?*

In Abkari Section, the manufatcturing losses occur at the following stages:—

(i) *Sun-drying*:—Some opium leaks out from the joints and crevices of the trays or at the time of stirring of opium manually. Though every attempt is made to prevent such losses yet it is inevitable.

(ii) *Handling and Adhesion losses*:—Some wastage of opium takes place at the time of kneading and cutting into loaves. Opium being a sticky substance gets adhered to the hands and feet of the workers and various implements used.

(iii) *Loss due to assay variations*:—Variation in assay means variation in the consistence of opium as determined at the time of receipt of opium in Abkari and again determined at the time of issue after manufacture. Variation in assay in other words is a change in the consistency of opium determined at different stages. Sometimes even at the same stage if different samples are drawn, different results may be arrived at. This is because of the fact that the opium is plastic in nature and being an agricultural produce is not homogeneous in composition.

Example:—

(*a*) Physical weight	50Kgs.
Consistence of the opium	65°
Conversion at 70:	46·429Kga
(*b*) Physical weight	50Kgs
Consistance of the opium.	68°
Convertion at70°C	48·571Kgs

The above cited example shows the difference in the computed weights when the consistency of different samples differ.

(iv) *Other losses*:—Opium trickles down from the trays when shifted from one place to another for exposure or while the yard operation is carried out. Losses also occur when the broken trays are taken-up for reconditioning or repairing. New trays utilised in the Abkari Yard absorb some quantity of opium. The opium which cannot be scrapped out of such trays results in further loss.

Besides, some opium is also lost during the rains when the oozings from the trays flow with water and are swept away making any recovery impossible.

Point No. 3—*Whether the reasons for the manufacturing loss being in excess of the prescribed limit of 2 per cent have been analysed?*

Figures of losses in manufacture in Ghazipur Factory during the period from 1954-55 to 1962-63 are as under:

Year	Manufacturing loss percentage 90°	Value	Percentage of loss with reference to the quantity handled
1954-55	252·6117 Mds.	2,82,901.89	3·41
1955-56	258.8135 Mds.	3,17,642·04	3·35
1956-57	362·7144 Mds.	5,84,193·75	3.30
1957-58	574·4147 Mds.	10,90,095·90	4·42
1958-59	565·9781 Mds.	11,20,641·58	4·08
1959-60	693·6239 Mds.	13,73,473·65	4·37
1960-61	229·7378 Mds.	4,73,688·64	1·71
1961-62	15681·555 Kgs.	8,95,746·43	3·12
1962-63	10907·959 Kgs.	6,88,199·70	2·62
		68,26,583·56	3·37 (Average)

2. The above figures indicate that excepting in 1960-61 and 1962-63, the loss has been ranging from 3.12 per cent to 3.42 per cent average being 3.22 per cent. While these figures by themselves do not indicate any fluctuation, these when compared with losses recorded between 1944-45 to 1952-53 indicate rise. In the earlier period the manufacturing loss ranged from 0.48 to 2.35 per cent with an average of 1.46 per cent. It is in this background that the question has arisen why and how losses have gone up during 1954-55 to 1962-63. This aspect of the problem has been very carefully examined and it appears that the circumstances responsible for rise in the manufacturing loss are as follows:—

(i) During 1954-55 to 1958-59 the Malkhana account instead of showing loss, recorded gain ranging from 0.04 per cent to 2.17 per cent. Since normally there should be loss in storage instead of gain, the latter situation has to be regarded as artificial and has to be attributed to assay variations and possible other errors. These gains being wrong, must have necessarily inflated the losses in the manufacturing section. If normal storage losses are set off against the total manufacturing loss, the total manufacturing loss will be somewhat reduced.

(ii) Change in method of sampling [*vide* Para (d) of reply to point 4] seems to have resulted in increased assay variations with consequent effect on computed weights.

(iii) Use of reconditioned and rickety trays may have resulted in increased losses due to leakages and wastages.

(iv) Opium having been collected rather early in some years from the cultivators, had low consistence and this may have resulted in increase in the losses in Manufacturing Section due to spillage etc.

3. It would, therefore, appear that the losses in 1954-55 to 1962-63 though somewhat high when compared to earlier period, cannot be regarded as unreasonable. Moreover, the security arrangements in the Ghazipur Factory being extremely tight, possibility of surreptitious removals is remote.

4. Two per cent is not the prescribed limit for condonation of losses, but in fact represents the limit upto which the Narcotics Commissioner was at one time authorized to condone losses. This power has, however since lapsed and the Narcotics Commissioner's present authority in the matter of write off of losses is regulated by the powers laid down in this behalf in the General Financial Rules.

Point No. 4—*What are the reasons for losses in storage?*

(a) *Import loss*:

The opium is received in the Factory (Import Section) during summer months. As such, some opium comes out from the bags due to fermentation and sticks to the floor which is not fully recovered. Some opium is also lost due to the bursting of bags and spilling on the floor. This feature is particularly prominent when the moisture content of the opium is high.

(b) *Handling loss*:

Opium is handled at different stages in Malkhana, viz:

1. Dumping of opium from opium bags to the storage vats;
2. Scrapping of opium bags;
3. Transferring of opium from main vats to mixing vat;
4. Sampling in Import Section and Malkhana;
5. Issuing to the manufacturing sections;
6. Opium is also handled by the workers of Malkhana to prevent growth of fungus.

All the above operations are responsible for some loss of opium.

(c) *Vat Loss*:

A good number of vats is used in the storage of opium in Malkhana. On the exhaustion of opium from the vats, considerable quantity of opium remains sticking to the sides and floor of the vats, a part of which forms the vat loss.

(d) *Loss on account of assay variation*:

The variation in assay means change in the consistency of opium. Opium is sampled at three stages in the Factory, *viz.*, (i) at the time of receipt of raw opium in Import Section (ii) at the time of issue from Malkhana Section to the manufacturing Section and (iii) at the time of packing the opium for excise or export in the Abkari Section. If the sample is not absolutely representative, the consistency ascertained will not be the correct consistency of the entire lot and therefore, the computed weight will not be wholly correct.

Previous to the year 1953, to find out the average consistency of opium one composite sample out of 5 bags used to be taken. In order to minimise the expenditure, one composite sample out of 10—12 bags is being taken since 1953. Naturally the consistency so determined may not represent the true picture of moisture present in opium packed in those bags. Thus, there is bound to be variation in assay in comparison to the consistency determined at the time of issue of opium for manufacture which ultimately results in apparent loss or gain.

At the time of sampling while thrusting the borer into the bags or vats sometimes the liquid substance falls down into the bags or vats and comparatively dry matter comes out which gives higher consistency resulting in apparent gain. This fictitious gain will ultimately result in loss to the manufacturing section. Similarly, if more of the liquid substance or less of solid matter is taken for sampling, it will result in loss to Malkhana and gain to manufacturing section. This is inevitable due to the heterogeneous quality of opium and the method of sampling mentioned above.

Example :

100 Kg opium @ 65° C $= \dfrac{65 \times 1000}{70^\circ} = 929$ Kgs @ 70C

(at the time of receipt)

1000 Kg opium @ 62°C $= \dfrac{62 \times 1000}{70^\circ} = 886$ Kgs @ 70°C

(at time of issue)

Loss— 43 Kgs @ 70°C.

Point No. 5—*What are the reasons for losses in transit ?*

Opium purchased from the cultivators in U.P as well as part of the opium purchased in the States of M. P. and Rajasthan are taken directly to the factory at Ghazipur, since the bulk of the opium is processed at this factory and exported through the port of Calcutta. However, about 100 tonnes of opium purchased in the MP-Rajasthan area is processed at the factory at Mandsaur. Previously, some opium used to be processed at the factory at Neemuch also. As bulk of the opium supplied to customers abroad is despatched from Ghazipur, the opium processed at Mandsaur/Neemuch has to be transported to Ghazipur unless it is despatched directly for export through the port of Bombay at the request of the buyer. Where processed opium is transported from Mandsaur/Neemuch to Ghazipur, the packages are sealed and the consignments are escorted by armed guards in sealed wagons. The question of pilferage in transit is therefore ruled out. However, some difference in weight between the weight recorded at the time of despatch from Mandsaur/Neemuch and the weight recorded at the time of receipt at Ghazipur, is usually noticed. The reasons for such variation are:—

1. Assay variation.
2. Error in weighments and difference due to weighing scales.

During 1963 the dried opium consignments received from Mandsaur and Neemuch factories were not weighed bag-wise and sampled at the time of receipt, but the weight on receipt was computed much later on the basis of the weight determined at the time of packing for export. As the opiur was transported under armed guard and no tampering of seals was notic at the time of receipt, the comparatively higher loss in transit during 1963 must be attributed to variations in assay and errors in weighments.

APPENDIX II
MINISTRY OF FINANCE

Note on Sub-para (iv) *of para 6—Section XXIV of Audit Report (Commercial)* 1967

(Ref:—para 1.127 of this Report)

1. **Please furnish a chronological note indicating the circumstances leading to the plant remaining out of commission for more than 12 years.**

2. **The effect of non-commissioning of the plant on the storage of opium.**

3. **When were the defects noticed by Management? Have these defects since been rectified by the supplier and the plant put into commission?**

4. **Any other relevant information on this sub-para.**

(The above note may be furnished in consultation with the D.G.S. & D.).

Reply of the Ministry

1. A chronological note indicating the circumstances leading to the non-commissioning of the air-conditioning plant is appended. (Annexure 'A').

2. Drugs generally deteriorate if they are not kept in cool and dry atmosphere. It is also essential that pollution of drugs should be prevented during the stage of packing. This can be ensured if the room is air-conditioned. It was in view of these considerations that the Director of Medical and Health Services, U.P. Lucknow, advised the Department as early as 1953 to arrange for an air-conditioned room for the purpose of packing and storage of these drugs. There have been no complaints from the public in regard to the quality of drugs supplied but this is probably because there is a seller's market for these drugs owing to the chronic shortage. In this connection, it may be mentioned that as Government is a monopoly producer of these drugs, it becomes all the more essential to guard against any criticism about the standard and quality of the drugs manufactured. Such standard and quality control can be maintained during periods of long storage only through the use of an air-conditioned room for such storage.

3. The indent for the purchase of an air-conditioning plant was placed with the D.G.S. & D. on 20-1-1954. The D.G.S. & D. approved the tender of M|s. Bombay Ammonia and Refrigeration Co. Ltd., and placed the contract with the firm on 20-5-1954. The Department felt as early as 5-6-1954 that the type of starter included in the accepted tender would not serve our purpose and that an automatic self-starter fitted with an overload release device should be used instead. There was some correspondence between the D.G.S. & D. and the firm and the D.G.S. & D. and the Department till 11-3-1955 when the Erector of the firm first visited Ghazipur to start the erection work of the plant. He, however, left for Delhi on 16-3-1955 and later requested further time for erection. Thereafter, there was further correspondence. Ultimately, on 11-7-1955 the Department informed the D.G.S. & D. that when the air-conditioned room was tested by the firm's engineer the required temperature of 70°F and the required relative humidity between 45 and 50 per cent could not be maintained. From this it appears that the fact that the equipment as supplied by the firm was defective in practice was first noticed some time about July, 1955 even though it was felt by the Department as early as June, 1954 that the plant might not work satisfactorily without an automatic starter.

The contracting firm has not yet commissioned the plant in spite of considerable correspondence with them. As the firm have still failed to hand over the equipment in perfect working condition and have failed to perform the terms of the contract, the D.G.S. & D., after consulting the Ministry of Law have written to the firm on 25-10-1967 (copy enclosed—Annexure 'B') asking them to:

(a) pay back the sum of Rs. 17,000|- received by them, with interest at the usual Government rate thereon for the period for which the amount was with the firm;

[In the audit para the payment made to the firm has been mentioned as Rs. 15,200/- and this was based on the information furnished by the Opium Chemist, Gazipur *vide* his letter of June, 1964 to the Audit. However the correct figure is the Rs. 17,000|- representing 80 per cent payment made to the firm (as per the D.G.S. & D. records)].

(b) remove the equipment within one month of the date of issue of the letter; and

(c) pay storage charges for the period the equipment was in the consignee's custody.

(This note has been prepared in consultation with the D.G.S. & D.).

ANNEXURE 'A'

Chronological note indicating the circumstances leading to the non-commissioning of the A.C. Plant at the Ghazipur Opium and Alkaloid Works, Ghazipur for more than 12 *years*

(1) Indent for the purchase of the air-conditioning plant was placed with the D.G.S. & D. on 20th January, 1954 indicating the physical dimensions of the storage room ambient temperature during summer at 113°F and inside conditions as 70°F at 45-50 per cent relative humidity. Contract was approved and placed with the Bombay Ammonia and Refrigeration Co. on 20th May 1954 by the D.G.S. & D.

(2) An objection was raised by the Department on 5th June 1954 about the type of starter included in the accepted Tender to be supplied with the plant and it was stressed that an automatic self-starter fitted with overload release device should be supplied.

(3) On 27th August 1954 the D.G.S.&D. replied that in such cases starter is generally manually operated with essential protective devices.

(4) On 21st September 1954 again the D.G.S.&D. was requested to starter is generally manually operated with essential protective devices.

(5) The D.G.S.&D. forwarded the letter of the Department to the firm on 5th November 1954 with a request to supply the automatic starter.

(6) The firm refused to supply the automatic starter within the tendered amount and demanded an extra amount of Rs. 900|- (on 17th November 1954).

(7) On 7th December 1954 the D.G.S.&D. enquired whether the department was willing to pay the extra amount of Rs. 900.

(8) On 11th December 1954 the Department confirmed their willingness to pay extra amount mentioned above.

(9) Again on 13th January 1955 the D.G.S.&D. asked the Department to pay the extra amount of Rs. 1065 instead of Rs. 900 due to rise in price intimated by Bombay Ammonia.

(10) The Department confirmed on 29th January 1955 their willingness to pay the amount of Rs. 1065 instead of Rs. 900 as demanded by the firm.

(11) The Erector of the firm visited Ghazipur to start erection work of the plant on 11th March 1955 and left for Delhi on 16th March 1955 and later requested on 23rd March 1955 to extend the time for erection.

(12) The firm was reminded by the Department on 5th April 1955 to send the Erector.

(13) On 5th April 1955 the firm wrote to the Department that the Engineer was being sent to complete the job by 15th April 1955. They further mentioned about the non-arrival of the automatic starter from U.K. and till its receipt they intended to connect the manual starter.

(14) On 22nd April 1955 the firm informed that an automatic starter on a 230 volts motor will put an extremely heavy current on the line and that a 230 volts D.C. motor should not be started automatically to prevent the overloading of the generator and that automatic starters are applied only on 440 volts D.C. motors. The firm wanted to know if the present generator had enough capacity to take the load of automatic starter.

(15) On 29th April 1955 the Narcotics Commissioner proposed to the firm to cancel the supply of automatic starter for the reasons stated by the firm.

(16) On 14th May 1955 the D.G.S.&D. enquired if the inspection of the plant was possible.

(17) The D.G.S.&D. was informed on 13th June 1955 that the erecting engineer of the firm is not definite as to when the plant would be ready for final inspection and test.

(18) On 28th June 1955 the firm while confirming the partial installation of the plant intimated the D.G.S.&D. about the non-availability of enough electricity at Ghazipur Opium Factory to start a 10 H.P. Motor 230 volts resulting in non-starting of the plant automatically and so the modulation motor which had to control the bypass damper could not be installed. However, instead of the modulating motor a rotary type converter to run the motor on D.C. current was later on supplied in June, 1959.

(19) On 11th July 1955 the D.G.S.&D. was informed by the Department that on testing the air-conditioned room by the firm's engineer, the required temperature of 70°F could not be maintained and also the relative humidity could not be maintained between 45 and 50 per cent.

(20) On 27th July 1955 the firm intimated that the consignee had agreed to the installation of modulating motor when their new generator is ready. They repeated their responsibility to bring down the tempera-

ture to 70°F and also stated that the same would be done only when an automatic starter was fitted.

(21) On 20th August, 1955, the D.G.S. & D. was addressed by the Department about commissioning of a bigger generator in the factory and requested to direct the firm to complete the pending work of humidity control. This bigger generator was required to meet the increased power requirements of the factory.

(22) On 23rd August, 1955, the firm wrote to the D.G.S. & D. for giving a licence to the suppliers of the automatic starter and also 10 per cent higher price. In the absence of this starter the humidity control was not possible to be installed. They alleged that on the proposal of the Department they cancelled the order of getting an automatic starter resulting in increase in price and also making arrangement for a licence.

(23) On 17th September, 1955, the Department repudiated the charges of the firm and mentioned that in the absence of a general lay-out drawing it was not possible for the Department to know that the humidity control device could only be fitted with the automatic starter but this fact was well known to the firm. Moreover, fitting of the humidity control device was one of the main conditions of the Accepted Tender.

(24) The firm in their letter dated 26th September, 1955, to the D.G.S.&D. offered to install the automatic starter at the prevailing price on this type of starter plus a margin of profit fixed by the D.G.S.&D.

(25) The D.G.S.&D. in their letter dated 16th March, 1956, enquired whether the Department was willing to make its own arrangement for the purchase of automatic starter as the price quoted by the firm was Rs. 1360/- plus 15 per cent margin of profit which was not permitted.

(26) On 2nd May, 1956, the Department did not agree to enhance prices or to purchase the automatic starter themselves.

(27) On 7th August, 1956, the Deputy Director of Inspection, N.W.I. Circle, New Delhi, asked the consignee if the required room conditions were maintained by the plant against an ambient temperature of 110°F.

(28) On 31st August, 1956, consignee informed the Deputy Director of Inspection, N.W.I. Circle, New Delhi, that the plant could not bring the temperature of the room below 80°F when the ambient temperature was 110°—120°F.

(29) On 31st August, 1956, the D.G.S.&D. intimated the Department that *the automatic starter was not part of the contract* and the equipment offered would be functionally suitable with the manually operated starter.

(30) On 18th September, 1956, the D.G.S.&D. asked the Department to confirm its willingness to pay Rs. 1188/- for the automatic starter or

the present order might stand, provided the firm gives satisfactory performance of the plant with the manually operated starter.

(31) On 11th October, 1956, the Department told the D.G.S.&D. to ascertain whether the firm could guarantee that the manually operated starter could maintain the desired humidity and temperature. If not, the price of Rs. 1188/- would be paid by the Department.

(32) The D.G.S.&D. intimated that the firm had categorically confirmed that the machine would function with the manual control and the conditions would be maintained even without the automatic starter (19th October, 1956).

(33) Again on 26th December, 1956, the D.G.S.&D. intimated the Department that the firm had stated that temperature and humidity could be maintained as per Accepted Tender but the plant would have to be stepped and started manually and also asked for confirmation of the Department for the completion of the plant with manually operated starter.

(34) On 18th February, 1957, the position was explained in detail by the Department to the D.G.S.&D. and supply of the automatic starter was insisted on at a cost of Rs. 1188/1. Again on 5th April, 1957, the D.G.S.&D. was requested to direct the firm to hand over the plant in proper working condition duly fitted with automatic starter.

(35) On 18th April, 1957, the D.G.S.&D. observed that inclusion of automatic starter in the Accepted Tender would amount to a supplementary contract and the power to enter into a supplementary contract had been withdrawn from him. So he advised the Department to purchase an automatic starter direct from the firm. The matter was closed so far as his office was concerned.

(36) As a result of the Opium Chemist's personal contacts with the D.G.S.&D. on 24th August, 1957, the D.G.S.&D. accepted the necessity for having the plant working automatically for all 24 hours as it was not possible for the Narcotics Commissioner to arrange to have any operator outside the working hours.

(37) On 13th September, 1957, the D.G.S.&D. was reminded by the Department for getting the automatic starter and humidity control fitted up before the inspection of the plant.

(38) The Deputy Director of Inspection intimated the D.G.S.&D. about his agreement with the Department's opinion that in the absence of the automatic starter and humidity control, inspection of the plant would not be helpful (4th October, 1957).

(39) In their letter dated 12th November, 1957, the D.G.S.&D. told the firm that their statements from time to time for automatic starter and humidity control were conflicting. He affirmed that under the Accepted Tender, the supply of automatic starter was necessary and directed the party to supply the same and hand over the plant in satisfactory working condition.

(40) On 2nd January, 1958, the D.G.S.&D. intimated the Department that as a result of discussion with the firm's representative, *successful working of the plant and maintenance of the conditions are the sole responsibility of the firm* and the question of supplying an automatic starter would be decided only after testing the equipment.

(41) Since March, 1958, to June, 1958 the D.G.S.&D. were repeatedly reminded by the Department for early completion of the work.

(42) In their letter dated 1st July, 1958, the D.G.S.&D. asked the Deputy Director of Inspection, Kanpur to carry out the working test on the plant and submit a report.

(43) The Director of Inspection, Calcutta informed the D.G.S.&D. on 11th April 1959 of the inspection of the plant at Ghazipur having been carried out in the presence of the firm's Works Manager. He wrote that Humidistat was not supplied by the firm and one A.C. modulating motor and transformer not suitable for D.C. air-conditioning plant were supplied and so the plant could not be finally inspected.

(44) On a query by the D.G.S.&D. on 27th June, 1959, the firm replied that the Humidistat was supplied but instead of supplying modulating motor of A.C. type, they sent a rotary type convertor to run the motor on D.C. current.

(45) In his letter dated 4th August, 1959, the Director of Inspection, Calcutta wrote to the firm that on carrying out the test at Ghazipur in presence of the firm's erection engineer, the plant failed to give, the required performance and so it was not approved. He also desired that the firm should attend to the defects. He further *observed that either the plant was not satisfactorily installed* or the capacity was not such as to give the required performance the plant stood rejected till such time the same was rectified and made to give the required performance.

(46) on 1st August, 1959, the matter was brought to the notice of the Board by the Narcotics Commissioner.

(47) The plant was put to test again and the machine was run continuously from 5th to 7th October, 1959, by the firm's engineer but the

minimum temperature of the room was found to be 72°F and the relative humidity as 63 per cent. The 'Cut off' and 'Cut in' were too frequent.

(48) As a result of above inspection, Deputy Director of Inspection, Calcutta, in his report dated 14th November, 1959 intimated D.G.S.&D. under intimation to the consignee and the firm that the following defects were noticed at the time of inspection between 5th October, 1959 to 7th October, 1959:

(i) The plant could not maintain the humidity of the room as stipulated in the Accepted Tender.

(ii) The cut off and cut in of the unit were too frequent.

(iii) The insulation boards over the ducts were not firmly fixed ana the corner should have been reinforced by strips of wood.

(iv) Cooling pipes were not provided with proper insulation.

He asked the firm to attend to the above and rectify the defects as necessary. On completion he suggested that the plant may be tested again by the firm and the detailed report may be forwarded to his office together with consignee's comments for consideration.

(49) In response to the above trial report the firm wrote to the D.G.S.&D. on 6th November, 1959 that due to heavy rains humidity outside was abnormally high. The air-conditioned room was leaking very badly and the doors, windows and ventilators were not air tight which the factory should be asked to get rectified and when the needful was done, the plant would be capable of maintaining the desired humidity conditions.

(50) The indentor informed the D.G.S.&D. on 30th May, 1960, that the leakage of the roof has been rectified and desired that the firm be asked to give a further trial run of the plant.

(51) As there was no further response in the case, the Narcotics Commissioner suggested in August, 1960, that D.G.S.&D. should convene a meeting to discuss the steps to be taken for the early commissioning of the plant.

(52) A meeting was held on 27th August, 1960, with the representatives of the Narcotics Commissioner, the D.G.S.&D. and the firm. The representative of the firm maintained that the provision of automatic starter and regulator was not made in the initial tender and that they were not bound to supply the same. It was also discussed in the meeting whether it would not be better to change the Direct Current motor in the refrigerating plant and replace them by Alternating current motor together with automatic regulator for maintenance of temperature and humidity.

(53) As a result of the above meeting, the Bombay Ammonia Co. made a fresh inspection of the plant and gave an estimate of Rs. 3000/- in November, 1960, for conversion of the entire electrical equipment of the plant from D.C. to A.C. supply. The D.G.S.&D. was requested to examine the reasonableness of the estimate submitted by the Bombay Ammonia Company and also the contractual part of the matter and the case was under correspondence with him. The D.G.S.&D. again discussed the matter with the firm and asked the firm to submit the break-up cost of the amount demanded by them.

(54) When the case was submited to the Board on 14th September, 1961, they wanted it to be examined as to how and on account of whom the faulty specifications were originally accepted and wanted that the responsibility should be fixed for the non-commissioning of the plant.

(55) On 21st October, 1961, the D.G.S.&D. was addressed by this Ministry wherein it was pointed out that the reason for the non-commissioning of the A.C. plant appeared to be the absence of provision for a thermostatic starter control in the specifications and hence the D.G.S.&D. was requested to clarify as to how this provision was overlooked.

(56) On 3rd January, 1962 the firm reduced the extra charges from Rs. 3000/- to Rs. 2500/-.

(57) In between September, 1960 and March, 1962, there was prolonged correspondence between the Narcotics Department and the firms in regard to provision of false ceiling, glass panes, etc. for this air-conditioned room and for obtaining of A.C. supply from Mau Thermal Station.

(58) In May, 1963, the D.G.S.&D. observed that it would not be possible to insist on the automatic starter as a part of the contract. They added that it was so because by implication only it was assumed that the automatic starter would form part of the equipment if modulating motors could not function in the absence of an automatic starter. They further observed that if in spite of satisfactory performance of the equipment, already received by the Factory, the Factory still insisted on automatic starter the firm would have to supply it at extra cost only. The final conclusion was that the plant had been delivered duly approved by inspection and that the indentor should make his own arrangements for any further changes he required and the D.G.S.&D. could not associate at that stage when the plant had been delivered duly approved by inspection.

(59) In September, 1963, the Ministry considered again whether it was worthwhile incurring expenditure on the conversion of the unit from D.C. to A.C. or whether it would be possible to commission the existing plant on direct current itself by purchasing an automatic starter separately.

(60) In December, 1963, the N.C.'s proposal to commission the plant by incurring an expenditure of Rs. 800|- for overhauling and replacement of a few parts was approved.

(61) In May, 1964, it was brought to the Ministry's notice that the firm had been demanding the balance of 20 per cent due to them on the supply of the A.C. Unit plant. When this aspect was discussed with the D.G.S.&D. and the A..F.A. on 8th May, 1964, the A.F.A. felt that instead of the Department tinkering with the plant to put it into working order we should ask the firm to start running the plant and that the firm might refuse to do if we tried to work the plant on our own. During the course of this meeting the D.G.S.&D. advised that the firm should be asked to put the plant in working order in accordance with the specifications of the order placed with the firm that is, without an automatic starter and with D.C. current. Whatever changes we wanted to make should be considered only after the firm had completed its part of the contract and put the plant in working order. Since the D.G.S.&D. agreed with the contention of the firm that the supply of an automatic starter was not part of the indent it was decided not to pursue this aspect further.

(62) On 27.6.1964, the N.C. was asked to approach the firm to run the existing plant on direct current without automatic starter in accordance with the terms of the contract and it was decided that if this performance was satisfactory the D.G.S.&D. would be advised to pay the balance of 20 per cent to the suppliers.

(63) On 19.9.1964 Bombay Ammonia was asked to run the plant on D.C. for inspection of the consignee as desired by him.

(64) On 25.9.1964 Bombay Ammonia expressed their doubts if the plant would be in running condition after such a long lapse of time and due to deterioration etc. The indentor was asked by D.G.S.&D. to comment on these remarks (21.10.1964).

(65) On 22.2.1965 the Indentor disowned any responsibility for loss or deterioration as pointed out by Bombay Ammonia.

(66) The N.C. took up the question with the firm and it was under correspondence with the firm and the D.G.S.&D. There was no response from the firm for quite some time till November, 1966 when they agreed to discuss the case again with D.G.S.&D.

(67) On 8.11.1966 the firm was asked by D.G.S.&D. to complete the work within a month; otherwise repairs will be done at their cost and full amount deducted.

(68) On 10.11.1966 the firm stated that whole delay in handing over the plant was due to indecision at various levels and the matter may be discussed in a joint meeting.

(69) On 25.1.1967, a meeting was held by the Deputy Director of D.G.S.&D. with a representative of the firm. As a result of the discussions in this meeting the Company inspected the plant and submitted a detailed estimate of Rs. 10,000|- for overhauling and commissioning the plant and converting it into operation under Alternating current. As per Board's instructions dated 12.5.1967, 12 reputed firms were addressed by the N.C. to find out whether any of these firms could be able to do the work on a cheaper rate (i.e. at an expenditure less than the Rs. 10,000|- quoted by Bombay Ammonia Co.), and more satisfactorily. Only one firm viz. M|s. National Refrigerators and Electrical Works, Calcutta quoted their rates at Rs. 12,448|- which was higher when compared to Bombay Ammonia Co.'s rate of Rs. 10,000|- plus 15 per cent profit.

(70) On 1.4.1967 another meeting was held by Deputy Director in D.G.S.&D. with Indentor and the firm. The Indentor was asked to go back and confirm if the defects already pointed out have since been removed by Bombay Ammonia.

On 14.8.1967 the Indentor informed D.I. Calcutta that the defects had still not been rectified.

(71) Although there was need for an air-conditioning plant in the Factory and the estimate of the Company (Bombay Ammonia Co.) was the lowest quotation, it was felt in September, 1967 by the Board that a decision to commission the existing air-conditioning unit by incurring an extra expenditure would have to be taken only after the issue if finally settled by the D.G.S.&D. as to whether the firm had discharged its obligations under the original contract and delivered the air-conditioning plant to us in proper working order, in conformity with the original specifications regarding temperature and humidity. On 30.9.1967 the D.G.S.&D. was requested to give a complete picture of the case with all the details of the correspondence with the firm and also to indicate the action taken by the D.G.S.&D. to force the firm to stick to their original commitments.

(72) On 17.10.67, the D.G.S.&D. sent a detaild note on this case. In this note, it was observed by them that the contract on Bombay Ammonia was for the supply of Direct Current air-conditioning plant to maintain 70° F at relative humidity of 45 to 50 per cent inside the room. The firm could within the terms of the accepted tender supply a manually operated starter or an automatic starter provided the above conditions could be satisfied. They concluded that since the firm failed to attain these temperature and humidity conditions, which was borne out by the two inspections carried

out, the firm hadfailed in their contractual obligations. They also mentioned that as it was clear that it would not be possible for the firm to supply an acceptable plant without additions or alterations at an extra cost, they would take necessary action to cancel the contract in consultation with the Ministry of Law.

(73) Accordingly, the D.G.S.&D. consulted the Law Ministry on 21.10.1967, placing before them the following points for their considered opinion:

(a) Whether we can make fresh purchase at the risk and expense of the firm.

(b) Whether we can recover Rs. 17,000|- equivalent to 80 per cent payment of the contract value which has already been paid to the firm and ask them to remove their plant lying rejected with the consignee.

(c) Whether the consignee can be asked to get the defects rectified at the cost of the firm and recover the extra amount from the firm's pending bills with us.

On 24.10.67, the Law Ministry gave their opinion as under:—

"The fact remains that the plant was not accepted by the Inspector and four defects noted by him were intimated to the firm. This was on 14th November, 1959. Subsequently, negotiations took place regarding the possibility of changing the supply system of A.C. and make necessary alterations in the plant. However, ultimately all these negotiations did not materialise. Negotiations were going on in one form or another all these years. The firm, under the contract, was bound to supply the plant which is guaranteed for a period of one year. After initial inspection before despatch by the Director of Inspection, S.&.D. Bombay, a final inspection by DDNWA. Circle at New Delhi after installation is contemplated under the contract. The guarantee, as provided for under clause 16(f), is for a period of one year from the date the equipment is handed over in perfect working condition. This handing over can only be after the final inspection after installation by DDNWA Circle. Such handing over has not taken place at all. Nevertheless, the firm under the terms of the contract has received 80 per cent payment of the contract price according to the provisions of clause 16(b). Since they have failed to hand over the equipment in perfect working condition they have failed to perform the contract and, as such, they are bound to return the 80 per cent payment received by them. No doubt there has been a lot of delay after the receipt of the equipment by the consignee and after the rejection by the Inspectorate in taking any positive action from our side. But this is due to the fact that negotiations have been going on in one form or the other. Under the circumstances,

J. S. and L. A. was of the view that a notice may be given to the firm asking them (1) to remove the equipment within a reasonable time (say one month), (2) to pay back the sum of Rs. 17,000|- received by them with interest thereon for the period for which the amount was with them; and (3) to pay storage charges for the period equipment was in our custody.

Action on the above lines may now be taken.

(74) On 25.10.67, the D.G.S.&D. served registered notice on M|s. Bombay Ammonia on the lines sugested by the Law Ministry above.

(75) On 6.11.1967, Bombay Ammonia stated that the decision to recover Rs. 17,000|- was uncalled for.

(76) On 28-11-1967, as Bombay Ammonia failed to deposit the Government dues, the Pay and Accounts Officer, Calcutta was advised to recover the outstanding from any of the firm's pending bills.

ANNEXURE 'B'

Regd. No. ME-4|334-E|I

DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS

Jeewan Tara Building, Parliament Street,

New Delhi-1.

Dated 25-10-1967.

To

M|s. Bombay Ammonia Pvt. Ltd.,
24, Asaf Ali Road,
New Delhi.

Subject: A|T No. SE-1|334-E|I|5607 dated 20.5.54 for the supply of air conditioning plant at Govt. Opium Factory, Ghazipur.

Dear Sirs,

Since you have failed to hand over the equipment in perfect working condition and you have failed to perform the contract, you are bound to return 80 per cent payment received by you.

You are hereby advised to:—

(a) remove the equipment within one month from the date of issue of this letter.

(b) pay back the sum of Rs. 17,000|- received with interest thereon, for the period for which the amount was with you.

(c) pay the storage charges for the period the equipment was in consignee's custody.

This is without prejudice to the terms and conditions of the contract.

Yours faithfully,
Sd|- S. P. S. BHATIA,

Asstt. Director of Supplies
for Director General of Supplies and Disposals.

Copy to:

The Dy. Narcotics Commissioner, Govt. Opium Factory, Ghazipur.

The P. & A.O., Ministry of W.H.S., Calcutta.

D.I.N.I. Circle, New Delhi.

D. I., Calcutta

APPENDIX III

(*Vide* Paragraph 2·3 of this Report)

Receipts and Payments Account of the Iron and Steel Equalisation Fund for the year 1965-66.

(As prepared by the Iron and Steel Controller, Calcutta.)

RECEIPTS	1964-65	1965-66	PAYMENTS	1964-65	1965-66
	(In lakhs of rupees)			(In lakhs of rupees)	
1. Opening Cash Balance . . .	6307·62	6424·89	1. Payments due to increase in retention prices allowed to Main Producers and the adjustment on account of Railway freight on despatches made on f. o. r. destination basis.		
2. Surcharge representing difference between the retention and selling prices of steel produced by Producers —					
(*a*) Private Sector including Mysore Iron & Steel Company . .	500·98	142·02	(*a*) Private Sector incuding Mysore Iron and Steel Company .	469·53	169·76
(*b*) Public Sector . . .	549·02	104·64	(*b*) Public Sector . .	461.03	64·88
(*c*) Re-rollers	35·00	206·70	2. Payment of subsidy on imported steel.		
3. Surcharge on imported steel representing the difference between the landed cost and statutory selling price.			(*a*) Tender purchases . . .	28·13	25·24
(a) Tender purchases	89.48	75.54	(*b*) Bulk Purchases on Government to Government basis .. T.C.A.	27·33	0·65

(*b*) Bulk Purchases on Government to Government basis T.C.A.	0·03	0·03	D.L.F.	..	26·2
D.L.F.	..	0·80	3. Payment of subsidy on exports	5·61	6·67
4. Revaluation of stock of steel with stockists on changes in statutory selling prices	3·73	2·54	4. Payment to Re-rollers on account of Railway freight, transport and other incidental charges on account of acquisition of raw materials and despatches of finished steel products at f.o.r. destination rates	68·65	215·84
5. Realisation from the controlled stockist and Export Promotion Quota-holders on account of the difference between the normal and concessional prices of iron and steel transferred to Normal Stock	0·06	0·02	5. Payments to Controlled Stockists being refund of the amount realised in excess on account of revaluation of the stock with them due to changes in statutory selling prices	0·76	0·39
6. Recovery of Special Advances from :—			6. Other Miscellaneous Payments	2·74	58·21
(*i*) Tata Iron and Steel Company	..	500·00			
(*ii*) Indian Iron and Steel Company	..	518·26			
7. Other Miscellaneous Receipts	2·75	3·36	7. Closing Cash Balance	6424·89	7410·94
TOTAL	7488·67	7978·80	TOTAL	7488·67	7978·80

Balance Sheet of the Iron and Steel Equalisation Fund as on 31 March, 1966.

LIABILITIES	Rs.	Rs.	ASSETS	Rs.	Rs.
Sundry Creditors			1. *Sundry Debtors*		
(*a*) For which Credit Notes have been issued			(*a*) Amount billed for but not realised		
(*i*) Main Producers . .	72,65,936		(*i*) Main Producers . . .	1,70,38,435	
(*ii*) Controlled Stock-holders .	3,816		(*ii*) Controlled Stock-holders . .	2,35,562	
(*iii*) Re-rollers	9,05,986		(*iii*) Re-rollers	54,75,592	
(*iv*) Sundry Parties on account of subsidy on imported steel .	3,02,776		(*iv*) Sundry parties on account of surcharge on imported steel	1,53,26,117	
(*v*) Sundry Parties on account of miscellaneous adjustments .	17,61,268		(*v*) Sundry parties on account of miscellaneous adjustments .	26,380	
	1,02,39,782			3,81,02,086	
(*b*) For which Credit Notes have not been issued	*7,26,39,000	8,28,78,782	(*b*) Amount outstanding bu not billed for	*1,77,01,000	5,58,03,086
Closing Balance of the Fund			2. *Special Advance.*		
(Cash balance *plus* net surplus of the dues to the Fund over the liabilites)		81,40,18,727	M/s. Tata Iron and Steel Company .	5,00,00,000	
			M/s. Indian Iron and Steel Company .	5,00,00,000	10,00,00,000
			3. *Cash balance in Fund* . . .		74,10,94,423
TOTAL .		89,68,97,509	TOTAL .		89,68,97,50

*The figures are estimated ones.

APPENDIX IV

MINISTRY OF FINANCE

(DEPARTMENT OF EXPENDITURE)

Notes showing action taken on the recommendation of the Public Accounts Committee contained in their 20th Report (4th Lok Sabha).

(Ref:—para 5.2 of this Report)

Recommendation of the Committee:

The Committee, however, were not impressed with the arguments adduced before them for the change and felt that they could not agree to any departure from estabilshed procedure which would have the effect of making a serious dent in accountability to Parliament.

(S. No. 1, Appendix II, Para No. of Report 1.6).

Action taken by Government

The conclusions of the Committee have been noted.

Recommendation of the Committee:

In the light of the difficulties mentioned in the letter and the assurance contained in the communication that the provision of funds for each of the Services would in the current year be treated as separate and distinct and that no reappropriation of funds as between the Services would be carried out and that from the following year the previous form of estimates would be restored, the Committee consider that with this restoration of the *status quo ante*, the matter may now be regarded as satisfactorily settled.

(S. No. 2, Appendix II, Para No. of Report 1.8).

Action taken by Government.

The conclusions of the Committee are noted.

Recommendation of the Committee:

Although in the printed Budget papers that will be circulated on the 29th February, 1968, there will be only one composite revenue demand for all the three Services, in the Committee's view it is desirable that, when the Demands are put to the vote of the Lok Sabha, the Demands in respect of each of the three services *viz.*, Army, Air Force and Navy, should be put to the vote of the House separately, as in previous years.

(S. No. 3, Appendix II, Para No. of Report 1.9).

Action taken by Government.

The Recommendation of the Committee has been examined in consultation with the Law Ministry. The Vote on Account was sought in the following form:—

> "That a sum not exceeding Rs. ——— be granted to the President, on account, for or towards defraying the charges during the year ending on the 31st day of March 1969 in respect of Defence Services—Effective, of which Rs. ——— shall be for Army, including Defence Production, Rs. ——— for Navy and Rs. ——— for Air Force."

An annexure has also been added to the Appropriation (Vote on Account) Bill to indicate the amounts for the three Services.

It has also been decided that the final vote should be sought in the following form:—

> "That a sum not exceeding Rs. ——— be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending on the 31st day of March 1969, in respect of Defence Services—Effective, of which Rs.——— shall be for Army, including Defence Production, Rs. ——— for Navy and Rs.——— for Air Force."

A suitable Annexure will be added to the Appropriation Bill to indicate the amounts for the three Services.

By passing the votes/Appropriation Bill in the above form, it would be ensured that no reappropriation is made within the composite Demand, between the three Services.

Sd/- G. K. ABHYANKAR,
Jt. Secretary and Addl. FA I
Ministry of Finance (Department of expenditure) Defence Division.

APPENDIX V

Summary of main Conclusion/Recommendations

S. No.	Para No. of Report	Ministry Deptt. Concerned	conclusion/Recommendation
1	2	3	4
1	1·53	Ministry of Finance (Deptt. of Economic Affairs)	The Committee hope that an early decision will be taken in consultation with the Directorate of Safety of Mines to reopen the Northern folds of the Champion Reef Mines which were closed towards the end of 1962 due to rock burst so as to exploit the rich gold ore in the mine. The Committee have no doubt that while reopening the deep mine adequate safety precautions will be taken to avoid any mishap. The Committee note that the mill at Mysore Mine had been working very much below its capacity and the other two mills had not been utilised to their full extent except during the period April to November, 1962. The utilisation of the mill at Nandydroog Mine has also been showing a progressive decline since the date of take over by the Central Government. The committee understand that the ore from Champion

1	2	3	4
			Reef Mine is being milled at the Mysore Mill and that the milling plants in the Champion Reef Mines did not work during 1965-66. The Committee understand that there is a proposal for expanding the production of ore at the Nandydroog Mine and for reopeining the Northern folds of the Champion Reef Mines, which are rich in ore. The Committee would like Government to review critically the working of the milling plants with reference to the production programme of the three mines so as to ensure the most efficient and economic working.
			The Committee also suggest that the Central Mining Research Station, Dhanbad, and the National Metallurgical Laboratory which are under the C. S. I. R. should be more intimately associated with the Mining problems of the Kolar Gold Mining Undertakings. The advice of the Central Mining Research Station, Dhanbad, may in particular be taken about the dumping and disposl of rejects of after the gold is extracted from the ore.
			The Committee note that the Consultants had recommended that excess labour expenses should be curtailed by retrenchment of unproductive labour and an increase in the productivity of the labour retained. The Committee note that the Undertaking has been able to reduce the strength from about 18,000 men in 1963 to 12,900 at the end of 1967. In view of the imperative need for effecting further economy, the Undertaking should work out and introduce an appropriate incentive scheme to improving efficiency and effecting economy.
	1·56		The Committee also recommend that the Undertaking should examine and implement the other suggestions of the Consultants for centra-

			lization of various standardized functions, accurate budgeting and costing and speeding up the compilation of cost figures for various operations to facilitate exercise of effective control over expenditure. The Committee are unhappy that the Technical Committee, which was constituted by Government as far back as in January, 1965, has not so far submitted its Report. They need hardly stress that the Technical Committee should expedite its Report so that Government can initiate concerted measures in the light of its suggestions to improve efficiency and effect economy.
2	1·61	Ministry of Finance (Deptt. of Economic Affairs)	The Committee regret to note that though the Undertaking was taken over by the Central Government on Ist December, 1962, no formal sale deed has been executed so far. They hope that the sale deed will be finalised without further delay.
3	1·68	-Do-	The Committee are extremely unhappy with the manner in which the Central Government agreed in contravention of Article 287 of the Constitution to pay the State Government a grant-in-aid equal to the amount of the tax refunded by the State Government on electricity consumed by the Undertakings. If the State Government had to be compensated for the loss of duty on electricity consumed by the Undertakings, it would have been better to provide for it specifically while settling the total amount payable for the acquisition of the Undertakings. The Committee stress that such irregular practice will be strictly eschewed in future.
4	1·76	-Do-	The Committee would like the undertakings to review the inventory levels of the indigenous and imported items of stores with a view to effect maximum economy consistent with requirements.
5	1·82	Ministry of Finance (Deptt. of Revenue & Insurance)	The Committee note that the declining trend in profits in these factories in 1963-64 to 1965-66, has given place to a substantial margin of

1	2	3	4
			profit in 1966-67 after develuation. The Committee suggest that Government should make a careful assessment of the future demand for the export of opium products for medicinal and other uses so that the production of opium and its Products and the working of the factories can be suitably regulated to achieve the best possible results.
6	1·91	Ministry of Finance (Deptt. of Revenue & insurance)	The Committee note that under the costing system introduced in 1925 the cost of manufacture of opium is arrived at by taking into account the quantity of products estimated to be manufactured instead of the actual quantity produced. This system is defective as : (*i*) it does not indicate the true cost of production ; (*ii*) the abkari losses (i.e. manufacturing losses) continue to form part of closing stock till the sanction for write off is received ; (*iii*) the non-adjustment of the manufacturing losses in the Profit and Loss Account results in inflation of profits and this in turn increases the amount of capital as profits are adjusted to capital in departmental undertakings ; and (*iv*) for the purpose of Profit and Loss Account, the closing stock of the semi-finished alkaloids is valued at 9/20th of the selling price of the drugs manufactured there from, whereas in the Production Account closing stock is valued on a different basis.
	1·92		It is evident that all these factors are bound to affect in various ways the Profit and Loss Account of these undertakings. The Committee hope

			that Government will take suitable measures, in consultation with the Cost Accounts Department of the Ministry of Finance, to resolve all these anomalies and ensure the preparation of the Profit and Loss Accounts on a standardised and acceptable basis. Government should also take early action about writing off the manufacturing losses in the light of the recent Report of the Narcotic Commissioner.
	1·93		The Committee would like the Department to intensify its research to improve operational processes for the drying and mixing of opium and the stamping of opium so as to improve operational efficiency.
7	1·102	Do.	The Committee understand from Audit that the cost of production of the various products manufactured by the three factories during the year ending 31st March, 1966, was as follows :—

	Out-put	Cost of production per Kg.
	Kgs.	Rs.
Export Opium.		
Ghazipur Factory	3,84,942	68·00
Neemuch Factory	1,33,324	62·03
Mandsaur Factory	89,037	60·29
Medicinal. Opium (Ghazipur)		
(i) IMO Powder	4,356	74·02
(ii) IMO Cake	1,645	64·66
Alkaloids (Ghazipur)		
Morphine and Morphine Salt . .	278	591·33
Cedeine and Codeine Salt . . .	2,731	633.18
Ethyl Morphine Hydro-chloride . .	346	801.53

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	1·103		It is observed that the cost of production of export opium, Medicinal opium (IMO Cake) and Alkaloids (Morphine and Morphine salt and Ethyl Morphine Hydrochloride) during 1965-66 had increased over that for the half year ending 31st March, 1965, notwithstanding the increase in the output.
	1·104		The committee would like the Department to take the help of the Indian Council of Agricultural Research in order to improve the yield and quality of opium.
	1·105		The Committee note that the Department have "conceded that there has been some surplus staff" and that this is one of the main reasons for the increase in district charges. The Committee would like Government to review carefully the strength of the staff in consultation with the State Government so as to effect economy consistent by with security considerations.
8.	1·222	Ministry of Finance (Dept. of Revenue & Insurance).	The Committee would like to draw attention to the wide ariations in the percentage of losses on the quantities handled. It varied from 1·71% in 1960-61 to 4·42 in 1957-58. The Committee consider that as all the factors responsible for the losses, *viz*, sun drying, handling and adhesion losses, assay variations are common from year to year, there might have been other peculiar factors which markedly increased the percentage of losses in one year as compared to another. The Committee suggest that action may be taken on the following lines to reduce losses :

			(i) Loss statements for each of the factories should be prepared on a yearly basis, as was being done till 1962-63. The loss occcuring at various stages of handling and manufacture should be located and compated with the norm which may be prescribed by Govt. for losses at different stages of handling and production, Where the losses are markedly high, full investigations should be carried out without delay to locate the reasons and take remedical action. (ii) As regards losses in transit Government should improve the arrangements for the packing and transport of opium, eleminate errors in weighment by ensuring that weighing scales are accurate and in general tighten security arrangements. (iii) The Committee would also like Government to intensify research so as to reduce losses in manufcture to the minimum. If necessary, the help of the Council of Scientific and Industrial Research may be taken in this behalf.
	1·123		It is understood from Audit that the matter regarding the rise in the percentage of losses to 4·42% and the question whether any norm should be prescribed is being referred to an Enquiry Committee. The Committee will like to be furnished with a copy of the report of the Enquiry Committee as well as of the action taken thereon.
9.	1·130	Ministry of Finance (Deptt. of Revenue and Insurance)	The Committee regret to note that physical verifiction of stock was not conducted in the Ghazipur factory for the last four years. The physical verification conducted now has revealed certain surpluses and certain shortages. The Committee expect Government to take necessary remedial action and ensure that in future verifications are conducted after prescribed intervals in regard to stocks in all the three factories so as to check misuse or malpractice.

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	1.13		The Committee are surprised that the air-conditioning plant which was installed in 1955 has not become operative and that it is only now after a lapse of twelve years that Government have written to the suppliers asking them to refund the amount received and to remove the equipment. The Committee hope that the matter will now be finalised without further delay and that proper air-conditioning facilities will be provided at the earliest, to prevent deterioration and pollution of opium drugs during packing. The Committee would like to be informed of the action taken in the matter as also of the progress of recovery of the amount from the suppliers.
10	2·6	Industrial Development .	The Committee hope that *pro-forma* accounts of the receipts on account of Cess and the expenditure therefrom will now be maintained as required under Rule 18(1) of the Salt Cess Rules, 1964.
11	2·18	Industrial Development .	The Committee find from the details of expenditure that the Fund collected from the Salt Cess has not been utilised fully for the purposes of develoment of the Salt industry as was envisaged in Section 4 of Salt Cess Act, 1953, but the bulk of the expenditure was actually incurred on the establishment and administration of the Salt orgnization. The Committee would like measures for improving the quality of the Salt, promoting the welfare of labour employed in the Salt Industry and for the development of Small Scale units, particularly those in the co-operative sector, to be intensified.
	2.19		Now that the Central Salt Cess Act has been in operation for the last furteen years, the Committee suggest that a Comprehensive review

			of its working should be conducted to find out how far the objectives of the Act have been fulfilled. The Committee suggest that the help of the Central and Regional Advisory Boards for Salt should be enlisted to achieve the objectives underlying the levy of the Cess.
12	2·33 2·34 2·35 2·36	Industrial Development	The Committee are not able to appreciate why it has taken Government more than five years to finalise the hire-purchase terms on which the industrial sheds in Okhla are to be offered to tenants, though a decision was taken as far back as 1962 that the full economic rent charged from tenants would be adjusted against the amounts to be recovered towards the hire-purchase premium. The Committee would like Government to finalise these terms without further delay and make necessary recoveries/adjustments. The Committee also note that the arrears of rent which stood at Rs. 8·21 lakhs in November 1965 have risen to Rs. 13·80 lakhs (including penal interest at 6 percent) in October, 1967. It is obvious that the measures taken so far by the Delhi Administration have not yielded the desired results. The Committee would like Government to take more stringent measures to recover these arrears and also to ensure that recoveries of current rent are not allowed to fall into arrears. Steps should be taken to complete the execution of deeds of lease with the remaining 31 allottees. The allottees should also be made to take out the requisite insurance as prescribed in the deeds of lease. The Committee would like to watch progress made in the above respects through future Audit Reports.

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13	2·61 2·62	Industrial Development/All Ministries & Departments.	The Committee find from the notes of the Department that, as against the original Budget provision of Rs. 991 lakhs under some of the sub-heads of Grant Nos. 65 and 133, there was a saving of about Rs. 772 lakhs which represented 77·9% of the original provision. It is observed that the provision in the Budget estimates was not made on a realistic basis atall. The Committee feel that the inclusion of such a major provision in the Budget estimates only to be surrendered at the end of the year leads to avoidable taxation and inflationary pressures on the economy of the country. The Committee, therefore, reiterate the observations contained in para 1·16 of their 21st Report (Fourth Lok Sabha) and suggest that each Department should exercise more close and strict control over the technique of budgeting so as to exclude such projects from the budgetory provision as are not likely to be taken up for execution during the year. The Committee hope that the Department of Industrial Development will prepare their Budget estimates more realistically in future and that the Ministry of Finance, before accepting the inclusion of a provision in the Budget, will satisfy themselves about the prospects of the amounts being utilized during the year.
14	3·11	Iron & Steel	Now that the decontrol of steel has been in operation for the last three years, the Committee have no doubt that Government will make an early review of the functioning of the joint Plant Committee and its future set up.
15	3·13	Iron & Steel	The Committee would like Government to take an early decision regarding the reduction in the staff of the Iron and Steel Controller's

			Organisation considering that, following decontrol, most of the regularory work has devolved on the Joint Plant Committee & that work connected with import and export was proposed to be transferred to the Chief Controller of Imports and Exports and that the Iron and Steel Controller's organisation would be left mostly with developmental work. As regards the arrears of work in the Price and Accounts Division, the Committee agree with the Study Team on the Iron & Steel Control Organisation that these arrears should be cleared by 21-12-1968. The Committee would like Government to take all necessary measures, including designation of staff from the existing strength specially for arrears work, so that the target date of 31-12-1968 is strictly adhered to.
	3·14		The Committee would like to be informed of the measures taken to clear these long pending arrears by 31-12-1968 and to effect a reduction in the regular staff of the Iron and Steel Controller's Organisation so as to achieve maximum economy consistent with requirements.
16	3·18	Iron & Steel	The Committee hope that the work relating to the import and export of Iron & Steel along with the staff will be soon transferred to the organisation of the Chief Controller of Imports and Exports and that the problem of surplus staff would also be quickly settled. The Committee would like to be informed when this work is transferred to the Chief Controller of Imports and Exports as recommended by the Study Team on the Iron and Steel Control Organisation.
17	3·20	Iron & Steel	The Committee note that some progress has been made in recovering dues from sundry debtors. The Committee would like the work of recoveries to be expedited.
18	3·40 3·41 3·42	Iron & Steel	The Committee regret to note that no specific reservation was made about the recovery of liquidated damages while granting various extensions in this case. What is worse while communicating the ex-

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			tension in January 1957, the date for shipment was extended upto 31st March, 1957, "without any condition."
			The Committee note that Government propose to call for explanations from the officers who gave this extension. The Committee would like to be informed of the action taken in this case.
			The Committee also desire that, while granting the extension of delivery periods in such contracts, the Department should invariably reserve the right to levy liquidated damages in order to safeguard the public interest.
19	3·53 3·54	Iron & Steel	The Committee have already recommended in para 3·13 of this Report that all arrears of work should be cleared by 31st December, 1968. The Committee would like Government to intensify their efforts to finalise the remaining cases of liquidated damages.
			The Committee would like to watch the progress made through future Audit Reports.
20	3·60	Iron & Steel	The Committee feel that with advance planning better co-ordination and more initiative, the Ministry could have avoided the expenditure amounting to Rs. 14,113 incurred on payment of demurrage. They hope that the Ministry, benefiting from this costly experience, will be more careful in future and ensure that such cases do not recur.
21	4·37 4·38 4·39	Mines & Metals	While the Committee appreciate the effort to find an alternative method for the movement of coal by resorting to a road-cum-river route they are constrained to observe that as a result of the adoption of a scheme

	4·40		which was based more on assumptions than on adequate investigation and preparation, an infructuous expenditure of several lakhs was incurred without any corresponding benefit to the industry or the consumer. The Committee are not able to understand why Government did not undertake a detailed hydrographic survey of the river Ganga specially when the Ministry of Irrigation & Power had repeatedly pointed out the imperative need for such a survey. The Ministry of Finance had also clearly pointed out that the long term benefits of the Project were open to doubt as it was questionable whether the consumers would be prepared to continue to pay for the high transport charges in getting the coal by road-cum-river route, while in the case of the short term scheme, the total quantities proposed to be moved were no more than 6 to 7 wagons per day. It is obvious that the Planning Commission did not exercise any detailed check before according approval to this particular scheme, when it should have been evident quite early that the cost of transport would be even higher than the cost of haulage by the Railways. The Committee suggest that a detailed study of this case should be made by Government with a view to finding out how such a costly scheme could have been rushed through in disregard of the doubts expressed by the Ministries of Irrigation & Power and Finance.
22	4·51	Mines and Metals	The Committee draw attention to their recommendation contained in para 6·25 of their 62nd Report (Third Lok Sabha) and hope that, as assured during evidence by the Chairman, Coal Board, the remaining portions of the Ropeways have started working during 1967-68. They would like to be informed of the completion and commissioning of the Ropeway

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23	4·57	Mines & Metals	As the case is *sub judice*, the Committee do not desire to comment on it. They would, however, like to be informed, in due course, of the final result of the case.

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