

**PUBLIC ACCOUNTS COMMITTEE
(1977-78)**

(SIXTH LOK SABHA)

SIXTY-NINTH REPORT

EXPANSION OF MORMUGAO PORT

MINISTRY OF TRANSPORT & SHIPPING

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 230th Report (Fifth Lok Sabha)]



Presented in Lok Sabha on 31 March, 1978

Laid in Rajya Sabha on 24 April, 1978

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CORRIGENDUM TO 69TH REPORT OF THE PUBLIC ACCOUNTS
COMMITTEE (SIXTH LOK SABHA).

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
Cover Page		7	MINISTRY OF TRANSPORT & SHIPPING	MINISTRY OF SHIPPING & TRANSPORT.
10		11	guidelines	guidelines
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17	1.22	28	furture	future
18	1.24	7	knew	Now

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1977-78)	(iii)
INTRODUCTION	(v)
CHAPTER I REPORT	1
CHAPTER II Recommendations/Observations which have been accepted by Government	19
CHAPTER III Recommendations/Observations which the Committee do not desire to pursue in view of the replies from Government	33
CHAPTER IV Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration	43
CHAPTER V Recommendations/Observations in respect of which Government have furnished interim replies.	64
APPENDIX Consolidated statement of conclusions/recommendations.	66

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(1977-78)

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*Elected with effect from 29 November, 1977 *vice* Sarvashri Sheo Narain and Jagdambi Prasad Yadav ceased to be Members of the Committee on their appointment as Ministers of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Sixty-Ninth Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Two Hundred and Thirtieth Report (Fifth Lok Sabha) on paragraph 36 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil) relating to Expansion of Mormugao Port.

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

- | | |
|---|------------------|
| 1. Shri C. M. Stephen— <i>Chairman</i> | |
| 2. Shri Asoke Krishna Dutt— <i>Convener</i> | |
| 3. Shri Gauri Shankar Rai | } <i>Members</i> |
| 4. Shri Tulsidas Dasappa | |
| 5. Shri Kanwar Lal Gupta | |
| 6. Shri Zawar Hussain | |
| 7. Shri Vasant Sathe | |

3. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted the Report at their sitting held on 20 March, 1978. The Report was finally adopted by the Public Accounts Committee (1977-78) on 29 March, 1978.

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

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

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

NEW DELHI;
March 29, 1978

Chaitra 8, 1900(S)

CHAPTER I

REPORT

1.1. This Report of the Committee deals with action taken by Government on the recommendations contained in their 230th Report (Fifth Lok Sabha) on paragraph 36 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil) relating to Expansion of Mormugao Port.

1.2. The 230th Report of the Committee was presented to Lok Sabha on 30 August 1976 and contained 27 recommendations/observations. According to the time schedule, prescribed in the Committee's 5th Report (4th Lok Sabha), for the submission of Action Taken Notes on the Committee's recommendations/observations, the Notes indicating the action taken on the recommendations/observations contained in the 230th Report duly vetted by Audit were required to be furnished by 28 February 1977. While most of the advance copies of the Action Taken Notes relevant to this Report had been furnished to the Committee in time, the vetted copies/final replies were made available to the Committee during March/April, 1977.

1.3. The Action Taken Notes received from Government have been broadly categorised as follows:

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

S. Nos. 3—6, 8—12, 14 and 22.

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

S. Nos. 1, 7, 13, 15, 16, 20 and 26.

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

S. Nos. 2, 17—19, 21, 23—25.

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

S. No. 27.

1.4. The Committee require that final replies duly vetted by Audit to those recommendations/observations in respect of which only interim replies have so far been furnished, should be submitted expeditiously.

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

Need to have a critical study of the traffic Projection (Paragraphs 2.35 and 2.36—S. No. 2)

1.6. Stressing the need for setting up new industries in the region, the Committee, in paragraphs 2.35 and 2.36 of their Report, had observed:

“It appears that when the Master Plan was considered in 1964, the non-ore traffic was expected to be in the region of 12 million tonnes, but that the figure had to be brought down to only 1.46 million tonnes when the revised (April 1975) Economic Appraisal of the Development Project was made. In September, 1975, the Planning and Research Department of the Port could place the projections of non-ore traffic at no more than 1.75 million tonnes for 1978-79 and 2.45 million tonnes for 1984-85. In the matter of setting up new industries in the region, letters of intent/licences were said to have been issued in early 1964 for one Pelletisation Plant, three textile Mills, three Pig Iron Plants, one Fertiliser plant and one Aluminium Plant. However, all that the Committee could be told during evidence (June, 1975) was that a Fertiliser Plant (Zuari Agro-Chemical) had been set up, that two more major units (Goa Carbon and Madras Rubber Factory) were coming up and that an additional Pelletisation Plant of 1.8 million tonnes was in process of contemplation. There was no authoritative indication either if small scale industrial development with an export orientation was being seriously pursued. The Committee are perturbed that not enough seems to be done to ensure concomitant economic activity to sustain and strengthen a proud, modern port like Mormugao which calls for commensurate construction of various facets of our economy as its essential base.

Mormugao handled 12.5 million tonnes of iron ore in 1974-75. The anticipation was that the figure would move upto 13.50 million in 1975-76 and to 14 million in 1977-78, out

of which 12 million tonnes would be handled by the new mechanised plant installed at a cost of Rs. 18.25 crores. However, recession in international trade is stated to have caused a drop in the port's ore traffic as a result of which the expectations went awry in 1975-76 itself when the Port handled only 11.48 million metric tonnes of iron ore. The latest (June 76) estimate of Government is that the port would not handle more than 12 million tonnes as against the earlier expectation of 14 million tonnes of total ore traffic. Since about 1.3 million tonnes are being handled at the existing mechanised plant, no more than 10.7 million tonnes would be left for operation by the new more sophisticated gadgets. The Committee regret that the resultant distortion in the economy of the project could not be prevented by a sufficiently foresighted approach."

1.7. In their Action Taken Note* dated 25 March, 1977, the Ministry of Shipping and Transport have stated:

"When the Master Plan for the development of the Port was considered in 1964, it was assumed that considerable increase in the traffic through the Port would develop as a result of:

- (i) the plans for setting up of a fertiliser plant, steel plant, oil refinery etc. and the consequent general industrialisation of the area, particularly around these large complexes;
- (ii) expected construction of bridges over rivers 'Mandovi, 'Zuari' in Goa and 'Kalinadi' in Karwar; and
- (iii) expected conversion of the existing metre gauge railway into broad gauge.

However, the above plants/proposals did not materialise according to the expectations.

The estimates in the economic appraisal in May, 1975, with regard to non-ore traffic had been based on the latest estimates of traffic developments in the hinterland areas; whereas in our subsequent study report on 'Prospective development of the Hinterland of Mormugao' in Septem-

*Not vetted in Audit.

ber, 1975, the assessment has been to evaluate traffic potentiality on the basis of industrial and agricultural development in the hinterland likely to take place in the near future. Items of traffic likely to come through this Port are generally agro-based and this area in the hinterland is prone to drought. Thus, the prospect of this traffic purely depends on overall production and demand level in the country, Government policies and pace of infrastructural and techno-economic development of the area.

However, the work of estimating the prospective trends of the traffic through this Port had been entrusted to the National Council of Applied Economic Research and their Report would be treated as a guide to plan out future course of action. The Report of the Council has been received and is under examination by the Mormugao Port Trust.

Iron ore traffic had been assumed at 14 million tonnes by 1977-78, both in the economic appraisal in April, 1975, as also in the study made on potential traffic through Mormugao in September, 1975. However, only traffic of 12 million tonnes has been assumed through new facilities because of unforeseen recession in the international steel market. This development could not be foreseen.

According to the information made available by the Department of Industrial Development, there were 902 small scale units registered with the Directorate of Industries and Mines, Goa, as on 31st March, 1976. Most of these units owe their existence to the mining industry, engaged in repairing/servicing of mining machinery and equipment, trucks barges, tyre retreading battery repairing and charging etc. Some others manufacture simple consumer products, whose demand was generated mostly in the wake of mining activities. In short, the small scale units in Goa meet local needs for export production in the small scale sector are fish, cashew and fruits. Exports based on these local raw materials account for nearly 90 per cent of total small industry exports from Goa.

17 small units exported their products during the year 1975-76 as against 8 in 1971-72. The export value of their products rose from Rs. 46.34 lakhs in 1971-72 to Rs. 200.73

lakhs in 1975-76. Fish products alone accounted for nearly three-fourths of the total export value in 1975-76. Next to them were cashew kernals, though comparatively of much smaller value.

There has been a certain degree of export diversification in the small scale sector during the recent few years. The total resource-based exports have undoubtedly continued to dominate their export value; but certain non-resource-based products like plastic spectacle frames, cosmetics and toiletries, optical lenses, stainless steel products and readymade garments were also exported by a varying number of small scale units during the years 1971-72 to 1975-76. Two small scale units were set up in 1975-76, one in Goa and the other at Daman, mainly for export production.

A detailed note furnished by the Ministry of Industrial Development on the development of small scale industries with export orientation in Goa is, however, attached as *Annexure I. (Not enclosed).

It will be seen that the development of small scale industries in the hinterland is going on within the overall framework of plan and development of the country's economy.

The question of setting up of a Port Hinterland Development Committee, preferably under the Chairmanship of the Chief Secretary, has been taken up with the Goa Administration. The proposed Committee, it has been suggested, would review traffic patterns and projections and suggest measures to remove slippages, if any, in the development of traffic to the concerned authorities for necessary action. The development of specific industries which are visualised as able to generate traffic for the Port would also be discussed by the Committee and steps taken for development of such traffic. The industries, planning and transport departments of the Union Territory and representatives of concerned public and private industries, railways and others have been proposed for inclusion as Members of the proposed Committee and the Chairman of the Port would be its Member-Secretary."

*Included in Chapter IV.

1.8. The Committee do not feel enthused with the reply of the Government in regard to concomitant economic activity generated to sustain and strengthen the new port of Mormugao. The Committee expect that the report submitted by the National Council of Applied Economic Research for estimating the prospective trends of traffic would be examined expeditiously and decision taken to plan out future course of action for achieving the original estimates of anticipated traffic through this port, so that facilities which have been set up at enormous cost do not remain unutilised.

The Committee welcome the proposal to set up the Port hinterland Development Committee and hope that its suggestions to improve port traffic will be implemented with the requisite amount of seriousness by the Central as well as the State Governments.

Constitution of an Expert Group to go into the entire matter of soil specifications. (Paragraphs 4:32 to 4:34—Sl. No. 17).

1.9. Commenting on the delay of over four years and an increase of Rs. 10 crores in the costs in the execution of dredging operation, the Committee had recommended in paragraphs 4.32 to 4.34 of their Report as follows:

“The Committee have been gravely disturbed by excessive delay and escalation in costs in the execution of the project for a fully mechanised iron ore berth in Mormugao. Dredging of the area for deepening the approaches and for reclamation of additional headland to locate the mechanised iron ore plant and ancillary facilities constitutes a very vital component of the Project. The Committee find that there has been a delay of over four years and an increased cost of Rs. 10 crores in the execution of dredging operations.

The contract for dredging was given to a Yugoslav firm (M/s. Ivan Milutinovic—PIM) in December 1969 and the agreement provided that the dredging would be completed by June 1972. The position three years later, in June 1975, however, was that dredging had only been completed by the firm for only 5 million Cubic Metres out of 11 Million Cubic Metres initially entrusted to them, and that dredging for the outer channel as well as for maintenance had been taken away from the contracting firm so that it could be done departmentally. Apart from the fact that there was an initial delay of three months by the Yugoslav firm in starting the work, the work has been hampered repeatedly by disputes over the nature of the soil to be dredged,

as specified in the contractual agreement and as actually found on the sea bed. In this context, it is pertinent to recall that the soil conditions as specified in the tender documents and later in the Agreement were based on the Master Plan prepared in 1965 by Randel, Palmer and Tritton and the bore-hole data which was furnished by M/s. Cementation as a result of 106 bore-holes carried out in the specified area as per plans given to them by the consultants and the Port authorities. The Committee find that the soil analysis done subsequently by M/s. Descon. to resolve discintes about the actual soil conditions, showed the existence of soil conditions different from what had been given out by Cementation.

This controversy over soil conditions has been responsible for protracted delays lingering negotiations and additional payment of heavy amounts of money over and above the rates provided for in the contractual agreement.

The Committee are unable to accept the plea of the Port authorities and the representatives of the Ministry of Shipping and Transport that the number and location of bore-holes was furnished by the consultants in conformity with international standards and, therefore, adequate for the purpose. The Committee feel that the Consultants were expected to be able to anticipate, on the basis of their experience as well as well-known laterite character of the area, that soil investigations needed very special care. It should have been possible for them to suggest *ab initio* more extensive analysis through a larger number of bore-holes. The Committee feel that M/s. Cementation should in time have drawn the notice of the Port authorities to their view that the number of bore-holes and the data they could gather therefrom was not adequate for the purpose and that more extensive boring and analysis was required. It is pertinent to recall that M/s. Cementation have come in for adverse notice of the Committee in the cases of Naval Dockyard, Bombay, as well as the Haldia Dock Project, on account of alleged inadequacy of soil analysis undertaken by them.

The Committee would like Government to constitute an expert group to go into the entire matter of soil specifications for this project and learn the requisite lessons in order to prevent recurrence of such happenings. The group should particularly investigate whether the location

of bore holes as given out originally by the consultants. (Messrs Randel, Palmar and Tritton) and the execution thereof and compilation of data and analysis by M/s Cementation were really adequate. In case of an adverse finding in either case, responsibility should be fixed and damages recovered."

1.10. The Ministry of Shipping and Transport in their Action Taken Note dated 16 April 1977, have replied:

"M/s Cementation who were awarded the work of soil investigations, carried out their task in accordance with IS:1892 and also in accordance with the British Code of Practice. They sank bore holes at locations advised by the Ports' consultants, M/s. Randel, Palmer and Tritton (RPT). As the soil investigations were required to be carried out in connection with drawing up of a Master Plan for the development of the Port, they had covered a very large area of approximately 230 hectares or 23,00,000 sq. m. The locations of the bore holes were determined by M/s. RPT based on their experience in this field of engineering and also in accordance with the relevant Codes of Practice. Out of 230 hectares covered by the bore holes sunk by M/s Cementation, only at certain isolated locations (approximately 12 per cent to 14 per cent) the material to be dredged was found to be different from that specified in Tender Documents this also according to the Dredging Contractors. In other words, the soil conditions, as indicated in the Tender Documents based on the bore holes carried out by Cementation in most of the areas, depicted a fairly true picture.

The Tender Documents as drawn out for the work dredging and reclamation were based on international conditions of contract. It was as late as in the year 1972 that the Permanent International Association of Navigational Congress (PIANC) came to the conclusion that it was essential that an international language is adopted whilst describing the soil conditions to be met with at any place where dredging contractors are required to carry out their business. This was felt so by the PIANC as late as in 1972 as there appeared to be a wide diversion in the interpretation of the terminology adopted in the classification of soils. This goes to prove that, even in very ad-

vanced countries where large scale dredging contracts are under execution and where detailed soil investigations have been carried out, the dredging contractors have often come up with claims in relation to the soil conditions being different than those indicated in the Tender Documents. Recent studies carried out by the advanced countries, including Netherlands, have indicated that geological investigations (or to use a better term geotechnical investigations) for dredging projects are based, at the present times, almost wholly on the application of land investigation methods and use of soil and rock mechanic terms. There is undoubtedly a need for special tests to be designed to provide quantitative data on specific dredging problems including wear and tear in pipelines and so on.

It was to cover such uncertainties and to protect the interest of the Port that a specific clause was included in the Tender Documents—General Conditions of Contract (b) Specifications—Clause No. 6—that the accuracy of the results of tests on soil samples cannot be guaranteed. It was further indicated in the said clause that the contractor is at liberty to make his own investigations and that no claim whatsoever will be entertained from the contractor due to soil conditions being found to be different from that shown by the data made available or for any other unforeseen conditions relating to sub-soil or site. This is the main clause on which the matter to be considered by arbitration rests.

As stated earlier, there was nothing wrong with the method of soil investigations carried out by M/s Cementation excepting that, at certain locations (very few), the material to be dredged turned out to be different according to the contractor from that specified in the Tender Documents.

In view of the above, the constitution of an expert group to go into the matter of soil conditions, would not be very meaningful, particularly at this late stage.”

1.11. The Committee note that according to the contractor, material to be dredged was found to be different from that specified in the Tender Documents in 12 to 14 per cent locations. It is not understood how the Government, in the absence of any investigations, would verify the correctness of the contractor's claim. As the controversy over soil conditions has been responsible for protracted

delays in the completion of the dredging programme and additional payment of Rs. 10 crores, the Committee reiterate their earlier recommendation that an expert group may be set up to go into the entire matter of soil specifications for this project particularly with a view to investigate whether the location of bore holes as given out originally by the consultants and the execution thereof and compilation of data and analysis by M/s. Cementation were really adequate. It is pertinent to point out in this context that this very firm has come in for adverse notice of the Committee in the cases of Naval Dockyard, Bombay and Haldia Dock Project.

Need to lay down guidelines to prevent ambiguities creeping into dredging Agreements with foreign firms (Paragraphs 4.35 and 4.36—S. No. 18)

1.12. Emphasising the need for laying down the guidelines for preventing ambiguities creeping into dredging agreements, particularly with foreign firms, the Committee had observed in paragraphs 4.35 and 4.36 of their Report:

"In regard to the claims of the Yugoslav firm and the payments made to them on account of variation in soil conditions, what the Committee have unravelled makes an un-savoury story. The original agreement with the firm provided for only three types of rates for dredging, namely Rs. 4.10 per c.u.m. for dredging under 'all kinds of soil including soft soil' and disposing of the soil at point 'Y' marked on the Plan, Rs. 4.70 per c.u.m. for dredging the outer channel and the basin areas in 'all kinds of soil including sandy soil' and repumping the same through hopper to the area demarcated by zone 'A', and Rs. 135/- per c.u.m. for dredging to the required depth in hard rock if met with. As against these contract rates, the Yugoslav firm made additional claims. The first claim was made in September, 1971 and was for as much as Rs. 2.37 crores as per details given in Appendix II.* The Committee appointed by Government came to the conclusion that Rs. 62.27 lakhs only should be paid on this account. Ultimately, however, a high level settlement was made at Rs. 83 lakhs at a meeting with the Yugoslav firm held by the Minister of Shipping & Transport in November, 1971. It appears that the said amount of Rs. 83 lakhs had also been recommended earlier both by the Consultants and the Chief Engineer's Committee but unhappily the chain of events and the reasoning behind them is not very clear.

*Not enclosed.

Out of this sum a major portion (over Rs. 42 lakhs) was said to have been on account of the harder strata of soil encountered and on account of loss of production due to breakage of cutter axle and bearings of the Dredger in the aforesaid soil conditions.

In spite of such experience, however, the Ministry did not make any specific provision in the supplemental agreement signed with the Yugoslav firm in February, 1972 about the rates to be paid in case harder soil was met with, as distinct from the ordinary soil and rock formation. In the Committee's view, it was this ambiguity which resulted in two further claims of Rs. 1.18 crores and Rs. 15.50 lakhs being preferred by the contractor in September-December, 1972 and October, 1973, respectively, which were paid by the Port authorities under protest since the "Engineer" who, under the terms of the original and supplemental agreements, had the power to settle the claims, had for some reason which is not clear to the Committee, upheld the claims of the Yugoslav firm. The Committee however, have learnt that Government would contest these claims before an Arbitrator to be appointed after completion of the work. Whether it would be worthwhile remains of course, in the womb of the future.

The Committee are of the view that if the authorities had shown some foresight and sought to profit from the earlier experience of the difficulties posed by the soil conditions in settling the claims of the Yugoslav firm, they would have utilised the Supplemental Agreement as an opportunity of settling these rates in more specific terms to obviate any ambiguity and odium of overpayment. Government had also about the same time, already engaged another firm, M/s. Descons, to undertake additional bore holes in the area to get more extensive and reliable information about soil conditions. The Committee, therefore, are unhappy over peculiar default which could and should have been avoided by intelligent planning. The Committee reiterate that Government must learn from experience and lay down detailed guidelines to prevent ambiguities of this nature creeping into dredging agreements, particularly with foreign firms."

1.13. In their reply to the above recommendations/observations of the Committee, the Ministry of Shipping and Transport, have stated in their Action Taken Note dated 16 April, 1977:

“The contractor had unilaterally stopped all works at site at very critical stage in the implementation of the Project when the whole fate of the entire Project was in jeopardy as other civil works could not proceed until reclamation of certain areas was completed by stipulated dates. The contractor timed his stoppage of work at a very critical stage when there was no option left to the Port and the Government except to enter into the negotiations with him for resumption of the work in the overall interest of the early completion of the Project. At the negotiations initiated by the Port officers and their Consulting Engineer even with the intervention of the officers of the Ministries of Transport and Finance did not fructify, the intervention of the Honourable Minister of Shipping and Transport and of Yugoslavian Embassy was sought to terminate the deadlock.

In the negotiations/discussions which were held with the contractor at the highest level, extreme care was taken to ensure that there was no substantial departure from the contract conditions already entered into with the contractor. This having been the aim during the negotiations which ended in the finalisation of the Supplemental Agreement, there was no question of agreeing with the contractor to any new rate for carrying out the balance work of dredging except reiterating the various provisions as contained in the Principal Agreement further amplified under the Supplemental Agreement.

As far as the question of laying down detailed guidelines for dredging contracts with foreign firms is concerned, with the establishment of the Dredging Corporation of India and strengthening of its dredger fleet, the need for entering into dredging agreements, particularly with foreign firms, would progressively go down.”

1.14. The Committee do not agree with the Government view that ‘there was no question of agreeing with the contractor to any new rate for carrying out the balance work of dredging except reiterating the various provisions as contained in the Principal Agreement further amplified under the Supplement Agreement’ particularly

when the Yugoslav firm had earlier created difficulties by stopping all works at site. The Committee are firmly of the opinion that if the authorities had shown some business prudence that was expected of them they would have utilised the Supplemental Agreement as an opportunity of settling the rates of dredging the harder soil as distinct from the ordinary soil in more specific terms so as to avoid any ambiguity and odium of overpayment.

1.15. No doubt with the establishment of Dredging Corporation of India, the need for entering into dredging agreements would progressively go down. Yet, the possibility of awarding dredging work to foreign parties in future could not be altogether ruled out. The guidelines would come handy if and when any foreign contract is entered into in future. The Committee therefore reiterate that guidelines should be laid down in order to prevent ambiguities of this nature creeping into dredging contracts.

Dissatisfaction over payment made 'Under Protest' (Paragraph 4.37—Sl. No. 19)

1.16. Expressing their dissatisfaction for making two payments of Rs. 1.18 crores and Rs. 15.50 lakhs 'under protest' to the contractor instead of enforcing clause 13(2) of the Principal Agreement read with Clause 21 of the Supplement Agreement, the Committee, in paragraph 4.37 of their Report had recommended:

"The Committee find that in terms of Clause 13(2) of the Principal Agreement read with Clause 21 of the Supplemental Agreement it was possible with the consent of the Contractor to approach arbitrators even before completion of the work and that as stated during evidence by the representative of the Ministry the contractor was being approached in that behalf. The Committee trust that the authorities would succeed in persuading the contractor to agree to refer the matter (of the two payments of Rs. 1.18 crores and Rs. 15.50 lakhs made to the contractor) to arbitration at the earliest, so that finality is reached about these heavy amounts which have been paid 'under protest' and the public interest is safeguarded."

1.17. The Ministry of Shipping and Transport, in their Action Taken Note dated 16th April, 1977, have replied:

"Efforts have all along been made by the Port officers to persuade the contractor to agree to refer the matter to arbitration during the execution of the contract. However, till today these efforts have not fructified.

According to legal advice, arbitration is not possible during pendency of work if the contractor refuses arbitration."

1.18. The Committee regret to note that according to the terms of the agreements arbitration is not possible during pendency of work if the contractor refuses arbitration. This helpless situation in regard to the specific contract under comment underlines the need for issue of guidelines for entering into agreements with the contracting firms which has been elsewhere reiterated in this Report.

Unwarranted delays in providing facilities to the contractor (Paragraphs 4.39 to 4.41—Sl. No. 21)

1.19. Dealing with delays in providing facilities which were obligatory in terms of the contract or which were subsequently agreed to as a result of Supplemental Agreement the Committee had, in paragraphs 4.39 to 4.41 of their Report recommended:

"The Committee are greatly concerned at the unconscionable delays on the part of the Ministry and the Port authorities in taking timely action to provide the facilities which were obligatory in terms of the contract or which were subsequently agreed to as a result of Supplemental Agreement. There was a delay of several months in issuing **orders for commencement** of work and in arranging issue of import licence to the contractors. It is pertinent to recall that out of the first claim of Rs. 2.37 crores preferred by the Yugoslav firm in September 1971, as much as Rs. 1 crore was on account of such unfortunate and entirely unwarranted delay.

The Committee note also a serious shortfall in arranging supply of explosives with the result that the contractor preferred a claim of as much as Rs. 50 lakhs on this account. (This was included by the contractor in the claim of Rs. 2.37 crores).

The latest instance of similar default is the delay of 170 days in the matter of giving advance of Rs. 90 lakhs (including Rs. 25 lakhs in foreign currency of the choice of the contractor) as per further Supplemental Agreement executed in June 1974, with the result that the Engineer has directed in terms of the Agreement that the date for completion of the balance of the work would accordingly be extended by corresponding period.

Apart from the monetary claims referred to above, which had to be settled by cash payment, the authorities did not choose to impose the penalty of Rs. 40 lakhs to which the contractor appears to have been liable for non-completion of the work in time.

The Committee consider that these delays were uncalled for and urge Government to hold a strict investigation in the matter and sternly call to account whoever are found responsible for such dereliction of duty which should not recur."

1.20. In their Action Taken Note dated 16 April, 1977, the Ministry of Shipping and Transport have replied:

"It took about two months only to issue the Work Order to the contractor to commence work. This is not excessive, considering the magnitude of the contract and the procedural and legal formalities which cannot be concluded in a much shorter time.

The procurement of explosive as well as obtaining of import licences for spare parts was the sole responsibility of the contractor in accordance with the contract conditions and the Port was only required to assist the contractor to get the necessary permits etc. Before an import licence or a CCP can be obtained it is necessary that the contractor submits an application duly filled in before it is recommended to the authority concerned. In the instant case, M/s PIM took a lot of time to fulfil these requirements and as such there was delay in obtaining the necessary import licences. However, contractor's claim arising out of delay in the issue of import licences, has not been accepted either by the Committee of the Chief Engineer and the Consulting Engineers nor by the Expert Committee under the Chairmanship of the Development Adviser in the Ministry of Shipping and Transport. The penalty of Rs. 40 lakhs was not imposed as it was one of the conditions set forth by the contractor for restarting work. This condition, along with some others, had to be agreed to.

In respect of the advance of Rs. 90 lakhs to be made to the contractor in accordance with the Further Supplemental

Agreement executed in the month of June 1974, there was a delay in advancing the amount of Rs. 25 lakhs which was payable to the contractor in foreign exchange as the contractor had not indicated the foreign currency required by him. As the contractor indicated the source of foreign currency only in the month of November 1974 and other relevant particulars were made available only in the month of December 1974, necessary time was required for processing the release of foreign exchange through the concerned authorities like the Reserve Bank.

Considering the amount for which release in foreign currency (which was scarce) was sought, the time taken to comply with procedural formalities such as obtaining clearance from the Reserve Bank etc., is not considered excessive. In view of the facts stated above, holding an investigation into the matter would not serve any purpose."

1.21. The Committee are not convinced with the position taken by the Government that the delays in providing facilities to the contractor were "not excessive" and as such "holding an investigation into the matter would not serve any purpose". In view of the fact that these delays have potential financial implications to the extent of about Rs. 1 crore as claim from the contractor as also of the fact that the authorities had waived the penalty of Rs. 40 lakhs to which the contractor appears to have been liable for non-completion of the work in time, the Committee reiterate their original recommendation that the matter may be got investigated with a view to fixing responsibility.

Maintenance of dredged areas taken in parts (Paragraphs 5.8 to 5.11—Sl. No. 23).

1.22. As the areas handed over in advance of completion of the entire dredging work has given the contractor an unearned benefit over and above the additional payments made and other concessions given to him under the Supplemental Agreement, the Committee, in paragraphs 5.8 to 5.11 of their Report, had recommended:

"The Committee note that the supplemental agreement of January 1972 with the Dredging Contractor (Yugoslav firm), *inter alia*, provided that the Port Trust would take over the dredged areas as and when completed in parts, instead of after completion of entire dredging as originally stipulated. With this, the Port Trust had taken

upon themselves the responsibility of maintenance dredging of the areas so taken over by them in advance of the completion of the entire work of dredging. The rates of dredging and dumping agreed upon at the time of executing the original agreement no doubt included the cost of maintenance by the contractor of the dredged areas till the entire area was dredged and handed over to the Port Trust. Thus, absolving the contractor of the responsibility of maintenance of the areas handed over in advance of completion of the entire work, has given him an unearned benefit over and above the additional payments made and other concessions given to him under the Supplemental Agreement.

The areas so handed over in advance of completion of the entire work of dredging are stated not to have been dredged again so far by the Port Trust. In view of this position, it has not been possible for the Committee to obtain a quantified idea of the value of this benefit given to the contractor.

The Committee have however, been informed that according to studies made by the Central Water and Power Research Station, Poona, 18 per cent to 19 per cent of the spoil deposited at the Biana Beach was flowing back into the harbour area, the obvious implication being that at least a part of this flowback would also get deposited in the areas already taken over by the Port Trust and the dredging of this accumulated silt would have to be done by the Port Trust at a future date.

Normally, business prudence would have demanded that in exchange for this benefit to the contractor, a demand for scaling down the concessions on other accounts granted to the contractor should have been put forward and pressed by the Port Trust at the time of executing the Supplemental Agreement in January 1972. The Committee, however, find that on the contrary, the contractor even succeeded in getting rid of the liability of maintaining those areas on the ground that he could not saddle himself with the responsibility of maintaining them for an indefinitely long period resulting from the delay in the original schedule of dredging

Now that the harm has been done and the contractor has undertaken to complete the entire dredging work by December 1976, the Committee express their displeasure over the entire business and require that in case of any request from the contractor for further extension of time, he must be asked to meet the cost of maintenance (to be calculated and specified) beyond December 1976 of the areas already handed over by him."

1.23. The Ministry of Shipping and Transport have, in their Action Taken Note dated 16 April 1977, stated as follows:

"The situation prevailing at that time was highly unusual. The contractor had stopped work unilaterally. The critical requirement was reclamation of the land on which the other works were to be erected.

A committee was constituted for the purpose of negotiating with M/s PIM. Their efforts resulted in the first Supplemental Agreement. Since as per the first Supplemental Agreement, the terms and conditions already agreed upon in the principal Agreement were to be modified, the consent of both the parties to such modifications was necessary. Though the Port had serious reservations about taking over the areas piecemeal, they had to agree to this with extreme reluctance as the dredging contractors would not deviate from their stand. Accordingly, Clause 17 of the Supplemental Agreement was incorporated.

In the circumstances, what has to be seen is whether the best possible terms and conditions have not been obtained by way of negotiations. Even on date, dredging is a critical item under the Project and it will not be practicable for the Port to impose any pre-condition as desired by the PAC for granting extension of time beyond December 1976.

The Consultants have revised the date of completion for the balance of the works to 1-7-1977."

1.24. This is an instance of the lack of firmness on the part of the authorities who failed to insist on the contractual obligation of the contractor for maintenance of the dredged areas handed over to the Port Trust as and when completed in parts. This has resulted in the Government being saddled with the responsibility of redredging these areas of drifting silt during the course of the dredging operations in other areas. Knew that the harm is done and the Government have no remedy against the contractor, the Committee can only hope that such situations involving irreparable loss to Government would not be allowed to recur. ..

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

2.37. The Committee are perturbed to find that at the present rate of export of about 14 million tonnes the iron ore reserves in Goa are likely to get exhausted in about 28 years. The Committee have been informed in a written note after evidence that some new reserves of iron ore which are equally promising have been recently found by the Geological Survey of India in the Goa area but these have yet to be investigated in detail. The Committee stress that investigation of the new reserves and other promising areas for iron ore should be carried out on a systematic and priority basis so that the total potentiality of Goa for iron ore is assessed more accurately and a firmer basis is provided for export and utilisation of the infrastructure facilities already created.

[S. No. 3, Para 2.37 of 230th Report of Public Accounts Committee (5th Lok Sabha)]

Action Taken

The Geological Survey of India is at present engaged in carrying out the reassessment of iron ore reserves in Goa by integrated geological, geo-chemical and geo-physical surveys primarily with the object of exploring possibility of finding concealed ore deposits under laterite cover both along the strike and dip of known occurrences and also below groundwater table. This integrated work was commenced by the Geological Survey of India in May 1974, initially for orientation survey, i.e., applicability of geochemical survey in the laterite covered area for locating concealed iron ore bodies and also applicability of ground geo-physical survey by magnetic resistivity and gravi-metric methods to locate the concealed iron ore bodies. Systematic large scale mapping, sectional mapping, correlation of iron ore bands in various working mines and collection, compilation and correlation of existing exploration data from the existing mines has also to be carried out simultaneously for reassessment of iron ore reserve in this area.

2. This work was commenced by Geological Survey of India in May 1974 and till May 1976 an area of 323 sq. km. was geo-logically mapped on the scale of 1:25000 from Chopra river North of Pirna to Usgao in the south. This regional mapping has revealed six parallel to sub-parallel iron ore bands with strike length varying from 5 to 8 km. over elevation from 20 to 160 metre above Mean Sea Level between Assonara and Sanquelim. Mapping along Pale and Sonshi between Sanquelim and Usgao has also indicated three ore bands interbedded with bands of manganiferrous shale over a strike length of 10 km. in Sonshoi ridge and one band of 18 km. in Pale ridge. Further work is in progress to locate new ore bands and decipher the regional structural control.

3. In addition large scale mapping on 1:2000 scale was carried out in Bicholim iron ore deposits of Dempo Mining, Sirigao deposit of Chowgule & Co. and R. N. S. Bandekar and Orossadangar Mine of Sesagao Private Ltd. completing 97 line km.

4. In Bicholim deposit there are two iron ore bands. The Upper one has a strike length of 5 km. and an average width of 180 metre and the lower ore band has a strike length of about 7 km. and average width of 200 metre. The borehole data collected from the company are being processed for estimation of reserve and grade of ore types.

5. The Sirigao iron ore deposits is in continuation of Bicholim iron ore deposits and consist of 3 major ore bands from 1.5 to 1.7 km. strike length and width varying from 60 to 200 metre.

6. Mapping in Orossadangar mine has been commenced and the presence of a new ore band on the footwall site of present mine has been indicated.

7. The geophysical work comprising magnetic and induced polarisation survey was carried out during 1974-75 and magnetic resistivity and gravity surveys during 1975-76. The Magnetic and gravities anomalies seem to outline extent of some of the ore bodies under laterite cover. Preliminary results of gravity survey indicate that this method might prove more useful than the other geophysical methods in delineating the concealed iron ore bands.

8. Preliminary geochemical investigation indicates that nickel content is lower in laterite overlying iron ore as distinct from laterite capping non-iron-ore bearing pink phyllite formation.

9. It is necessary to confirm continuity of these ore bands below laterite cover by means of test drilling. The Geological Survey of India has been empowered under Section 18A of the Mines & Minerals (Regulation & Development) Act, 1957 to undertake drilling in eight

private iron ore leasehold areas *vide* Department of Mines Notification No. 1 (45) 76-MVI dated 24-12-76 (Copy enclosed).

10. It is proposed to cover about 750 sq. km. of the north Goa area which contain major iron ore deposits within the Fifth Plan period by regional integrated geological, geochemical and geophysical surveys followed by test drilling for locating the concealed iron ore bodies. If the results of exploration prove encouraging, the iron ore reserve of Goa may be enhanced considerably and it would enable Geological Survey of India to reassess the iron ore reserves more accurately and on a firm basis for proper planning on the magnitude of exploitation, export and utilisation of infra-structural facilities to the fullest extent.

(S. K. S. Chib)

Joint Secretary to the Govt. of India,

[Ministry of Steel & Mines, Department of Mines O. M. No. 4(10)/76-IF dated 1-4-1977].

[Published in the Gazette of India, Part II Section 3(ii) *vide* S.O. No. 101, dated 8-1-1977].

GOVERNMENT OF INDIA

MINISTRY OF STEEL AND MINES

DEPARTMENT OF MINES

New Delhi the 24th December, 1976.

NOTIFICATION

Whereas the Central Government is of opinion that for the conservation and development of minerals in India, it is necessary to collect as precise information as possible with regard to any mineral available in or under the lands specified in the Table below in relaxation to which mining leases have been granted by the Government of Goa, Daman and Diu;

NOW, THEREFORE, in exercise of the powers conferred by sub-section (1) of section 18A of the Mines and Minerals (Regulation and Development) Act, 1957 (67 of 1957), the Central Government, after consultation with the Government of Goa, Daman and Diu as required by the proviso to sub-section (1) of the said Section 18A, hereby authorises the Geological Survey of India to carry out such detailed investigations for the purpose of obtaining such information as may be necessary in relation to the lands specified in the said Table.

THE TABLE

S. No.	Details of lands	Name of the lessee
1	2	3
1.	Lands measuring 98.86 hectares in the Viridi Mine block, near Nanora, Picholim Taluk, Goa, included in the mining lease No. 44, dated 6-12-1974.	Messrs S. Kantilal and Company, Madgao, Goa.
2.	Lands measuring 50.30 hectares in the Gantarcarche Dongar, Bicholim Taluk, Goa, included in the mining lease No. 17 dated 9-5-1959.	Shri Jagannath C. Prabhu, Mombre of Mapusa. Goa.
3.	Lands measuring 62.90 hectares in the Gantarcarche Dongar, Bicholim Taluk, Goa, included in the mining lease No. 72, dated 10-8-1953.	Shri Jagannath C. Prabhu, Mombre of Mapusa. Goa.
4.	Lands measuring 72.00 hectares in the Bicholim Taluk, Goa, included in the mining lease No. 28, dated 24-4-1953.	Shri Santaram N. Zantic, Bicholim Taluk, Goa.
5.	Lands measuring 99.97 hectares in Madgao in the Goa Sarvena area, Bicholim Taluk, Goa, included in the mining lease No. 99, dated 5-12-1952.	Shri Gangadhar Narsingadas Aggarwal, Madgao Goa
6.	Lands measuring 32.75 hectares in Bicholim, Goa included in the mining lease No. 94, dated 13-11-1952.	Shri Manuel Caetano Pidade Pacheco, Bicholim, Goa.
7.	Lands measuring 78.46 hectares in Sarvena area, Bibholim Taluk, Goa, included in the mining lease No. 29, dated 24-4-1953.	Shri Narayan Ganesh Prabhu-Zantic, Goa.
8.	Lands measuring 50.12 hectares in Dabdaba area, Bicholim Taluk, Goa, included in the mining lease No. 11, dated 4-2-1952.	Messers Damodar Mangalji, Madgao, Goa.

F. No. 1(45)/76—M.VI.

Sd/- (R. K. NAYAK), 24-12-76.
Deputy Secretary to the Govt. of India.

The Manager,
Government of India Press,
Mayapuri Industrial Area,
Near Rajouri Garden,
Ring Road, New Delhi.

Recommendation

Another aspect to which the Committee would like to draw pointed attention is that substantial quantities of iron ore in Goa region are in the form of 'fines', Japan has already taken to the use of 'Pellets' instead of 'fines' in the manufacture of iron and steel to minimise the pollution hazard. The Committee find that facilities

for pelletisation have been developed so far in Goa for a mere 0.5 million tonnes. There is however a proposal to instal a pelletisation plant with a capacity of 1.8 million tonnes. The Committee recommend that the economics of setting up the pelletisation plant in the interest of realising higher unit value for export of iron ore derivatives should be examined on priority basis in all its aspects and if found profitable a plant of the requisite capacity should be set up without loss of time.

[S. No. 4, (Paragraph No. 2-38) of 230th Report of P.A.C.
(Fifth Lok Sabha)]

Action taken

The Government have since approved the proposal for setting up of a second pelletisation plant in Goa with an annual capacity of 1.8 m.t. The Pellet plant is being set up in the joint sector with the Steel Authority of India Limited as one of the promoters. Construction work has already commenced and production is expected to begin in 1978.

[Deptt. of Steel O.M. No. 1/71/76-10M, dated 10-5-1977]

Recommendation

The Bellary-Hospet area which is situated close to Mormugao has rich reserves of iron ore exceeding 1300 million tonnes. At present only about 0.5 million tonnes of iron ore are exported by MMTC from Bellary-Hospet area through Mormugao Port because of the constraints of the metre-gauge railway line which connects Bellary-Hospet to Mormugao and cannot handle more than this quantity. The Committee understand from the studies made available to them by Government that there was a projection for export of 3 million tonnes of iron ore from Bellary-Hospet area through Mormugao Port, which could be achieved through an integrated development of the iron ore mines in the area and by converting the Goa-Hospet meter gauge railway into broad-gauge. The Committee have, however, been informed (July, 1976) by the Ministry of Railways that their surveys for conversion of the Miraj-Londa, Hospet-Mormugao and Abnaver-Dandeli sections into broad-gauge were based on the movement of 2.5 million tonnes of iron ore from Bellary-Hospet area, via Goa for export, and the raw materials and finished products from the Vijayanagar Steel Plant. The Railways had, it seems, to keep pending the whole conversion project for the present on account of the following reasons as furnished by the Ministry of Railways:—

“A Study Group was set up by the Ministry of Mines to examine the integrated development of iron ore mines in Bellary-Hospet area. It was found that there are no

immediate prospects of movement of iron ore of such magnitude from Bellary-Hospet area through Goa Port. Further, the commissioning of the Vijayanagar Steel Plant is likely to come up only in the 7th Plan."

The Committee also find from the studies made available to them that as an alternative to transportation of iron ore by rail (by converting the meter-gauge into broad-gauge), the carriage of such ore in the form of "slurry" through pipe-line and its conversion at Mormugao into pellets for export was also contemplated, and a "Study Group" constituted by Government some time ago had recommended that the National Mineral Development Corporation should be asked to work out the firm capital and operational cost for such pipe-line systems. In the context of the exhaustion of iron ore reserves in the Goa region in the next 28 years or so, the Committee stress the need for export of iron-ore from other regions (like Bellary-Hospet) through Mormugao in order to ensure continued utilisation of the Mechanical ore handling facilities provided there at a huge cost of Rs. 18.25 crores (now Rs. 20.56 crores).

The Committee would suggest that while continuing to explore the possibility of stepping up exports of iron ore from Bellary-Hospet area through Mormugao Port on a long-term basis, the Ministry of Mines should maintain close liaison with the Ministry of Railways and other concerned Ministries/Corporations so as to ensure simultaneous development of the most economic means for transport of such iron ore to the Port.

[S. No. 5—(Para 2.39) of the 230th Report (Fifth Lok Sabha)]

Action taken

The recommendation has been brought to the Notice of the Ministry of Steel & Mines as well as the Ministry of Commerce who is concerned with exports of iron ore.

The Ministry of Commerce have assured that they "keep exports of iron ore under constant review and, in order to achieve the target set for exports, from time to time, sector-wise constraints are brought up to the notice of the Committee of Secretaries on Iron Ore regularly."

It may be added that the Committee of Secretaries referred to includes the representatives of the Ministries of Commerce, Steel & Mines and Railways and the Ministry of Shipping and Transport. It is presided over by the Finance Secretary.

[Ministry of Shipping & Transport O.M. No. PTI-141/76,
dated the 18-3-1977]

Recommendation

The Committee find that out of the existing export of nearly 12 million tonnes of iron ore per year from Mormugao the share of MMTC is no more than 1.0 to 1.4 million tonnes, viz., about 9 per cent. The Committee are informed that a substantial portion of iron ore for MMTC is rail borne and this cannot be handled by the existing Chowgle's plant which is mainly barge-oriented. The Committee need hardly point out that with the installation of the fully mechanised plant which has adequate facilities for handling rail borne iron ore this constraint would no longer be operative. There is also the very promising prospect of exporting iron ore in the form of pellets.

The Committee would like MMTC, which is the premier public undertaking engaged in the export of iron ore, to take full advantage of the latest infrastructure facilities developed in Mormugao at such large public expense, so as to increase its share in the export of iron ore and realise higher value per unit of export. The Committee would like to be informed of the measures which are devised in consultation with MMTC, rail, and port authorities to see that MMTC achieves a commanding position in the export of iron ore.

[S. No. 6—(Para 2.40) of the 230th report (Fifth Lok Sabha)]

Action taken

The substantive portion of this recommendation is the concern of the MMTC which is under the administrative control of the Ministry of Commerce. The Ministry of Commerce who had been requested to give their views on this para have commented as under:—

“MMTC has been exporting between 1.0 to 1.5 million tonnes of iron ore through Mormugao per annum and once the new mechanical facilities are commissioned, all these exports and such additional exports as may be possible in future could be effected through the Mechanised Ore Loading Plant. When the Hospet Goa Metre-Gauge line is converted into Broad-Gauge augmentation of exports by 3 million tonnes or so may be possible. The targetted level of exports of iron ore from the country by the end of 5th Plan is 35 million tonnes.”

As far as the Port is concerned, the maximum co-operation and facilities are made available to MMTC in their export efforts. Having limited berthage capacity for handling rail-borne Iron ore, a special iron ore jetty has been provided at berth No. 1 where barges are loaded with cargo transported from the ore storage areas in the

vicinity of the jetty by tipper trucks for further loading from off-side with the help of ships derricks. This also helps to load the ships in the mid-stream.

In addition, a stacking area of 22,230 sq.m. at Vasco Marshalling Yard and 8040 sq.m. at Mormugao Harbour has been provided to MMTC for the purpose.

Under the new Iron Ore handling facilities, a special Wagon Tippler has been designed and provided for handling rail borne iron ore on account of MMTC and stacking area of 10350 s.q.m. having stacking capacity of 1.60 lakh tonnes at a time has been earmarked for MMTC in the stackyard being provided at the new facilities.

[Ministry of Shipping and Transport O.M. No. PTI-141/76 dt. 18-3-77]

Recommendation

Iron ore constitutes about 90 per cent of the traffic handled at the Port. It is appropriate that rates for handling of iron ore are so fixed that they pay for the developmental expenditure incurred on the development of Port as a whole and not only for the direct expenditure which may have been incurred on the iron ore mechanical handling plant.

[Sl. No. 8—(Para 2.42) of 230th Report of PAC. 5th Lok Sabha]

Action taken

While fixing the rates for handling iron ore at the new facility when completed, the observations of the Committee will be kept in view.

[Ministry of Shipping and Transport (Transport Wing)
O.M. No. PGA-52/76 dt. 25-3-77]

Recommendation

The Committee are concerned that at the present rate of export of iron ore (14 million tonnes approximately per year) the capacity of the iron ore mechanical handling plant would be utilised only to the extent of 31 per cent on two-shift basis. The Committee have not been given any convincing explanation about the parameters adopted for the adoption of such a large size for the iron ore mechanical handling plant. It is a moot point whether it was not possible to design a plant with a lower capacity, say of 4-6 thousand tonnes per hour with an in-built provision for increasing to 8,000 tonnes etc. per hour, as might become necessary in the light of the traffic build-up. Now that the plant with 8,000 tonnes capacity per hour

is practically in position, the Committee stress that it should be put to the best use by speeding up the handling of iron ore and by effecting economy in its operations so that the "break even" point could be brought down and enough surplus generated to pay back for the cost of the entire development and the expansion project of Mormugao.

[S. No. 9 (Para 2.43) of 230th Report of PAC (Fifth Lok Sabha)]

Action taken

The rated shiploading capacity of 800 tonnes per hour (tph) has been determined by the Consulting Engineers (Experts in the field of bulk handling to achieve an annual throughput of 12 million tonnes with berth occupancy limited to 50 per cent which is the standard practice adopted in the iron ore handling terminals.

The capacity of the Mechanical Ore Handling Plants (MOHP) cannot be obtained by arithmetical multiplication of the rated capacity of the ship-loading system by the number of days available in a year. The annual throughput through the MOHP is governed by many considerations such as berth occupancy (which ensures that there are no ships waiting for the berth thereby giving rise to a queue), mechanical breakdowns, movement of the shiploader boom from hatch to hatch in accordance with the loading plan devised by the Master, slow operation at the start and finish due to high boom angle of the shiploader and so on. Consideration has already been given to ensure that handling of 14 million tonnes per annum will be achieved without further additional investments by making use of the already existing facilities with the Port, if necessary by bringing some of the privately owned facilities under the control and discipline of the Port authority.

The rate structure to be evolved by the Port and the Government for handling of iron ore through the MOHP under installation will be so framed as to ensure complete amortization of the entire investment within a period of 15 years.

[Ministry of Shipping & Transport (Transport wing)
O.M. No. DAG-29/76-PDA dt. 29-4-77]

Recommendation

The Committee find that the bulk of the non-ore traffic handled at Mormugao Port in 1975-76 was contributed by the following com-

modities: ---

	Metric Tonnes	Percentage of non-ore traffic.
(1) Mineral Oils	5,47,319	62%
(2) Sugar.	1,35,275	15.3%
(3) Oil Cakes	69,875	7.9%
(4) Food-grains	68,502	7.7%
(5) Fertilisers (Liquid & Chemicals)	58,431	6.6%
(6) Other Commodities	4,100	.5%

The Committee find that out of 88 (approx.) million tonnes of non-ore traffic, as much as 5,47,319 tonnes (62 per cent) is accounted for by mineral oils. As mineral oils would be handled at the oil jetty which is being specially constructed, the quantum of traffic other than ores and minerals oils handled in 1975-76, is 3,36,183 tonnes only. Out of this, sugar accounts for the largest single commodity (1,35,275 tonnes), the next being oil cakes (69,875 tonnes) and foodgrains (68,502 tonnes). In this connection, it is pertinent to recall that oil cakes and sugar have been attracted to Mormugao Port from the hinterland of Maharashtra and Karnataka in recent years only. The traditional port for handling these commodities in earlier years was Bombay. The Committee would, therefore, like the Port authorities to maintain close liaison with the oil cake and sugar industries and exporters so as to make sure that these commodities continue to be routed through this Port. Adequate facilities for this purpose on a realistic basis should be provided.

[S. No. 10 (Para 2.44) of 230th Report of the PAC
(Fifth Lok Sabha)]

Action taken

The recommendation has been taken note of by the Chairman, Mormugao Port Trust.

Besides, at the instance of this Ministry, the Government of Goa, Daman and Diu have constituted on 1st December, 1976, a Committee to facilitate the full utilisation of the Mormugao Port after the com-

pletion of the present development programme, consisting of the following members:-

1. The Chief Secretary Chairman
2. The Chairman, Mormugao Port Trust Member
3. The Divisional Manager, Mines and Mineral Trading Corporation Member
4. The President, Goa Mineral Ore Exporters' Association Member
5. The President, Goa Barge Owners Association Member
6. The President, Goa Chamber of Commerce & Industry Member
7. The Captain of Ports Member Secretary

It is hoped that this committee will be of assistance in maintaining a reasonable flow of non-ore traffic through Mormugao Port.

[Ministry of Shipping & Transport O.M. No. PTT-7/77 dt. 14-4-77]

Recommendation

As regards fertilisers including Phosphoric Acid, the traffic is dependent on the production established in Zauri Agro Chemical and other Petro-chemical based industries which may come up in the area.

The Committee suggest that realistic projections of traffic for the next 10 to 15 years for non-ore and non-oil traffic should be worked out commodity-wise in consultation with the authorities and interests concerned so as to ensure that the requisite infrastructural facilities at the non-ore berths are provided in time in accordance with a well considered programme.

[S. No. 11 (Para 2.45) of the 230th Report of PAC
(Fifth Lok Sabha)]

Action Taken

The Ministry of Chemicals and Fertilisers who are also concerned with this recommendation have stated that the fertiliser plant of M/s. Zuari Agro Chemicals Ltd. require 90,000 tonnes of phosphoric acid annually for production of complex fertilisers. This requirement is likely to increase to approximately 110,000 tonnes per year after completion of the debottlenecking programme in 1978-79. Further a study has been undertaken through National Council of Applied Economic Research for identifying the potential of non-ore traffic and for planning the necessary infrastructural facilities.

[Ministry of Shipping & Transport O.M. No.
PTT-141/76 dated 18-3-77]

Recommendation

As regards development of the Goa region for the generation of non-ore traffic for the Mormugao Port, the representative of the Ministry of Transport was candid enough to admit during evidence that they were not aware of a perspective plan for the development of the hinterland and that it was an important point which should receive consideration. The Committee are constrained to point out that mere assumption of 12 million tonnes in 1964 of "non-ore traffic" in 1978-79 at Mormugao Port without any concrete projection was a grave lapse on the part of the authorities concerned. It is only after the Audit paragraph that initiative appears to have been taken in September 1975, to commission the National Council of Applied Economic Research for preparing a 25 year prospective plan for the traffic for the port. The Committee feel that such a study should have been made before incurring the heavy capital expenditure on the development of Mormugao Port. In any case, the study has got to be completed at the earliest and concerted measures taken in the light thereof to develop the traffic from the hinterland so that the existing infrastructure facilities could be put to the best use and further expenditure on development strictly regulated.

[S. No. 12 (para 2.46) of the 230th Report of the PAC (Fifth Lok Sabha)]

Action Taken

The work of assessing the potential traffic through the port of Mormugao was entrusted to National Council of Applied Economic Research, New Delhi. The Council has submitted its report which is now under examination by the Port Trust.

[Ministry of Shipping & Transport O.M. No. PTT-5/77 dated 14-3-1977]

Recommendation

The Committee are unhappy that the estimated cost of the Development Project of the Mormugao Port has gone up from Rs. 28.64 crores (September, 1969) to Rs. 63.66 crores in June, 1974 excluding an amount of Rs. 7.20 crores as interest payable on the loan. The Committee note from the latest information furnished to them (July, 1976) that the cost of providing the Mechanical Ore Handling facilities, estimated at Rs. 18.25 crores in the revised estimates of June, 1974, is now expected to increase further by Rs. 2.31 crores. As admitted by the Secretary, Transport during evidence, there is likely to be a further increase in the revised estimate on account of a few electrical items and mechanical equipment items where it was diffi-

cult to quantify the increase. As a result, the total cost of the Project (including interest charges) is now likely to be between Rs. 73 and 76 crores. As already mentioned earlier in this Report, the economic appraisal of the Development Project was based by the Ministry on a total estimated cost of Rs. 63.66 crores (revised estimate of June, 1974). The Committee are concerned to note that within two years there has been a further increase of Rs. 10 to Rs. 13 crores (Viz. interest—Rs. 7.20 crores increase in cost of ore handling plant—Rs. 2.31 crores, and additional expenditure on electrical items etc.—less than Rs. 3 crores).

The Committee urge that a careful review be made in respect of economic basis of the Project with particular reference to the latest estimates of expenditure, in order that a suitable charge on ore—handling could be levied and that the heavy investment involved can be expeditiously reimbursed.

[S. No. 14 (Para 3.12) of 230th Report of the
PAC (Fifth Lok Sabha)]

Action Taken

The economic basis of the Project were reviewed carefully based on the latest estimates of the cost of the Project and cost benefits analysis carried out in July, 1976. The rate structure for handling of iron ore through the MOHP under installation will be so framed that the total cost of the investments, including interest, depreciation, operational cost, maintenance cost and so on, including the approved rate of return, is recovered within a period of 15 years which is a very conservative period considering availability of the iron ore reserves in the Territory of Goa and the expected life of the MOHP,

Incidentally, the cost of MOHP as given in the revised Project estimate of Rs. 63.66 crores is Rs. 20.56 crores including the cost of the electrical works. Rs. 18.25 crores represents only the cost of the mechanical components of the MOHP.

[Ministry of Shipping & Transport O.M. No.
DAG-29/76-PDA dated 16-4-77]

Recommendation

The Committee would also stress that the procedure and formalities for complying with the obligations undertaken *vis-a-vis* the contractor by Government, should be precisely implemented in accordance with the agreed time schedule so that the Contractor does not

have any further alibi or excuse for non-completion of the work in time.

The Committee require that Government authorities and agencies charged with the responsibility of making available the materials, advances, permits, facilities, etc. should act in a responsible, coordinated and effective manner and ensure strict compliance with the time schedule prescribed in the agreement. This alone can bring about principled and disciplined functioning and guarantee proper performance by the contractors, foreign as well as indigenous, who would know in that case that non-performance would entail the application of the appropriate sanctions against their default.

[S. No. 22 (Para 4.42) of 230th Report of
PAC Fifth Lok Sabha]

Action Taken

We agree with the recommendation and have noted it for future guidance.

[Ministry of Shipping Transport O.M. No. DAG-
29/76 dated 16-4-77]

CHAPTER III

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

Recommendations

2.33. The Committee are happy at the emergence of Mormugao as one of the country's major ports and are anxious that its great promise of further growth is carefully assisted towards fulfilment. The Development Project of Mormugao Port is based at the moment mainly on the export of iron ore which constitutes about 90 per cent of the total traffic. To facilitate such export the national exchequer has provided, at a cost of Rs. 18.25 crores, the new mechanical ore-handling plant (capacity 12 million tonnes) in the expectation of cheaper and more efficient working. The likelihood of iron ore reserves in accessible regions being exhausted in a matter of twenty-eight years or so, as well as the intrinsic desirability of founding the future of a fine harbour on the diversification of traffic items, call urgently, however, for earnest examination of the ways and means of ensuring an integrated development of the hinterland so that country's total economy can advance and the national investment in Mormugao produces optimum results.

2.34. From the Economic Appraisal of the Development Scheme (April 1975—Revised and updated) it appears that Manganese ore (4.6 per cent) and Mineral Oils including Naptha Projections (4 per cent) were the only other important components of traffic at the port. The Planning and Research Department of the Port Trust made a later study (September 1975) which envisages the export of 3,00,000 Metric tonnes of Sugar per annum by 1978-79 and also anticipates by then traffic in finished fertilisers, oil cakes etc. at a some what higher level than in the Economic Appraisal. The prospect, thus, of Mormugao being virtually, a one-commodity port appeared to the Committee to be disquieting, specially when the availability of iron ore reserves was uncertain after some time. The Secretary, Ministry of Transport, admitted during evidence that 'The entire development of Mormugao has been planned around iron ore' (*italics added*), and when pressed by the Committee to give his views about a planned promotion of the economy of the region, conceded its urgency. Neither from the representatives of the Union Government nor of the Union Territory of Goa did the Committee

find itself able to elicit concrete factual information regarding schemes if any, for the development of hinterland. Since the Master Plan for the Port was initiated in 1964, the Committee are positive that for such projects of Mormugao, perspective planning is inescapable. In spite of Government's expectation that, in terms of arithmetical calculation based on certain assumptions of estimated iron ore traffic, good returns will be forthcoming from the investment on Mormugao development, the Committee would urgently ask Government not to be complacent to the larger (and also imperative) question of the economy of the hinterland which alone can provide a sustained foundation to the viable working of the port.

2.47. The Committee note from the material furnished to them that there is a proposal for setting up an 'Export Processing Zone' in Goa which would house projects dealing with the manufacture of readymade garments, pharmaceuticals, furniture, engineering goods, aluminium conductors, electronics etc. The Committee note that the Konkan & Goa Economic Development Corporation have also been set up to accelerate development. The Committee would like Government to take an early decision on the proposals submitted by the Union Territory of Goa for setting up of the Export Processing Zone. While the larger question of setting up of the Export Zone may take time, the Committee urge that no time should be lost in encouraging the establishment of as many industrial units as are found feasible so that they can go into production and generate traffic.

2.48. The Committee note that a number of districts of Maharashtra, Karnataka and Andhra Pradesh (Kohlapur, Sangli, Ratnagiri, Sholapur in Maharashtra, Belgaum, Bijapur, Raichor, Dharwar and Bellary in Karnataka; and; Anantpur and Kurnool districts of Andhra Pradesh) constitute the economic hinterland for Mormugao. The Committee would require the Central Govt. to take the initiative in conjunction with the port authorities and contact the State Governments for meaningful development of these highly promising areas in order to ensure the generation of increasing traffic for the port. The Committee urge that a perspective plan for the development of exports from these contiguous areas may be soon evolved and concrete schemes identified for implementation in a concerted manner. The Committee would like to be informed without delay of the concrete action taken in pursuance of this recommendation. All this relates to a matter of national urgency and the duty which has devolved on the entire country, of espousing the development of Mormugao as an important instrument of our economic advance.

[S. No. 1 & 13 (paragraphs 2.33, 2.34, 2.47 & 2.48) of
230th Report of the PAC (Fifth Lok Sabha)]

Action Taken

The Ministry have brought these recommendations to the notice of all the other production Ministries of the Government of India with a request that these recommendations should be kept in view while deciding the location of the public sector projects in future. In addition, Governments of Maharashtra, Karnataka and Andhra Pradesh have been requested to provide infrastructure facilities in these areas to attract new industries. The Government of Maharashtra have already informed this Ministry that the Maharashtra Industrial Development Corporation, which is established to secure rapid and orderly growth and development of industries in Maharashtra has already established industrial areas, provided infrastructure facilities in the selected areas of 4 districts, namely Kohlapur, Sangli, Ratnagiri and Sholapur which constitute the economic hinterland for the port of Mormugão. They have also stated that the recommendations of the Public Accounts Committee have been noted and steps have been taken to complete infrastructure facilities in these areas as expeditiously as possible.

2. The Ministry of Shipping & Transport have also written to the Chief Secretary, Goa, Daman and Diu that the fresh capacities of the port have necessitated rationalisation of traffic and delineation of the economic hinterland of the Port in order to maximise gross economic benefit in the overall national interests. The Government of Goa, Daman and Diu has been requested to constitute a Port Hinterland Development Committee which should, *inter alia*, have as its members the Chairman/Deputy Chairman of the Mormugao Port as Member-Secretary, officers of the Departments of Industries, Planning, Transport and Railways, as also representatives of concerned public and private industries. The proposed Committee would review traffic patterns and projections and suggest measures to remove slippages, if any, development of traffic.

3. The Mormugao Port Trust has entrusted the work of estimating the prospective plans of the traffic through this Port to the National Council of Applied Economic Research and their report will be a guide to plan future course of action.

4. The Government of Karnataka have informed the Ministry of Shipping & Transport that the Districts of Bijapur, Belgaum, Raichur, Dharwar and Bellary of that State also constitute the hinterland of Karwar Port being developed in that State. On account of lack of rail communication, the cargoes from these districts are being moved through Mormugao Port. The Government of Karnataka have further stated that the port of Karwar was proposed to be developed as fair weather faster ore loading port in the first instance,

and it is the intention of the Government to route the cargoes generated in the State through the State Ports. They have also stated that the port of Karwar is specially being developed for Ore Exports. They have also stated that iron ore from Bellary-Hospet can be more economically exported through Karwar Port. When Hubli-Karwar railway link is provided, this port could be developed to cater to the other cargo traffic also, which could provide an economical outlet for the export of general cargo also from the above mentioned districts. The Government of Karnataka have, however, no objection to export other commodities such as sugar, oil cakes etc. through Mormugao Port as there are no suitable facilities at Karwar.

F. No. 8(64)/L.P./76
31st March, 1977.

(G. N. MEHRA)

Joint Secretary to the Govt. of India

[Dept. of Industrial Development O.M. No. G-25015(16)-
B&A/76 dt. 22-4-77]

Recommendation

It has been assumed in the economic benefit analysis of investment that as a result of the expansion of the port facilities, deepening of the approach channel and meachanisation of the iron ore handling facilities, there would be a saving (in loading and freight charges of iron ore) of Rs. 84 crores per annum. It is presumed that out of this saving of Rs. 84 crores, 50 per cent would be passed on to the country. The Committee would like Government to work out specifically the mechanism by which they would ensure that in fact this sizeable economic benefit accrues to all sectors of the Indian Economy, particularly the port trust who have invested large amounts for development of the infrastructure facilities. The Committee would like to be informed in detail how government propose to secure this economic gain so that it is not siphoned off by the foreign shipping companies, importers, etc.

Government should also see that the freight rate for export of iron ore to Japan is in fact greatly reduced in the interest of the stepping up of our exports.

[S. No. 7 (Para 2.41) of the 230th Report of the P.A.C. (5th Lok Sabha)].

Action Taken

The Ministry of Commerce have advised that the bulk of export ex-Mormugao Port are destined for Japan. The interest of the Japanese buyers would lie in the landed cost of the material. The

benefit that accrues having regard to the landed cost can be mopped up in one or mix of the following three ways:

- (i) Increase in port charges.
- (ii) Increase in shipping charges.
- (iii) Price hike of the material.

A balanced mix of these factors so as to ensure maximum benefit to various sectors of the Indian economy including the port trust shall be arrived at in consultation with the Ministry of Commerce and M.M.T.C. who are the exporters of iron ore. In the final analysis everything will depend upon what the market can bear in the context of the international iron ore market conditions and the economic situation then prevailing. The Government will, however, endeavour its best to get the maximum benefits to the country.

As far as the Mormugao Port Trust is concerned, endeavour shall be made to fix the rates in such a manner so that the entire investment is amortised over the period of life of the plant and the Port is able to meet its recurring operational and maintenance expenditure. This will however be within the overall constraint of maintaining the competitiveness of exports of Indian iron ore.

Ocean freight rates for carriage of bulk commodities like iron ore to Japan are not fixed by the Government. It is, however, the anticipation and expectation that the provision of mechanical loading facilities at the Port will reduce the turnaround time of ships and lower freight rates than those offered for stream loading will be available. The differential will, however, be dependent on the world chartering rates prevailing at the time according to market forces of demand and supply. Additionally, most of contracts for export of iron ore on f.o.b. basis where the control on chartering of vessels rests with the buyers, the Indian sellers do not have a control in the chartering and nomination of vessels; this will be possible when international market conditions permit us to finalise contracts wholly or partially on c.i.f. basis.

[Ministry of Shipping and Transport O.M. No. PGA/50/76
dated 26-3-77].

Recommendation

Apart from the changes in the designs or the sizes of the structures, machinery and plants being provided under the Development Project, and escalation in cost due to inflationary trends, it has been admitted by the Ministry that delays in the progress of some of

the contracts under execution such as the work of dredging and reclamation, late award of the contract for the construction of the ore and oil berths, delays in the supply of steel of matching sections to the various civil and mechanical contracts have contributed in no lesser measure to the increase in the capital cost of the investment. Even in the manner of changes in design the Committee are unable to appreciate why the Consulting Engineers in 1966 could not estimate the throughput of the Port more accurately. In the opinion of the Committee, the Project authorities and the Ministry should squarely shoulder the responsibility for the aforesaid delays which have contributed to the massive escalation in the estimated cost of the Project. Responsibility for this predicament requires to be determined and rectificatory action, if any is now possible, should be taken.

[S. No. 15 (Para 3.13) of 230th Report of PAC (Fifth Lok Sabha)].

Action Taken

The Port has been designed to handle chiefly iron ore traffic. Export of iron ore is a highly dynamic industry, very sensitive to changes in the international markets and forecasts of trends over a long period of time are not likely to be accurate. Studies at the time of clearing the Mormugao Port Development Project indicating that the exports of iron ore through the Port would stabilise by 1973 onwards at a level of 8 million tpa. could not have anticipated future developments in the international situation which made possible a larger export.

Maximum use of available indigenous resources was one of the principles which guided the award of major contracts in connection with the Project. Since indigenous capacity in many fields at the time was still in the stage of development, a certain delay in the execution of Project of such magnitude was almost inevitable. To add to this, very little information as to soil conditions in and around the areas to be developed was available from the erstwhile regime. The Project could be launched in full scale only when sufficient land was made available by reclamation. But this unfortunately received a setback because of a dispute with the Contractor regarding soil conditions, which, according to him, were different from those indicated in the Tender Documents. The reclaimed land could finally be made available only by March, 1973. This led to the main delay in the completion of the Project.

In 1972-73 and 1973-74 as an aftermath of the Indo-Pak War, there was tremendous shortage in raw materials required for the construc-

tion of big Projects. There was also shortage of power as a result of poor monsoons, and substantial power shedding in various States in the country affected the output of steel, cement and so on, so vitally required for the construction of the civil works. The steep rise in oil price in 1974-75 resulted in an unprecedented rise in the Wholesale commodity Price Index and upset the most careful calculations regarding costs of labour and materials.

The delay in the realisation of the target dates of completion of the Project and consequent increase in the cost would thus seem to be the result of causes beyond anybody's control. But even with the increase in the cost of the Project, it remains financially viable because the unit value of the ores to be exported has gone up.

The question of fixing responsibility for the delay in completing the Project which has also resulted in escalation in costs under these circumstances does not arise.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA dated 16-4-1977].

Recommendation

The cost of dredging and reclamation (which have been discussed in detail elsewhere in this Report) estimated at Rs. 7.22 crores in September, 1969 had to be revised to Rs. 16.84 crores in June, 1974. The cost of providing the Mechanical Ore Handling Plant which was revised during the same period from Rs. 6.72 crores to Rs. 18.25 crores has now (July 1976) undergone a further revision to Rs. 20.56 crore. This clearly indicates that the original estimates were woefully unrealistic. The need for tightening up the machinery for preparation of estimates thus projects itself. The Committee are of the view that this should not be a difficult task since Government has at its elbow a plethora of directorates planning, development, technical assistance etc. as well as the associated finance wing whose services could be meaningfully utilised to achieve this objective.

[S. No. 16 (Para 3.14) of 230th Report of PAC (Fifth Lok Sabha)]

Action Taken

The increase in the cost of the work of dredging from Rs. 7.28 crores to Rs. 16.84 crores was mainly due to the contractor having met soil conditions, which, according to him, were different from those indicated in the Tender Documents. This condition has not been accepted by the Port and is to be referred to arbitration as per the contract.

As to the increase in the cost of the mechanical ore handling facility, this increase has to be viewed in terms of the increase in the scope of the work. The original estimate of Rs. 28.64 crores for the entire Port Project was in respect of the installation of a mechanical ore handling facility with a throughput of 8 million tpa with provision for further expansion. However, the facility under installation has been designed for a throughput of 12 million tpa with certain other modifications suggested by the Appraisal Team of the World Bank which was then supposed to finance the Project.

While all possible steps were taken to make the original project estimate as realistic as possible within the technical and practical constraints of the period, the entire procedure of preparing project reports and scrutinising them from various angles has become more sophisticated with time. In these circumstances it would be possible to prepare more realistic estimates of complex projects than has been possible in the past and the special expertise available to Government in various fields will be progressively utilized in future to this end.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA dated 16-4-1977]

Recommendation

An important factor which emerges out of the present study is that in the crucial sector of capital dredging Government did not take action well in time in the direction of self reliance. The Committee feel that if the decision to have a dredger Corporation had been taken at least a decade earlier when extensive capital dredging works had still to be undertaken for the enlargement of facilities at several major Ports in the country, it would have provided first hand experience in a very crucial field and saved Government the cost not only of heavy delays but also of a lot of avoidable foreign exchange of this account.

[S. No. 20 (para 4.38) of 230th Report of PAC (5th Lok Sabha)]

Action Taken

In the procurement of dredgers and other ancillary equipment very careful and detailed planning is required as to the type, number etc. as it involves large investment. In fact a beginning for establishment of full-fledged Dredging Pool was made in 1966 and 1967 by

acquiring two small dredgers and two tugs for the Central Dredging Organisation. Now the Central Dredging Pool consists of seven dredgers, four tugs and ancilliary equipment. A large sized dredger of 6,500 cu.m. capacity has been ordered and is scheduled to be delivered in July, 1977. With the acquisition of this Dredger, Dredging Corporation of India (established in March, 1976) will be able to meet, by and large the capital dredging requirements of the country.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA
dated 16-4-1977]

Recommendation

The Committee note that the existing mechanised plant at Berth 6 of the Port Trust has been established by M/s. Chowgule & Co. under Decree Law No. 41816 of 9 August, 1958 issued by the former Portuguese Government which continues to remain valid in terms of Goa, Diu and Daman (Administration) Act, 1962 and Regulation 4 of the Mormugao Port Trust (Adaptation of Rules) Regulation, 1964. This anomaly, namely, the continuation of the erstwhile colonial law in that part of India should, in the Committee's view be removed without delay.

[S. No. 26 of the Two Hundred and Thirtieth Report of PAC
(Fifth Lok Sabha)]

Action Taken

The former Portuguese possessions of Goa, Daman and Diu were constituted into the Union territory of Goa, Daman and Diu w.e.f. 20-12-1961 by the Constitution (12th amendment) Act, 1962. The Goa, Daman and Diu (Administration) Act, 1962 which was enacted by Parliament to provide for the Administration of the Union territory also provide [section 5(i)] that all laws in force immediately before the 20th December, 1962 in Goa, Daman and Diu or any part thereof shall continue to be in force therein until amended or repealed by a competent legislature or other competent authority. Since then numerous Central Acts have been extended to the Union territory either by parliamentary legislation or by Regulations promulgated by the President. The Assembly of the Union territory has also made laws on various subjects within their competence. By this process, the corresponding Portuguese laws have been repealed. A proposal is under consideration of this Ministry in consultation with the Government of Goa, Daman and Diu for the extension of

a number of Central Acts to the Union territory through parliamentary legislation. This opportunity would be availed of to repeal all Portuguese laws except those whose continuance is considered necessary in the public interest.

2. This note has been vetted by Audit.

Sd/-

NEW DELHI;
The 3rd February, 1977.

(MAHESH PRASAD),
Joint Secretary (UT).

[Ministry of Home Affairs O.M. No. U-16016/2/76-UTL Dt. 5-2-77]

CHAPTER IV

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

Recommendation

It appears that when the Master Plan was considered in 1964, the non-ore traffic was expected to be in the region of 12 million tonnes, but that the figure had to be brought down to only 1.46 million tonnes when the revised (April 1975) Economic Appraisal of the Development Project was made. In September 1975, the Planning and research Department of the Port could place the projects non-ore traffic at no more than 1.75 million tonnes for 1978-79 and 2.45 million tonnes for 1984-85. In the matter of setting up new industries in the region, letters of intent/licences were said to have been issued in early 1964 for one Pelletisation Plant, three textile Mills, three Pig Iron Plants, one Fertiliser plant and one Aluminium Plant. However, all that the Committee could be told during evidence (June, 1975) was that a Fertiliser Plant (Zuari Agro Chemical) had been set up, that two more major units (Goa Carbon and Madras Rubber Factory) were coming up and that an additional Pelletisation Plant of 1.8 million tonnes was in process of contemplation. There was no authoritative indication either if small scale industrial development with an export orientation was being seriously pursued. The Committee are perturbed that not enough seems to be done to ensure concomitant economic activity to sustain and strengthen a proud, modern port like Mormugao which calls for commensurate construction of various facets of our economy as its essential base.

Mormugao handled 12.5 million tonnes of iron ore in 1974-75. The anticipation was that the figure would move up to 13.50 million in 1975-76 and to 14 million in 1977-78, out of which 12 million tonnes would be handled by the new mechanised plant installed at a cost of Rs. 18.25 crores. However, recession in international trade is stated to have caused a drop in the port's ore traffic as a result of which the expectations went away in 1975-76 itself when the Port handled only 11.48 million metric tonnes of iron ore. The latest (June '76) estimate of Government is that the port would not handle more than 12 million tonnes as against the earlier expectation of 14 million

tonnes of total ore traffic. Since about 1.3 million tonnes are being handled at the existing mechanised plant, no more than 10.7 million tonnes would be left for operation by the new more sophisticated gadgets. The Committee regret that the resultant distortion in the economy of the project could not be prevented by a sufficiently fore-sighted approach.

[Sl. No. 2 (Paras 2.35 & 2.36) of the 230th Report of the PAC
(5th Lok Sabha)]

Action Taken

When the Master Plan for the development of the Port was considered in 1964, it was assumed that considerable increase in the traffic through the Port would develop as a result of:

- (i) the plans for setting up of a fertiliser plant, a steel plant, oil refinery etc. and the consequent general industrialisation of the area, particularly around these large complexes;
- (ii) expected construction of bridges over rivers 'Mandovi' 'Zuari' in Goa and 'Kalinadi' in Karwar; and
- (iii) expected conversion of the existing metre gauge railway into broad gauge.

However, the above plans/proposals did not materialise according to the expectations.

2. The estimates in the economic appraisal in May, 1975, with regard to non-ore traffic had been based on the latest estimates of traffic developments in the hinterland areas; whereas in our subsequent study report on 'Prospective development of the Hinterland of Mormugao' in September, 1975, the assessment has been to evaluate traffic potentiality on the basis of industrial and agricultural development in the hinterland likely to take place in the near future. Items of traffic likely to come through this Port are generally agro-based and this area in the hinterland is prone to drought. Thus, the prospect of this traffic purely depends on overall production and demand level in the country, Government policies and pace of infra-structural and techno-economic development of the area.

However, the work of estimating the prospective trends of the traffic through this Port had been entrusted to the National Council of applied economic research and their report would be treated as a guide to plan out future course of action. The Report of the Council has been received and is under examination by the Mormugao Port Trust.

3. Iron ore traffic had been assumed at 14 million tonnes by 1977-78, both in the economic appraisal in April, 1975, as also in the study made on potential traffic through Mormugao in September, 1975. However, only traffic of 12 million tonnes has been assured through new facilities because of unforeseen recession in the international steel market. This development could not be foreseen.

4. According to the information made available by the Department of Industrial Development, there were 902 small scale units registered with the Directorate of Industries and Mines, Goa, as on 31st March, 1976. Most of these units owe their existence to the mining industry, engaged in repairing/servicing of mining machinery and equipment, trucks barges, tyre retreading, battery repairing and charging etc. Some others manufacture simple consumer products, whose demand was generated mostly in the wake of mining activities. In short, the small scale units in Goa meet local needs for export production mostly. The principal demand for simple consumer goods or local raw material utilised for export production in the small scale sector are fish, cashew and fruits. Exports based on these local raw materials account for nearly 90 per cent of total small industry exports from Goa.

5. 17 small units exported their products during the year 1975-76 as against 8 in 1971-72. The export value of their products rose from Rs. 46.34 lakhs in 1971-72 to Rs. 200.73 lakhs in 1975-76. Fish products alone accounted for nearly threefourths of the total export value in 1975-76. Next to them were cashew kernals, though comparatively of much smaller value.

6. There has been a certain degree of export diversification in the small scale sector during the recent few years. The total resource-based exports have undoubtedly continued to dominate their export value; but certain non-resource-based products like plastic spectacle frames, cosmetics and toiletries, optical lenses, stainless steel products and readymade garments were also exported by a varying number of small scale units during the years 1971-72 to 1975-76. Two small scale units were set up in 1975-76, one in Goa and the other at Daman mainly for export production.

7. A detailed note furnished by the Ministry of Industrial Development on the development of small scale industries with export orientation in Goa is, however, attached as Annexure I.

8. It will be seen that the development of small scale industries in the hinterland is going on within the overall framework of plan and development of the country's economy.

9. The question of setting up of a Port hinterland Development Committee, preferably under the Chairmanship of the Chief Secretary, has been taken up with the Goa Administration. The proposed Committee, it has been suggested, would review traffic patterns and projections and suggest measures to remove slippages, if any, in the development of traffic to the concerned authorities for necessary action. The development of specific industries which are visualised as able to generate traffic for the Port would also be discussed by the Committee and steps taken for development of such traffic. The industries, planning and transport departments of the Union Territory and representatives of concerned public and private industries; railways and others have been proposed for inclusion as Members of the proposed Committee and the Chairman of the Port would be its Member-Secretary.

(Ministry of Shipping & Transport O.M.No. PGA-52/76
dated 25-3-1977)

ANNEXURE I

DEVELOPMENT OF SMALL SCALE INDUSTRIES WITH EXPORT ORIENTATION IN GOA

Existing Position

As on 31st March, 1976, there were 902 small scale units registered with the Directorate of Industries and Mines, Goa. Most of these units owe their existence to the Mining Industry, engaged in repairing/servicing of mining machinery and equipment, trucks, barges, tyre retreading, battery repairing and charging, etc. Some others manufacture simple consumer products, whose demand was generated mostly in the wake of mining activities. In short, the small scale units in Goa either meet local demand for simple consumer goods or utilise local raw resources for export production mostly. The principal material utilised for export production in the small scale sector are fish, cashew and fruits. Exports based on these local raw materials account for nearly 90 per cent of total small industry exports from Goa.

17 small scale units exported their products during the year 1975-76 as against 8 in 1971-72. The export value of their products rose from Rs. 46.34 lakhs in 1971-72 to Rs. 20.73 lakhs in 1975-76. Fish products alone accounted for nearly three-fourths of the total export value in 1975-76. Next to them were cashew kernals, though comparatively of much smaller value.

There has been a certain degree of export diversification in the small scale sector during the recent few years. The total resource-based exports have undoubtedly continued to dominate their export value but certain non-resource-based products like plastic spectacle earframes, cosmetics and toiletries, optical lenses, stainless steel products and readymade garments were also exported by a varying number of small scale units during the years 1971-72 to 1975-76. Two small scale units were set up in 1975-76, one in Goa and the other at Daman, mainly for export production.

Resource Potential for Export Production

Non-mineral resources like fish, fruits and forests offer immense potential for export-oriented production in the small scale sector.

The coastal and inshore water in Goa are reported to be very rich in fishery resources because of boat shoals of Mecherola and Sardines which regularly visit these waters during fishing season and yield bumper crop. The annual fish catch of the territory is estimated at about 27,000 tons which can be increased considerably by mechanisation of fish-craft because the present method known as Ramponi is much less yielding. With the intensification of fish catch consequent on mechanisation/modernisation of industry, there should be sufficient fish supply for freezing and canning process, mostly for overseas markets.

Fruit resources in the area are also abundant and varied, including mangoes, pineapples, cashew nuts, etc. Goan mangoes are quite famous for their delicacy. So are pineapples already grown in considerable quantities. Their supplies are expected to be considerably augmented under the programme of horticultural development. Cashew Development Programme has also been undertaken in order to fully utilise the existing potential for the purpose. There are already 34,000 hectares under cashew cultivation with a yield of 4,500 tons of nuts. Average yield is very low at 2 Kg per tree compared to 10 Kg in Kerala. With the execution of the programme, the average yield would improve and more supplies could be made available for feeding the existing cashew processing units as well as for setting up new ones for export primarily. It is mostly the shortage of cashew nuts which has impeded the export effort of the existing small scale units of this industry.

About 28 per cent of geographical area in Goa is under forests as against 21 per cent national ratio. The important wood species available there are Ucluytus, Teak and Bamboo. As against the present second class quality of wood, there is possibility of improving it under the programme as forest Estates. With the availability of better quality wood and the Goan labour having artistic bent of mind, there are opportunities for wood-based handicrafts for export. Most of these export possibilities based on local raw materials can materialise in the small scale sector.

In addition to resource-based industries, there are opportunities for skill-intensive industries primarily for export production. Such possibilities are identified mainly in the fields of readymade garments and electronic parts and components. As already mentioned, two small scale units have already been set up in the territory for readymade garments. These units have considerably been benefited by the skilled labour as well as propensity of the same to pick up

new industrial skills. They are reported to be quite successful in their export business partly due to entrepreneurial ability of their proprietors and partly to cost advantage accruing from comparatively cheap and skilful local labour. Thus there are opportunities for some more small scale units in this line of production exclusively for export.

Climate of Goa is dust free and is, therefore, suitable for electronic industries. Another local advantage of the same is the availability of educated labour with considerable willingness and mental readiness to pick up new skills so necessary for efficient production in light engineering items. Argued on similar basis, optical lenses too offer scope for expansion. One unit manufacturing optical lenses is already reported to be exporting a part of its production. Thus, human resources is as important as material one, and offers considerable potentiality for industrial production for export.

Taking into consideration the existing products exported by small scale units and also the resource-based and skill-intensive potential for the same, the following products are identified to have scope for expansion or installation of new capacity for export production:—

Canned fruit products, canned fish, frozen fish, canned meat, cashew kernel, cashew feni, coconut feni, plastic spectacle frames, cosmetics & toiletries, plastic containers, optical lenses, stainless steel products, readymade garments, marine paints pharmaceutical products, washing soap, carbonpapers typewriter ribbons, teleprinter rolls, automobile storage batteries, wick stoves, confectionery items, fish meal, drug intermediates, industrial furnaces etc.

Estimated Exports and Identified Units

In view of the encouraging expansion of export business by small scale units during the years 1971-72 to 1975-76 it may not be over-optimisim to expect 2 to 3 times increase in export value of this sector during the next 5 years. As against the reported export value of Rs. 200.73 lakhs in 1975-76, the same is anticipated to range between Rs. 600—800 lakhs by 1980-81. Such an anticipated increase should result from expansion of business by the existing units as well as from establishment of the new units for export. The Small Industry Service Institute Margao (Goa) has identified 44 existing small scale units which are either already exporting or are export-worthy.

AREA OF ASSISTANCE

The majority of 17 small scale units exporting their products at present are reported to be doing so mainly because of their earlier business contacts in the pre-liberation days. Some of them were owned by foreigners who continued to import products from these units after they had left the territory. Very few of them have established their export business in a systematic manner. The export market intelligence and export marketing training imparted by Small Industry Service Institute, Margao are intended to create adequate export consciousness and capabilities and also for creating a regular class of export-oriented entrepreneurs in small scale sector.

SISI Margao has organised a few seminars/meetings in collaboration with the other promotional agencies in the territory for educating the exporting and export worthy small scale units about the benefits and potentiality of Export Marketing Groups Scheme. Under this scheme, some exporting and other non-exporting small scale units can combine together in form of a partnership, private limited company or cooperative for their export business. In case they are able to show a minimum export performance of Rs. 10 lakhs in a particular year, they become entitled to such benefits under the Import Policy as initial/supplementary import licences (without right of transferring the same) and financial assistance for export promotional activities from Marketing Development Fund. If they further develop their exports and attain the minimum figure of Rs. 25 lakhs, they become eligible for the status of a recognised export house. As a result of efforts of SISIs, some small scale units have been identified to form such groups to the advantage of export development in the small scale sector.

Apart from such promotional activities of SISI, there are already development programmes for expanding and diversifying horticultural, fishery and cashewnut resources, so that the existing manufacturing units get sufficient material supplies for fuller utilisation of their capacities and also that some new units utilising these resources are set up. The importance of and the need for intensifying these programmes are well obvious from the pattern of experiences reported by the existing small scale units manufacturing canned foods/fruits and processing cashewnuts in the territory. The relatively high prices of these materials make their export business unattractive and make them switch to domestic market either entirely or preeminantly. As the State Government takes the speediest steps for resource development, the export possibilities in the identified fields of production will materialise.

The processing/canning units are confronted with difficulties of having adequate supplies of tin plates and other packing materials at reasonably competitive prices. The newly set up Economic Development Corporation in Goa is expected to enthuse and facilitate the establishment of units manufacturing tin plates and auxiliary materials locally and should help meet this problem. The well-enlightened leadership of the local chamber of Commerce and Industry should as well help mobilisation of proper enterprise needed in this direction. The Economic Development Corporation and other Financial Institutions in Goa are eagerly looked upon to provide financial help to the present and prospective entrepreneurs in their manufacturing and export business. They are to take advantage of experiences of similar Corporations and institutions operating in the neighbouring States of Maharashtra and Gujarat for harnessing industrial potentialities of the area for export development.

There is, however, need for a joint attempt to be made by agencies (official and non-official) engaged in industrial development of the territory to undertake cost-benefit analysis of units already exporting their products so that the present tendency of these units to prefer domestic market cells over export sales is accounted for and remedial measures are suggested to the Central/State Government. There is an equal need for strengthening the system of dissemination of export market information in the territory. SISI can be expected to do this job, if it is staffed with necessary expertise.

ANCILLARY INFORMATION

One Pelletisation Plan of M/s. Chowgule & Co. P. Limited has already gone on stream and working, one textile mill viz. M/s. Chowgule Textiles Pvt. has been working for nearly 4 years, one tyres factory namely M/s Madras Rubber Factory has been working for more than 3 years, one fertilizer factory viz. M/s Zuari Agro-Chemicals has been working for nearly 3 years and one unit for production of calcined petroleum coke is just having trial production and is likely to go on stream very shortly. Besides, letters of intent have been issued for two more Pelletisation Plants of which one namely M/s Mandovi Pellets Ltd. (a joint sector unit) is presently installing the plant and is likely to go into production in 1978-78.

Recommendations

The Committee have been gravely disturbed by excessive delay and escalation in costs in the execution of the project for a fully

mechanised iron ore berth in Mormugao. Dredging of the area for deepening the approaches and for reclamation of additional head-land to locate the mechanised iron ore plant and ancillary facilities constitutes a very vital component of the Project. The Committee find that there has been a delay of over four years and an increased cost of Rs. 10 crores in the execution of dredging operations.

The contract for dredging was given to a Yugoslav firm (M/s. Ivan Milutinovic-PIM) in December 1969 and the agreement provided that the dredging would be completed by June, 1972. The position three years later, in June, 1975, however, was that dredging had only been completed by the firm for only 5 million Cubic Metres out of 11 Million Cubic Metres initially entrusted to them, and that dredging for the outer channel as well as for maintenance had been taken away from the contracting firm so that it could be done departmentally. Apart from the fact that there was an initial delay of three months by the Yugoslav firm in starting the work, the work has been hampered repeatedly by disputes over the nature of the soil to be dredged, as specified in the contractual agreement and as actually found on the sea bed. In this context, it is pertinent to recall that the soil conditions as specified in the tender documents and later in the Agreement were based on the Master Plan prepared in 1965 by Randol, Palmer and Triton and the bore-hole data which was furnished by M/s Cementation as a result of 106 bore-holes carried out in the specified area as per plans given to them by the consultants and the Port authorities. The Committee find that the soil analysis done subsequently by M/s Descon, to resolve disputes about the actual soil conditions, showed the existence of soil conditions different from what had been given out by Cementation.

This controversy over soil conditions has been responsible for protracted delays lingering negotiations and additional payment of heavy amounts of money over and above the rates provided for in the contractual agreement.

The Committee are unable to accept the plea of the Port authorities and the representatives of the Ministry of Shipping and Transport that the number and location of bore-holes was furnished by the consultants in conformity with international standards and, therefore, adequate for the purpose. The Committee feel that the Consultants were expected to be able to anticipate on the basis of their experience as well as well-known laterite character of the area, that soil investigations needed very special care. It should have been possible for them to suggest *ab initio* more extensive analysis through a larger number of bore-holes. The Committee feel that

M/s Cementation should in time have drawn the notice of the Port authorities to their view that the number of bore-holes and the data they could gather therefrom was not adequate for the purpose and that more extensive boring and analysis was required. It is pertinent to recall that M/s Cementation have come in for adverse notice of the Committee in the cases of Naval Dockyard, Bombay, as well as the Haldia Dock Project, on account of alleged inadequacy of soil analysis undertaken by them.

The Committee would like Government to constitute an expert Group to go into the entire matter of soil specifications for this Project and learn the requisite lessons in order to prevent recurrence of such happenings. The group should particularly investigate whether the location of bore-holes as given out originally by the consultants (Messers Randel, Palmar and Tritton) and the execution thereof and compilation of data and analysis by M/s. Cementation were really adequate. In case of an adverse finding in either case, responsibility should be fixed and damages recovered.

[S. No. 17 (para 4.32 to 4.34) of 230th Report of PAC (Fifth Lok Sabha)]

Action Taken

M/s. Cementation who were awarded the work of soil investigations, carried out their task in accordance with IS: 1892 and, also in accordance with the British Code of Practice. They sank bore-holes at locations advised by the Ports' consultants, M/s. Randel, Palmer and Tritton (RPT). As the soil investigations were required to be carried out in connection with drawing up of a Master Plan for the development of the Port, they had covered a very large area of approximately 230 hectares or 23,00,000 Sq.m. The locations of the bore-holes were determined by M/s. RPT based on their experience in this field of engineering and also in accordance with the relevant Codes of Practice. Out of 230 hectares covered by the bore-holes sunk by M/s. Cementation, only at certain isolated locations (approximately 12 per cent to 24 per cent) the material to be dredged was found to be different from that specified in the Tender Documents—this also according to the Dredging Contractors. In other words, the soil conditions, as indicated in the Tender Documents based on the bore-holes carried out by Cementation in most of the areas, depicted a fairly true picture.

The Tender Documents as drawn out for the work of dredging and reclamation were based on international conditions of contract.

It was as late as in the year 1972 that the Permanent International Association of Navigational Congress (PIANC) came to the conclusion that it was essential that an international language is adopted whilst describing the soil conditions to be met with at any place where dredging contractors are required to carry out their business. This was felt so by the PIANC as late as in 1972 as there appeared to be a wide diversion in the interpretation of the terminology adopted in the classification of soils. This goes to prove that, even in very advanced countries where large scale dredging contracts are under execution and where detailed soil investigations have been carried out, the dredging contractors have often come up with claims in relation to the soil conditions being different than those indicated in the Tender Documents. Recent studies carried out by the advanced countries, including Netherlands, have indicated that geological investigations (or to use a better term 'geo-technical' investigations) for dredging projects are based, at the present times, almost wholly on the application of land investigation methods and use of soil and rock mechanic terms. There is undoubtedly a need for special tests to be designed to provide quantitative data on specific dredging problems including wear and tear in pipelines and so on.

It was to cover such uncertainties and to project the interest of the Port that a specific clause was included in the Tender Documents-General Conditions of Contract (b) Specifications-Clause No. 6-that the accuracy of the results of tests on soil samples cannot be guaranteed. It was further indicated in the said clause that the contractor is at liberty to make his own investigations and that *no claim whatsoever will be entertained from the contractor due to soil conditions being found to be different from that shown by the data made available or for any other unforeseen conditions relating to sub-soil or site. This is the main clause on which the matter to be considered by arbitration rests.*

As stated earlier, there was nothing wrong with the method of soil investigations carried out by M/s. Cementation excepting that, at certain locations (very few), the material to be dredged turned out to be different according to the contractor from that specified in the Tender Documents.

In view of the above, the constitution of an expert group to go into the matter of soil conditions, would not be very meaningful, particularly at this late stage.

[Ministry of Shipping and Transport O.M. No. DAG-29/76—PDA dated 16-4-1977]

Recommendations

In regard to the claims of the Yugoslav firm and the payments made to them on account of variation in soil conditions, what the Committee have unravelled makes an unsavoury story. The original agreement with the firm provided for only three types of rates for dredging, namely Rs. 4.10 per cu.m. for dredging under 'all kinds of soil including soft soil' and disposing of the soil at point 'Y' marked on the Plan, Rs. 4.70 per cu.m. for dredging the outer channel and the basin areas in 'all kinds of soil including sandy soil' and repumping the same through hopper to the area demarcated by zone 'A', and Rs. 135/- per cu.m. for dredging to the required depth in hard rock if met with. As against these contract rates, the Yugoslav firm made additional claims. The firm claim was made in September, 1971 and was for as much as Rs. 2.37 crores as per details given in Appendix II. The Committee appointed by Government came to the conclusion that Rs. 62.27 lakhs only should be paid on this account. Ultimately, however, a high level settlement was made at Rs. 83 lakhs at a meeting with the Yugoslav firm held by the Minister of Shipping & Transport in November, 1971. It appears that the said amount of Rs. 83 lakhs had also been recommended earlier both by the Consultants and the Chief Engineer's Committee but unhappily the chain of events and the reasoning behind them is not very clear. Out of this sum a major portion (over Rs. 42 lakhs) was said to have been on account of the harder strata of soil encountered and on account of loss of production due to breakage of cutter axle and bearings of the Dredger in the aforesaid soil conditions.

In spite of such experience, however, the Ministry did not make any specific provision in the supplemental agreement signed with the Yugoslav firm in February, 1972 about the rates to be paid in case harder soil was met with, as distinct from the ordinary soil and rock formation. In the Committee's view, it was this ambiguity which resulted in two further claims of Rs. 1.18 crores and Rs. 15.50 lakhs being preferred by the contractor in Sept.-December, 1972 and October, 1973, respectively, which were paid by the Port authorities under protest since the "Engineer" who, under the terms of the original and supplemental agreements, had the power to settle the claims, had for some reason which is not clear to the Committee, upheld the claims of the Yugoslav firm. The Committee however, have learnt that Government would contest these claims before an Arbitrator to be appointed after completion of the work, whether it would be worthwhile remains of course, in the womb of the future.

The Committee are of the view that if the authorities had shown same foresight and sought to profit from the earlier experience of

the difficulties posed by the soil conditions in settling the claims of the Yugoslav firm, they would have utilised the Supplemental Agreement as an opportunity of settling these rates in more specific terms to obviate any ambiguity and odium of overpayment. Government had also about the same time, already engaged another firm, M/s Descons, to undertake additional bore holes in the area to get more extensive and reliable information about soil conditions. The Committee, therefore, are unhappy over peculiar default which could and should have been avoided by intelligent planning. The Committee reiterate that Government must learn from experience and lay down detailed guide-lines to prevent ambiguities of this nature creeping into dredging agreements, particularly with foreign firms.

[S. No. 18 (para 4.35 & 4.36) of 230th Rport of PAC
(Fifth Lok Sabha)]

Action Taken

The contractor had unilaterally stopped all works at site at very critical stage in the implementation of the Project when the whole fate of the entire Project was in jeopardy as other civil works could not proceed until reclamation of certain areas was completed by stipulated dates. The contractor timed his stoppage of work at a very critical stage when there was no option left to the Port and the Government except to enter into the negotiations with him for resumption of the work in the overall interest of the early completion of the Project. At the negotiations initiated by the Port officers and their Consulting Engineer even with the intervention of the officers of the Ministries of Transport and Finance did not fructify, the intervention of the Honourable Minister of Shipping and Transport and of Yugoslavian Embassy was sought to terminate the dead-lock.

In the negotiations/discussions which were held with the contractor at the highest level, extreme care was taken to ensure that there was no substantial departure from the contract conditions already entered into with the contractor. This having been the aim during the negotiations which ended in the finalisation of the Supplemental Agreement, there was no question of agreeing with the contractor to any new rate for carrying out the balance work of dredging except reiterating the various provisions as contained in the Principal Agreement further amplified under the Supplemental Agreement.

As far as the question of laying down detailed guidelines for dredging contracts with foreign firms is concerned, with the establishment of the Dredging Corporation of India and strengthening of

its dredger fleet, the need for entering into dredging agreements, particularly with foreign firms, would progressively go down.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA
dated 16-4-1977]

Recommendation

The Committee find that in terms of Clause 13(2) of the Principal Agreement read with Clause 21 of the Supplemental Agreement, it was possible with the consent of the Contractor to approach arbitrators even before completion of the work and that as stated during evidence by the representative of the Ministry, the Contractor was being approached in that behalf. The Committee trust that the authorities would succeed in persuading the Contractor to agree to refer the matter (of the two payments of Rs. 1.18 crores & Rs. 15.50 lakhs made to the Contractor) to arbitration at the earliest, so that finality is reached about these heavy amounts which have been "under protest", and the public interest is safeguarded.

[S. No. 19 (para 4.37) of 230th Report of PAC
(Fifth Lok Sabha)]

Action Taken

Efforts have all along been made by the Port officers to persuade the contractor to agree to refer the matter to arbitration during the execution of the contract. However, till today these efforts have not fructified.

According to legal advice, arbitration is not possible during pendency of work if the contractor refuses arbitration.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA
dated 16-4-1977]

Recommendation

The Committee are greatly concerned at the unconscionable delays on the part of the Ministry and the Port Authorities in taking timely action to provide the facilities which were obligatory in terms of the contract or which were subsequently agreed to as a result of Supplemental Agreement. There was a delay of several months in issuing orders for commencement of work and in arranging issue of import licence to the Contractor. It is pertinent to recall that out of the first claim of Rs. 2.37 crores preferred by the Yugoslav firm in September, 1971, as much as Rs. 1 crores was on account of such unfortunate and entirely unwarranted delay.

The Committee note also a serious short-fall in arranging supply of explosives with the result that the Contractor preferred a claim

of as much as Rs. 50 lakhs on this account. (This was included by the Contractor in the claim of Rs. 2.37 crores).

The latest instance of similar default is the delay of 170 days in the matter of giving advance of Rs. 90 lakhs (including Rs. 25 lakhs in foreign currency of the choice of the Contractor) as per further Supplemental Agreement executed in June, 1974, with the result that the Engineer has directed in terms of the Agreement that the date for completion of the balance of the work would accordingly be extended by corresponding period.

Apart from the monetary claims referred to above, which had to be settled by cash payment, the authorities did not choose to impose the penalty of Rs. 40 lakhs to which the Contractor appears to have been liable for non-completion of the work in time.

The Committee consider that these delays were uncalled for and urge Government to hold a strict investigations in the matter and sternly call to account whoever are found responsible for such dereliction of duty which should not recur.

[S. No. 21 (Para 4.39 to 4.41) of 230th Report of P.A.C.
(Fifth Lok Sabha)]

Action Taken

It took about two months only to issue the Work Order to the contractor to commence work. This is not excessive, considering the magnitude of the contract and the procedural and legal formalities which cannot be concluded in a much shorter time.

The procurement of explosives as well as obtaining of import licences for spare parts was the sole responsibility of the contractor in accordance with the contract conditions and the Port was only required to assist the contractor to get the necessary permits etc. Before an import licence or a CCP can be obtained it is necessary that the contractor submits an application duly filled in before it is recommended to the authority concerned. In the instant case, M/s. PIM took a lot of time to fulfil these requirements and as such there was delay in obtaining the necessary import licences. However contractor's claim arising out of delay in the issue of import licences, has not been accepted either by the Committee of the Chief Engineer and the Consulting Engineers nor by the Expert Committee under the Chairmanship of the Development Advisor in the Ministry of Shipping and Transport. The penalty of Rs 40 lakhs was not imposed as it was one of the conditions set forth by the contractor for restarting work. This condition, along with some others, had to be agreed to.

In respect of the advance of Rs. 90 lakhs to be made to the contractor in accordance with the Further Supplemental Agreement executed in the month of June, 1974, there was a delay in advancing the amount of Rs. 25 lakhs which was payable to the contractor in foreign exchange as the contractor had not indicated the foreign currency required by him. As the contractor indicated the source of foreign currency only in the month of November, 1974 and other relevant particulars were made available only in the month of December 1974, necessary time was required for processing the release of foreign exchange through the concerned authorities like the Reserve Bank.

Considering the amount for which release in foreign currency (which was scarce) was sought, the time taken to comply with procedural formalities such as obtaining clearnace from the Reserve Bank, etc., is not considered excessive. In view of the facts stated above, holding an investigation into the matter would not serve any purpose.

[Ministry of Shipping and Transport O.M.No. DAG-28/76PDA
dated 16-4-1977]

Recommendation

The Committee note that the supplemental Agreement of January, 1972 with the Dredging Contractor (Yugoslav Firm) inter alia provided that the Port Trust would take over the dredged areas as and when completed in parts, instead of after completion of entire dredging as originally stipulated. With this, the Port Trust had taken upon themselves the responsibility of maintenance dredging of the areas so taken over by them in advance of the completion of the entire work of dredging. The rates for dredging and dumping agreed upon at the time of executing the original agreement no doubt included the cost of maintenance by the contractor of the dredged areas till the entire area was dredged and handed over to the Port Trust. Thus, absolving the contractor of the responsibility of maintenance of the areas handed over in advance of completion of the entire work, has given him an unearned benefit over and above the additional payments made and other concessions given to him under the Supplemental Agreement.

The areas so handed over in advance of completion of the entire work of dredging are stated not to have been dredged again so far by the Port Trust. In view of this position, it has not been possible for the Committee to obtain a quantified idea of the value of this benefit given to the Contractor. The Committee have, however, been informed that according to studies made by the Central Water and

Power Research Station, Poona. 18 per cent to 19 per cent of the spoil deposited at the Biana Beach was flowing back into the harbour area, the obvious implication being that at least a part of this flow-back would also get deposited in the areas already taken over by the Port Trust and the dredging of this accumulated silt would have to be done by the Port Trust at a future date.

Normally, business prudence would have demanded that in exchange for this benefit to the contractor, a demand for scaling down the concessions on other accounts granted to the Contractor should have been put forward and pressed by the Port Trust at the time of executing the Supplemental Agreement in January, 1972. The Committee, however, find that on the contrary, the Contractor even succeeded in getting rid of the liability of maintaining those areas on the ground that he could not saddle himself with the responsibility of maintaining them for an indefinitely long period resulting from the delay in the original schedule of dredging.

Now that the harm has been done and the Contractor has undertaken to complete the entire dredging work by December, 1976, the Committee express their displeasure over the entire business and require that in case of any request from the contractor for further extension of time, he must be asked to meet the cost of maintenance (to be calculated and specified) beyond December, 1976, of the areas already handed over by him.

[S. No. 23 (paras 5.3 to 5.11) of 230th Report of PAC (Fifth Lok Sabha)].

Action taken

The situation prevailing at that time was highly unusual. The contractor had stopped work unilaterally. The critical requirement was reclamation of the land on which the other works were to be erected.

A committee was constituted for the purpose of negotiating with M/s. PIM. Their efforts resulted in the first Supplemental Agreement. Since as per the first Supplemental Agreement, the terms and conditions already agreed upon in the principal Agreement were to be modified, the consent of both the parties to such modifications was necessary. Though the Port had serious reservations about taking over the areas piece-meal, they had to agree to this with extreme reluctance as the dredging contractors would not deviate from their stand. Accordingly, Clause 17 of the Supplemental Agreement was incorporated.

In the circumstances, what has to be seen is whether the best possible terms and concessions have not been obtained by way of negotiations. Even on date, dredging is a critical item under the Project and it will not be practicable for the Port to impose any pre-condition as desired by the P.A.C. for granting extension of time beyond December, 1976.

The Consultants have revised the date of completion for the balance of the works to 1-7-1977.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA
dated 16-4-1977]

Recommendation

The Committee note that in respect of the stipulation in the original contract with the Yugoslav Firm for dumping of the dredged material at a distance of 4.5 kilometres, three departures were made at different times. Between September and December, 1970, the dredging contractor was allowed to dump 4.84 lakh cubic metres. According to Audit, this figure is 5.30 lakh cubic metres, in Vasco Bay at a distance of about one kilometre on the condition that it would be subsequently removed from there. This was, however, not insisted upon as the spoil had formed useful land for Port authorities, which fetched them considerable amounts of lease money. However, 50 per cent reduction in the contracted rate for dredging (*viz.* Rs. 4.10 per cubic metre) was made in the payments for this dredging.

Again, according to the Supplemental Agreement of January, 1972, the contractor was allowed to dump between January and September, 1973 6.73 lakh cubic metres of spoil in Baina Beach at an average distance of 2.15 kilometres with some reduction in rate, and another 4.5 lakh cubic metres of spoil in Vasco Bay at a distance of 1 kilometre without any reduction in the rate of Rs. 4.10 per cubic metre.

According to Audit, it was on account of no reduction in rate having been made in respect of the dumping at Vasco Bay and inadequate reduction in respect of dumping at Baina Beach that the Yugoslav Firm was paid an excess amount of Rs. 12.08 lakhs.

It has been pointed out by Audit that if the rates were calculated strictly with regard to the distance for which the contractor was obliged under the original agreement to dump the dredged material, the rate in respect of Vasco Bay would have worked out to Rs. 2.90 per cubic metre as compared to Rs. 4.10 per cubic metre provided in the Supplemental Agreement. The Ministry have, however,

taken the stand that the rates mentioned in the Supplemental Agreement were only allowed after hard bargaining and were reasonable under the conditions then prevailing. What causes the Committee greater concern is the fact that some of the material dumped in Vasco Bay admittedly settled down in Zone 'B' and, according to Audit, the removal of 4 lakh cubic metres of this material would cost Rs. 19 lakhs. The Committee feel that the least that the Ministry and the authorities could do was to make sure that in finalising the rate under the Supplemental Agreement this contingency was fully taken into account. The Committee cannot, therefore, see the rationale as to why in the Supplemental Agreement the rate for dredging and dumping at Vasco Bay in 1973 was kept at Rs. 4.10 per cubic metre as in the original contract even when the distance was reduced from 4.5 kilometres to about one kilometre which would have warranted reduction of rate to Rs. 2.90 per cubic metre.

As regards the dumping at Baina Beach in 1973, the Committee note that reduction of 20 per cent in rate was obtained from the contractor on account of what is termed a flow-back of that order. The Committee, however, find that even if the rate was not calculated in terms of distance for the material dumped in Baina Beach, the reduced rate on the basis of 20 per cent flow-back would work out as rightly stressed by Audit, to Rs. 3.28 per cubic metre and not Rs. 3.50 per cubic metre settled for the first 15 lakh cubic metres and Rs. 3.60 per cubic for the rest.

The Committee would like these aspects to be fully gone into and responsibility fixed for any omission to safeguard Government interest.

[S. No. 24 (paras 6.13 to 6.15) of 230th Report of PAC (Fifth Lok Sabha)].

Action taken

During the disposal of the material in Vasco Bay care was taken to see that the material so disposed did not flow back in Zone 'B'. However, inspite of necessary precautions having been taken, some quantity of the material may have entered Zone 'B'. The quality of this material and its extent is very difficult to quantify on account of the natural process of siltation which is going on. The extent of pre-dredging carried out in Zone 'B' has not increased on account of the disposal effected by the contractor in Vasco Bay. The actual quantity dredged from Zone 'B' is approximately 6.24 lakhs cubic metres as against the approximate quantity of 10 lakhs cubic metres considered under the original Bill of Quantities under Al-

ternative 'B' of the Tender Documents. Thus the computation made by the Audit to arrive at the cost of Rs. 19.00 lakhs to remove 4.00 lakhs cubic metres of this material does not seem to be in order.

As explained earlier, the Supplemental Agreement was signed under unusual circumstances prevailing at that time. The rate of Rs. 3.50 per cubic metre was accepted as the contractor was not prepared to carry out the work at any lower rate. These matters have been gone into carefully and on full consideration of all the facts of the case, Govt. feel that Govt. interests have been as adequately safeguarded as possible and it is neither practicable nor necessary to pursue the question further.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA dated 29-4-77]

Recommendation

In respect of the dumping at Vasco Bay, the Committee find that objection to this dumping was taken by the representative of the Indian Navy on the Board of Trustees of the Mormugao Port on the ground that the Naval area was very close to Vasco Bay. The representative of the Ministry stated during evidence that "this was gone into by the Port Trust and they found that sufficient precautionary measures had been taken to prevent inflow of material into the Naval Area". The Committee would like the Ministry to examine this matter very seriously, in consultation with the Naval Authorities and the Ministry of Defence, to make sure that adequate measures have actually been taken to prevent any inflow of material into the Naval Area.

[S. No. 25 (para 6.17) of 230th Report of PAC (Fifth Lok Sabha)]

Action taken

The area where the material was discharged in Vasco Bay is far far away from the Naval area and chances of siltation in Naval area are remote. The Navy have not started any work so far, and as their vessels require much less draft compared to commercial vessels, no difficulty on account of inadequate draught is anticipated.

[Ministry of Shipping and Transport O.M. No. DAG-29/76-PDA dated 16-4-1977]

CHAPTER V

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

Recommendation

The facilities provided at the Mechanised Plant are being utilised not only by Chowgules but also by some other exporters. As per the contractor, out of Rs. 4 recovered per ton on Iron Ore handled at the plant, Rs. 1.37 would be paid to the Port Trust authorities as their share and the remaining amount of Rs. 2.63 would accrue to Chowgules who are responsible for the operation, maintenance etc. of the plant.

The Committee are informed that in terms of the contract and the decree referred to in Para 7.7 of the report the first option to acquire the mechanised plant on payment of compensation would occur in 1977.

The Committee are not satisfied with the complacent attitude of the authorities for the following reasons:

- (i) The mechanised plant is being used by a number of exporters and not by Chowgules exclusively;
- (ii) Chowgules is a monopoly house and the ownership and operation of a mechanised plant at a Major Port has to be viewed as a chain in this bigger monopoly operation. In accordance with Governments policy to contain the monopoly houses, an integrated and more comprehensive view should have been taken;
- (iii) Infrastructural facilities at Ports are normally owned and operated by Port authorities.

The Committee are of the view that if this mechanised plant had been brought under the effective control of the Port authorities several years earlier, they would have gained valuable first hand experience and insight into its working and Economics, and would also have been enabled to settled on a more realistic basis the capacity and design of the New Mechanised Plant which is being installed at an enormous cost and which on present showing be utilised only to the extent of 31 per cent of its capacity.

The Committee stress that Government should lose no further time in appointing an expert group which should go into all aspects of the working of this privately owned mechanised plant in the context of the new Government owned mechanised plant with a larger capacity for handling of iron ore, the prospects of export of ore including manganese ore, the financial implications of having to pay compensation for a plant which has already done eighteen years of service etc.

The Committee would like to be informed in detail of the findings of the expert group and the decision taken by Government in the matter.

[S. No. 27 (Para 7.7 to 7.9) of the 230th Report of PAC
(Fifth Lok Sabha)]

Action taken

The operation of the Plant is governed by the Decree Law In terms thereof, M/s. Chowgules have a share of 60 per cent and two other exporters have equal share in the remaining capacity i.e. 20 per cent each.

The question of the takeover of the plant for operation by the Port is now under consideration.

[Ministry of Shipping & Transport O.M. No. DAG-29/76-PDA
dt. 16-4-1977]

NEW DELHI;
March 29, 1978
Chaitra 8, 1900 (S)

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

CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Department concerned	Recommendation
1	2	3	4
1	1.4	Ministry of Shipping and Transport	The Committee require that final replies duly vetted by Audit to those recommendations/observations in respect of which only interim replies have so far been furnished, should be submitted expeditiously.
2	1.8	—Do—	<p>The Committee do not feel enthused with the reply of the Government in regard to concomitant economic activity generated to sustain and strengthen the new port of Mormugao. The Committee expect that the report submitted by the National Council of Applied Economic Research for estimating the prospective trends of traffic would be examined expeditiously and decision taken to plan out future course of action for achieving the original estimates of anticipated traffic through this port, so that facilities which have been set up at enormous cost do not remain unutilised.</p> <p>The Committee welcome the proposal to set up the Port hinterland Development Committee and hope that its suggestions to improve port traffic will be implemented with the requisite amount of seriousness by the Central as well as the State Governments.</p>

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I. 11

—Do—

The Committee note that according to the contractor, material to be dredged was found to be different from that specified in the Tender Documents in 12 to 14 per cent locations. It is not understood how the Government, in the absence of any investigations, would verify the correctness of the contractor's claim. As the controversy over soil conditions has been responsible for protracted delays in the completion of the dredging programme and additional payment of Rs. 10 crores, the Committee reiterate their earlier recommendation that an expert group may be set up to go into the entire matter of soil specifications for this project particularly with a view to investigate whether the location of bore-holes as given out originally by the consultants and the execution thereof and compilation of data and analysis by M/s. Cementation were really adequate. It is pertinent to point out in this context that this very firm has come in for adverse notice of the Committee in the cases of Naval Dockyard, Bombay and Haldia Dock Project.

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I. 14
and
I. 15

-Do-

The Committee do not agree with the Government's view that 'there was no question of agreeing with the contractor to any new rate for carrying out the balance work of dredging except reiterating the various provisions as contained in the Principal Agreement further amplified under the Supplement Agreement' particularly when the Yugoslav firm had earlier created difficulties by stopping all works at site. The Committee are firmly of the opinion that if the authorities had shown some business prudence that was expected of them, they would have utilised the Supplemental

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Agreement as an opportunity of settling the rates of dredging the harder soil as distinct from the ordinary soil in more specific terms so as to avoid any ambiguity and odium of overpayment.

No doubt with the establishment of Dredging Corporation of India, the need for entering into dredging agreements would progressively go down. Yet, the possibility of awarding dredging work to foreign parties in future could not be altogether ruled out. The guidelines would come handy if and when any foreign contract is entered into in future. The Committee therefore reiterate that guidelines should be laid down in order to prevent ambiguities of this nature creeping into dredging contracts.

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Ministry of Shipping
Transport

The Committee regret to note that according to the terms of the agreements, arbitration is not possible during pendency of work if the contractor refuses arbitration. This helpless situation in regard to the specific contract under comment underlines the need for issue of guidelines for entering into agreements with the contracting firms which has been elsewhere reiterated in this Report.

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I.21

-do-

The Committee are not convinced with the position taken by the Government that the delays in providing facilities to the contractor were 'not excessive' and as such "holding an investigation into the matter would not serve any purpose". In view of the fact that

these delays have potential financial implications to the extent of about Rs. 1 crore as claim from the contractor as also of the fact that the authorities had waived the penalty of Rs. 40 lakhs to which the contractor appears to have been liable for non-completion of the work in time, the Committee reiterate their original recommendation that the matter may be got investigated, with a view to fixing responsibility.

7. 1.24 -Do-

This is an instance of the lack of firmness on the part of the authorities who failed to insist on the contractual obligation of the contractor for maintenance of the dredged areas handed over to the Port Trust as and when completed in parts. This has resulted in the Government being saddled with the responsibility of redredging these areas of drifting silt during the course of the dredging operations in other areas. **Now that the harm is done** and the Government have no remedy against the contractor, the Committee can only hope that such situations involving irreparable loss to Government would not be allowed to recur.

82

