

**PUBLIC ACCOUNTS COMMITTEE  
(1978-79)**

(SIXTH LOK SABHA)

**HUNDRED AND SIXTH REPORT**

**MINISTRY OF DEFENCE**

**[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 48th Report (Sixth Lok Sabha)]**



*Presented in Lok Sabha on 21 December 1978*

*Laid in Rajya Sabha on 21 December 1978*

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NEW DELHI**

*December, 1978 / Agrahayana, 1900 (S)*

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**PUBLIC ACCOUNTS COMMITTEE**  
**(1978-79)**

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**SECRETARIAT**

1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri Bipin Behari—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Sixth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Forty-Eighth Report (Sixth Lok Sabha) on Paragraphs 28 and 53 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services).

2. On 31 May, 1978, 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 P. V. Narasimha Rao—*Chairman*
2. Shri Asoke Krishna Dutt—*Convener*
3. Shri Vasant Sathe
4. Shri M. Satyanarayan Rao
5. Shri Gaurishankar Rai
6. Shri Kanwar Lal Gupta

} *Members*

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 8 December, 1978. The Report was finally adopted by the Public Accounts Committee (1978-79) on 16th December, 1978.

4. For facility of reference the conclusions and recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience the conclusions and recommendations 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 and Auditor General of India.

NEW DELHI:  
December 16, 1978  
Agrahayana 25, 1900 (S).

P. V. NARASIMHA RAO,  
*Chairman,*  
*Public Accounts Committee.*

## CHAPTER I

### REPORT

1.1. This Report of the Committee deals with the action taken by Government on the conclusions or recommendations of the Committee contained in their 48th Report (Sixth Lok Sabha) presented to the Lok Sabha on 23rd December, 1977, on paragraphs 28 and 53 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services).

1.2. Action Taken Notes in respect of all the 11 conclusions or recommendations contained in the Report have been received from the Government and these have been categorised as follows:—

(i) *Conclusions or Recommendations that have been accepted by Government:*

S. Nos. 5 and 6.

(ii) *Conclusions or Recommendations which the Committee do not desire to pursue in view of the replies received from Government:*

Sl. Nos. 1, 2(i) to 2(viii) and 2(x), 3, 4, 9 and 10.

(iii) *Conclusions or Recommendations replies to which have not been accepted by the Government and which require reiteration:*

Sl. Nos. 2(ix) and (xi), 7, 8 and 11.

(iv) *Conclusions or Recommendations in respect of which Government have furnished interim replies.*

NIL

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

Loss in transportation of refined groundnut oil for Defence [Paragraph 1.68 (ix) and (xi)—S. No. 2].

1.4. Commenting on the delay in settlement of Railway claims and regularisation of losses suffered as a result of loss during transit by rail between the points of loading and destination of 627 tonnes

of refined groundnut oil valued at Rs. 76.31 lakhs out of a total quantity of 10,559 tonnes costing Rs. 11.37 crores actually purchased by the Army during June-September, 1974, the Committee in paragraph 1.68 (ix) and (xi) of the Report had observed as follows:—

“1.68 (ix) Upto January 1977, the Ministry of Defence have preferred upon the Railways claims of the value of Rs. 35.20 lakhs on this account, out of which Railways have accepted claims of the value of Rs. 2.74 lakhs only.”

1.68 (xi). Although the transaction relates to the period of September, 1974, the losses have not so far been fully regularised.”

1.5. In a note dated 14 July, 1978, the Ministry of Defence have stated as follows:

“1.68 (ix) Upto 1st December, 1977, claims amounting to Rs. 45.89 lakhs have been preferred on the Railways. The position as on 1st December, 1977 is as under:—

---

(a) Claims preferred on the Railways . . . . .	45.89 lakhs
(b) Claims accepted by the Railways . . . . .	2.86 lakhs
(c) Claims rejected by the Railways . . . . .	29.24 lakhs
(d) Claims still under correspondence . . . . .	13.89 lakhs

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2. The necessity of early settlement of outstanding Railway claims has been emphasised on various consignee depots/lower formations on 17th June, 1976, 3rd Feb. 1977, 17th Nov. 1977, 18th March, 1978 and 2nd May, 1978 and some senior officers have visited the office of Railway authorities for early finalisation of all outstanding Railway claims. The rejected claims are treated as normal loss in transit and regularised under orders of competent financial authorities.

“1.68 (xi) The regularisation of losses is to be processed as per the procedure laid down in Rules and Regulations. According to various orders existing on the subject, depending upon the nature and volume of loss, there are various officers in the chain of demand as competent financial authorities for according ‘writing off’ sanctions.



Although these officers are empowered to exercise their discretionary powers after applying their prudent judgement based on merits of each case, yet perforce they are obliged to obtain the advice of their associated financial authorities and lower formation commander. Besides, no regularisation action can be initiated by Defence authorities until the claims raised against the Railways are finally accepted or rejected by them. As already stated in reply to the observation at para 1.68(ix), claims amounting to Rs. 13.79 lakhs are still outstanding with the Railways and awaiting finalisation.

Despite all these handicaps settlement of claims is being vigorously progressed. Lower formations and units have been instructed on 17th June, 1976, 3rd Feb., 1977, 17th November, 1977, 18th March, 1978 and 2nd May, 1978, to speed up the progress and get all the losses regularised with least possible delay."

1.6. From the reply of the Government, the Committee note that after the presentation of their Report (23 December, 1977), further claims of the value of Rs. 10.69 lakhs have been preferred on the Railways aggregating to Rs. 45.89 lakhs out of which Railways have till now accepted in all claims of the value of R. 2.83 lakhs only with a nominal gain of Rs. 0.12 lakhs over the previous figures of Rs. 2.74 lakhs during this period. Claims still under correspondence amount to Rs. 13.79 lakhs, the rest (Rs. 29.24 lakhs) having been rejected by the Railways. While the Committee appreciate the action of the Ministry of Defence in stressing urgency of the matter on various consignee depots and lower formations by reminding them periodically to get all the outstanding Railway claims settled early, they feel that the progress in this regard is far from satisfactory and also makes them feel apprehensive that perhaps Defence Ministry's case for claims is not very sound.

1.7. The Committee also note that for regularisation of losses certain rules and regulations have to be followed and that regularisation of losses can be done only after the claims preferred on the Railways are either accepted or rejected by them. Nevertheless, the Committee would impress upon the Government the necessity of getting all the outstanding Railway claims settled early by personal contacts and meetings at higher level and also getting the losses regularised simultaneously at the earliest.

*Purchase of stores for the troops on a centralised basis (Paragraph 2.71—Sl. No. 7)*

1.8. In paragraphs 2.70 to 2.75 of the Report, the Committee had dealt with the working and functioning of the Canteen Stores Department which is being run as a Government commercial undertaking under the Ministry of Defence, trading in foodstuff, liquor, household requisites, etc. for sale to the troops at a price cheaper than the prevailing market price in and near their lines through Unit Canteens run with regimental funds. The Committee had made the following observations in paragraph 2.71 regarding procurement of stores for the troops by two different agencies of the Government—the Chief Director of Purchase in the Ministry of Agriculture and the Canteen Stores Department:

“The Committee find that at present two agencies of the Government are procuring stores for the troops—the Chief Director of Purchase in the Ministry of Agriculture as also the Canteen Stores Department of the Ministry of Defence. They feel that it should be economically advantageous to entrust procurement of stores for the troops to a single agency. They understand that the question of purchase of stores for the troops on a centralised basis by a single agency is under the consideration of Government. They would like that decision in the matter should be taken without avoidable delay.”

1.9. In their reply dated 5-8-1978, the Ministry of Defence had stated as follows:

“The responsibility for procurement of foodstuffs supplied free to the troops as a part of their rations is entrusted to the Army Purchase Organisation (APO) under the Department of Food in the Ministry of Agriculture and Irrigation. This is an obligation on the part of the Government. On the other hand, the Canteen Stores Department (CSD) under the Ministry of Defence supplies consumer items to the troops on payment basis purely as a welfare measure. The Canteen Stores Department is run on commercial lines.

The question of placing the APO under the Ministry of Defence has been considered at length from time to time. Under the existing “Allocation of Business Rules” the responsibility for the purchase of foodstuffs for civil

and military requirements and their disposal rests with the Department of Food. It was, however, decided in the two meetings held on 30-7-1976 and 17-8-1976 (proceedings attached as Annexure 'A' and 'B' at pages (40—43) that the purchase of tinned milk/whole milk powder and ration rum would be taken over by one agency, viz., CSD, as a trial measure. The result of this measure was fairly satisfactory and deliveries of the articles were made as per schedule.

However, it was decided in April, 1977, with the approval of the Raksha Mantri, to revert to the old arrangement for the following reasons:—

- (i) The bulk of the foodstuff like wheat, rice, dals etc., are procured through the Food Corporation of India which is under the Department of Food and, therefore, more amenable to the authority and control of that Department.
- (ii) Commodities like sugar and vanaspati can be more easily and efficiently procured by the Director of Sugar and Vanaspati which is also under the Department of Food.
- (iii) The administration of the Acts, Control Orders and Rules relating to foodstuff also rests with the Department of Food, and therefore, they are in a better position to enforce them.
- (iv) It is not desirable to have the indenting, procurement and quality control authorities under the same Ministry.
- (v) The Ministry of Agriculture and Irrigation Department of Food, have the necessary organisation and expertise to supervise the procurement of foodstuff and these will not be available if the Ministry of Defence take over the task from the former.

It may be pointed out here, that, as far as Government is concerned, i.e., the supply of rations to the troops the procurement is entrusted to a centralised agency, viz., Army Purchase Organisation under the Ministry of Agriculture and Irrigation, Department of Food. The other agency, viz., the Canteen Stores Department under

this Ministry supplies consumer items to the troops on payment basis and therefore, the functions of these two agencies can hardly be combined."

1.10. The Committee, in paragraph 2.71 of their original Report expressed a feeling that it would be economically advantageous to entrust procurement of stores for the troops to a single agency. The Defence Secretary had also, during evidence earlier, appreciated the merit of the proposal of the Committee and had assured that it was under consideration. From the reply to this recommendation furnished by the Ministry the Committee learn that the purchase of tinned milk and whole milk powder and rationed rum was taken over by one agency, viz., Canteen Stores Department, as a trial measure and that "that result of this measure was fairly satisfactory and deliveries of the articles were made as per schedule." They are, however, constrained to find that in April 1977 it was decided to revert to the old arrangement. The Committee are at loss to understand as to why the new arrangement was reversed when it was working fairly satisfactorily. The Committee reiterate that the existence of two parallel agencies for procurement of stores for the troops under two different Ministries is unnecessary and wasteful. Either of the organisations, namely, Canteen Stores Department of the Ministry of Defence or the Army Purchase Organisation of the Ministry of Agriculture can make the entire purchase of common articles notwithstanding the subtle distinction sought to be made between the purchase for supply of rations and that for commercial issue. The Committee would, therefore, like the Ministry of Defence to reconsider the decision of April 1977 reverting to the old arrangement.

*Irregularities in the purchase of rum for troops (Paragraphs 2.72  
Sl. No. 8)*

1.11. Expressing displeasure over the gross irregularities committed in the purchase of rum for troops by the Canteen Stores Department, the Committee had made the following observations in paragraph 2.72 of the Report:

"The Committee find it strange that although contracts for the supply of rum at prices negotiated previously were concluded with 13 firms during March-April, 1974 for supplies to commence almost immediately, all the 13 firm sought increases in prices ranging from Rs 5.50 to Rs. 9.50 per dozen bottles on grounds of escalation of cost of production. This was done even before the commencement of supplies. Stranger still is the fact that so

soon after concluding the contract, on the basis of negotiated prices, Government found the demand for price rise "reasonably genuine". It is hard to believe that the rise in prices of fuel, packing material etc., was so sudden that it could not be visualised during negotiations preceding the conclusion of contracts. The Committee are unable to appreciate the plea advanced by Government for not invoking the Risk Purchase Clause in the contracts with the firms on the ground that the default was not isolated and all the 13 firms were involved and that litigation would have resulted in supplies being delayed resulting in loss of business. The lack of ordinary prudence on the part of the Department is indicated by the fact that at the time of re-negotiating the prices in June, 1974, the requirement was cut down from 2 years' supplies to 1 year's supply on the ground that 'there was rising trend in prices'. Instead of calling for fresh tenders for supplies during 1975-76 the prices were re-negotiated again in 1975 resulting in their further escalation. The Committee have a feeling that the firms having monopoly position in respect of their own brands of rum had deliberately created such a situation where Department found it difficult to extricate themselves from the deal. Department, being the largest single buyer of rum, should have been able to influence the price rather than be guided by the prices preferred by the firms themselves. The Committee would like Government to have a fresh look into the circumstances leading to the refusal of the firms to supply rum at the contracted prices, non-invocation of the Risk Purchase Clause in the contracts against the firms and subsequent negotiations as a result of which higher prices were allowed to these firms. This is evident from the fact that as against the purchase price of Rs. 6.98 crores contracted for the procurement of 21.04 lakh dozen bottles of rum a sum of Rs. 8.25 crores had to be paid."

1.12. In a note dated 5 August, 1978, the Ministry of Defence have stated:

"On the basis of tender enquiries floated by the CSD (I) (now renamed CSD) in December 1973 to various distilleries for the supply of rum during the years 1974-76, the Board of Administration negotiated with the representatives of the concerned distilleries on 10 January,

1974. The recommendations made by the Board of Administration on the basis of these negotiations were approved by the Executive Committee in their special meeting held on 18 February, 1974. The contracts were thereafter prepared and sent to the distilleries for their signatures and return by 31 March, 1974. Some of the distilleries signed the contracts, but at the same time requested for rise in price due to the abnormal rise in the cost of material like bottles, fuel oil, pilfer proof caps, labels, packing material and various other overheads during the period January to March 1974. This will be amply borne out by the cost of living index which rose from 264 in January 1974 to 275 in March 1974. In the circumstances the demand of the distilleries for price rise was considered to be reasonably genuine. The rates given in the contract were those which were negotiated with the distilleries on 9/10 January 1974 and not those prevailing at the time of signing the contract towards the end of March 1974 when the cost of living had risen by 11 points upto March 1974 and was continuously rising even thereafter. This rise in prices could not be visualised in the beginning of January 1974 when the negotiations were held.

The possibility of invoking the risk purchase clause in the case of those distilleries, who had signed the contracts was examined. It was not considered advisable to invoke the risk purchase clause for the reasons given below:

- (a) By invoking the risk purchase clause the CSD would have to purchase rum of brands, which were unknown to the Army. There was, therefore, a risk in investing the money in such transactions as the troops might have refused to purchase those brands with consequent loss to CSD besides leading to a lot of complaints from the troops.
- (b) State Governments have granted excise concession on rum sold to troops through CSD. In the civil market the stocks held by the firms are pre-excise duty paid. In case CSD had procured rum from them, they would have had to pay excise duty at enhanced rates, which the distilleries would not have agreed to bear.

- (c) CSD purchases rum from such distilleries, which are periodically inspected by the Army Medical authorities from health and hygiene point of view. This was not possible to ensure if CSD had purchased rum from the civil market which would have been a health hazard for the troops.
- (d) CSD enforces quality control of rum on the Distilleries, by drawing periodically samples of rum at random and having them analytically tested by the Army Food Laboratories. The cost of these tests as well as of the samples drawn is borne by the suppliers. Rum which is found by the Army Food Laboratory is not conforming to ISI Specification is not purchased by CSD from the distilleries. Such quality control would not have been possible by purchasing rum from the civil market.
- (e) The demand of distilleries for increase in the rates being genuine, legal complications would have arisen in claiming from the distilleries, the difference between the actual cost of rum purchased from the civil market and that mentioned in the contract. Besides, this would have jeopardised the good relations existing between CSD and suppliers who had signed the contract in good faith.

Due to the rising trend in prices of raw material the distilleries were not prepared to go in for a two years' contract at the rates prevailing at the time of negotiations. The period had, therefore, to be reduced to one year. However, to ensure that that the distilleries did not ask for enhancement in prices during the period upto June 1975, an undertaking was obtained in this respect from the supplies at the time of negotiations in June 1974 and this was duly honoured by them.

Tenders were not called for by CSD in June 1975 as the suppliers of the brands of rum, usually procured by CSD, were the same, who had earlier signed the contracts for supply of rum for a period of two years. Therefore, to avoid wastage of time and unnecessary correspondence with the suppliers the Board of Administration felt that it would be better to call the suppliers for negotiations to continue supplies at the existing rates till they completed the full contracted quantity

for the period ending March, 1975. Besides, calling of fresh tenders would have no doubt, resulted in the suppliers quoting higher rates in view of the increased cost of living between May, 1974 and May, 1975. During this period the cost of living index went up by 33 points, i.e., from 294 to 327.

With effect from 15-12-1975 a provision has been made in the contract form itself, requiring the suppliers of rum to deposit in cash or through a bank guarantee an amount to cover 24 per cent. of the cost of contracted quantity per year by way of security deposit towards the fulfilment of the contract. If a supplier fails to deposit this amount within a reasonable time, the amount is deducted from the initial payment(s) made to the distillery for the supplies effected.

It may be kept in view that CSD sell rum and do not procure rum for free issue. Therefore, they have to procure those brands which are demanded by the consumers and those which have sale potential. The rise in retail cost per bottle, unit in which it is sold, varied from 46P per bottle to 53P per bottle only. There were no complaints regarding rise in prices from the troops. However, there were persistent complaints of non-availability of rum during April/June, 1974."

1.13. From the reply furnished to the Committee's recommendation in para 2.72, the Committee are left with the impression that the officers concerned were more interested in looking to the interests of suppliers of rum than to the interests of the Department. Specially noteworthy is their proclaimed anxiety not to "jeopardise the good relations existing between CSD and the suppliers." The Committee would like to underline the fact that a sum of Rs. 1.27 crores was paid to the contractors over and above the contracted prices for the procurement of rum and the contractual obligations on the part of the suppliers were deliberately not enforced. The Committee reiterate that it is a fit case for proper investigations being made at appropriate level into the performance and conduct of officers who allowed such a situation to develop where the Department was required to pay to the suppliers Rs. 1.27 crores more than the contracted price. The Committee consider it hardly material that this extra cost was passed on to the consumers.



**Favouritism shown to a particular supplier firm (Paragraphs 2.75—Sl. No. 11)**

1.14. Commenting upon the preferential treatment accorded to a particular firm in the matter of purchase of rum from open market, the Committee, in paragraph 2.75, had observed as under:

“The Committee also note that preferential treatment was accorded to a firm ‘C’ (M/s. Central Distillery and Chemical Works, Meerut) which had not executed any contract after the original negotiation in January, 1974, by entrusting fresh supplies to it at an increased price of Rs. 6.10 per dozen bottles (which works out to 24.6 per cent over the prices previously contracted for) without an obligation of 10 per cent of the supplies being at the original rates as was done in the case of other firms. The Committee are not convinced of the reasons advanced during evidence for this preferential treatment to the firm that it was “one of the biggest distilleries with a large capacity” and the rum which they supplied was “one of the cheapest brand which we could not disregard” nor do they appreciate the reason subsequently advanced in writing that the preferential treatment was on account of the firm being a shade better in its business conduct in as much as having not signed the contract it had not committed a breach of faith whereas other firms had signed the contract and subsequently resiled from it. The Committee would like Government to emphasise upon the authorities responsible for contracting supplies that they should, as far as possible, not lend themselves to suspicions of favouritism and abuse of authority which the instances referred to above tend, to reflect.”

1.15. In a note dated 5 August, 1978, the Ministry of Defence have stated as follows:

“Unlike other Distilleries firm ‘C’ (M/s. Central Distillery and Chemical Works, Meerut) had not committed by signing the contract for supply of 90,000 dozen bottles during 1974-76 as negotiated earlier (January, 1974) due to escalation in costs subsequent to negotiations. At the beginning of negotiations with firm ‘C’ on 15-6-1974, the Board of Administration laid down certain conditions which were accepted by the representative of the firm. One of these conditions was the supply of 10 per cent of one year

quantity (i.e. 10 of 45,000 dozen bottles—4,500 dozen bottles) at the original negotiated rate of Rs. 24.75 per dozen bottles. However, later on during the negotiations, the Board of Administration, on reconsideration, felt that since the firm had not committed a breach of faith, the supply of 10 per cent of the quantity at the old negotiated rate need not be insisted upon. As the firm had not signed the contract, there was no legal binding on them on this issue.

As the brand of rum produced by the Distillery was the cheapest and it had sale potential amongst the troops, the Board of Administration decided to go in for this brand, without insisting on 10 per cent of the supplies at the original rate.

The rum contracts are negotiated by the Board of Administration consisting of Chairman, Canteen Stores Department (Major General), Commander Bombay, Sub-Area (Brigadier) and Controller of Defence Accounts (Navy) and are finalised by the Executive Committee of the Board of Control, Canteen Services whose members are the Additional Secretary, Ministry of Defence, Financial Adviser (Defence) and the Quartermaster General, Army Headquarters."

1.16. The Committee are constrained to observe that the reply furnished by the Ministry to recommendation in para 2.75 of their original Report does not erase the earlier impression of the Committee that preferential treatment was accorded to the firm 'C'. The Committee reiterate that Government may emphasise upon the authorities responsible for contracting supplies that they should, as far as possible, not lend themselves to suspicion or favouritism or abuse of authority which the instance referred to in the paragraph tended to reflect. In particular, they would like this observation to be formally communicated to all the officers associated with the deal under comment, irrespective of their rank and position.

## CHAPTER II

### RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation

The Committee learn that as against claim of Rs. 35.20 lakhs preferred on the Railways by the Army Authorities, the Railways had, according to the information furnished to the Committee in January, 1977, accepted claims of the value of Rs. 2.74 lakhs only. The Committee would like to know the latest position in regard to the acceptance of claims by the Ministry of Railways.

[Sl. No. 5 (Para 1.71) of the Appendix to 48th Report of PAC  
(6th Lok Sabha)]

#### Action Taken

Upto 1st December, 1977, claims amounting to Rs. 45.89 lakhs have been preferred on the Railways. The position available as on 1st December, 1977, is as under:—

(a) Claims preferred on the Railways	45.89 lakhs
(b) Claims accepted by the Railways	2.86 lakhs
(c) Claims rejected by the Railways	29.24 lakhs
(d) Claims still under correspondence	13.79 lakhs

[Ministry of Defence, O.M. No. F.4(1) '78/D(QS) Dated  
14th July, 1978]

#### Recommendation

The Committee note that Government have finally decided to merge the accounts of the Canteen Stores Department (I) with the Consolidated Fund of India w.e.f. 1st April, 1977. They would, however, like to place on record their displeasure at the long time, well-nigh seven years, taken in settling the modalities of merger.

[Sl. No. 6 (Para 2.70) of Appendix to 48th Report of PAC  
(6th Lok Sabha)]

**Action Taken**

The delay in taking final decision to merge the accounts of Canteen Stores Department (India) with the Consolidated Fund of India is regretted. However, the observations of the Committee have been noted for future guidance.

[Ministry of Defence O.M. No. 12(1)/78/D(Mov), Dated  
5th August, 1978]

### CHAPTER III

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

##### Recommendation

This relates to a case where out of a total quantity of 10,559 tonnes of groundnut oil costing Rs. 11.37 crores actually purchased by the Army, 627 tonnes (for 5.94 per cent) valued at Rs. 76.31 lakhs were lost. Of this, 317 tonnes (or nearly 50 per cent) valued at Rs. 38.56 lakhs were lost during inter-depot transfers and 43 tonnes (or 7 per cent) valued at Rs. lakhs were lost in storage, 267 tonnes (or 43 per cent) valued at Rs. 32.59 lakhs were lost during transit by rail between the points of loading and destination.

[Sl. No. (Para 1.67) of the Appendix to 48th Report of PAC  
(6th Lok Sabha)]

##### Action Taken

As stated in reply to point Nos. 22 and 25 to the questionnaire received from the Lok Sabha Secretariat under their O.M. No. 3|6|2|76|PAC, dated 24th December, 1976 the figures were rechecked and communicated to the Lok Sabha Sectt., vide Ministry of Defence O.M. No. F.4(17)|75|D(QS, dated 1st December, 1977. The overall losses are as follows:—

	Quantity	Value
(a) Quantity purchased . . . . .	10,593 Tonnes	12.87 crores
(b) Losses		
(i) Transit Losses receipts from ex trade . . . . .	271.619 Tonnes	12.92 lakhs
(ii) Stores losses . . . . .	43.217 Tonnes	5.25 lakhs
(iii) Transit loss of inter-depot transfers . . . . .	317.351 Tonnes	38.56 lakhs
<b>TOTAL . . . . .</b>	<b>631.587 Tonnes</b>	<b>76.73 lakhs</b>

Note: Value based on @ Rs. 12150.00 per tonne.

[Ministry of Defence O.M. No. F. 4(1)|78|D(QS) Dated  
14th July, 1978]

### Recommendation

From the facts placed before the Committee in writing as well as during evidence, the following shortcomings and lacunae have been observed:—

No ASC Specification existed for refined groundnut oil inasmuch as this was not an item of regular purchase. Therefore the ASC Specification for the supply of hydrogenated oil in 18 litre capacity square ISI marked tins was adopted for the supply of refined groundnut oil. No effort seems to have been made to lay down a proper specification for supply of groundnut oil in tins.

[Sl. No. 2, Para 1.68 (i) of Appendix to 48th Report of PAC  
(6th Lok Sabha)]

### Action Taken

1. Refined groundnut oil is not a normal item of supply to troops and except in 1974, there has never been an occasion either earlier or later when it was not possible to provide basic item of ration (oil hydrogenated) to the troops. It is therefore, unlikely that this item will be purchased for issue to troops in lieu of oil hydrogenated. As such, it was not necessary to lay down suitable specification for the supply of groundnut oil in tins.

2. However, the Technical Standardisation Committee (Food-stuffs), Ministry of Agriculture & Irrigation, Deptt. of Food, has been approached on 25th January, 1978 to frame suitable ASC Specification for refined groundnut oil.

[Ministry of Defence O.M. No. F. 4(1)78(D(QS) Dated  
14th July, 1978]

### Recommendation

In the absence of a suitable specification for the supply of groundnut oil, the quantity packed in 18 litre tins was the same as in the case of hydrogenated oil, i.e. 16.5 kg. It is yet to be verified whether the packing of 16.5 kg. of groundnut oil, which has relatively low viscosity, in 18 litre capacity tins was desirable.

[Sl. No. 2 (Para 1.68) of Appendix to 48th Report of PAC  
(6th Lok Sabha)]

**Action Taken**

There has never been an occasion either earlier or later when the refined groundnut oil was purchased except in 1974. In the absence of ASC Specification for refined groundnut oil and also lack of experience regarding handling of this commodity, the item was procured in 18 litre square ISI marked tins. The ISI authorities were requested on 8-6-1978 to intimate whether 16.5 kg. of refined groundnut oil could be filled in 18 litres square ISI marked tins. They have intimated that the corresponding Indian standard, namely IS: 916-1975 prescribes only the gross capacity of the container without any reference to the mass of the contents which could be filled into it. (copies of the correspondence exchanged are enclosed).

[Ministry of Defence O.M. No. F. 4(1)78D(QS) Dated  
14th July, 1978]

**INDIAN STANDARDS INSTITUTION**

OUR REF CMD/16:916

MANAK BHAVAN  
9, BAHADUR SHAH ZAFAR MARG,  
NEW DELHI-110002  
1978-06-20

**SUBJECT.**—*Filling of refined groundnut oil in 18 litre square ISI marked tins conforming to ISI specification No. IS: 916-1975.*

Yr. Ref: -33212/Q/ST7

Shri R N. Taneja,  
Col DD(FI)  
Supplies & Transport Directorate (ST7),  
Quartermaster General's Branch,  
Army Headquarters  
DHQ PO New Delhi-110011

Dear Sir,

The corresponding Indian Standard, namely IS: 916-1975 prescribes only the gross capacity of the container without any reference to the mass of the contents which could be filled into it. As such, we have no comments to offer on para 5 of your letter quoted above.

Yours faithfully,  
Sd/-  
(Hari Bhagwan),  
Director (Central Marks)

Telephone 374941

By Hand  
Purti aur Privahan Nideshalaya ST7  
Quartermaster General Shakha  
Supplies and Transport Dte (ST7)  
Quartermaster General's Branch  
Thal Sena Mukhyalaya  
Army Headquarters  
DHQ PO NEW DELHI-110011

8 June, 1978.

33212|Q|ST7

The Director (Marks)  
Indian Standards Institution  
Manak Bhavan  
9, Bahadur Shah Zafar Marg,  
New Delhi-110001.

**FILLING OF REFINED GROUNDNUT OIL IN 18 LITRE  
SQUARE ISI MARKED TINS CONFORMING TO ISI  
SPECIFICATION NO IS: 916-1975.**

1. You would recollect hat there were heavy losses of groundnut oil procured in 18 litre square ISI marked tins in 1974|75. Consequent to these losses, an Audit Para was framed which was discussed with PAC during July, 1976 in presence of your official.

2. As per our specification, for oil hydrogenated a net quantity of 16.5 kg. of oil hydro should be filled in 18 litre square ISI marked tins. As we had no experience of procuring refined groundnut oil either earlier or late except during 1974, advantage was taken of our specification and the groundnut oil was also allowed to be filled to the extent of 16.5 kgs. in each 18 litre ISI tins.

3. The PAC|Audit authorities have observed that cause of losses in transit may be due to excess filling of tins.

4. You are, therefore, requested to please let us know the quantity of refined groundnut oil which is permissible to be filled in 18 litre square ISI marked tins and the relevant specification.

Yours faithfully,

Sd/- (RN Taneja) Col DD (FI)  
for Purti Aur Parivahan Nideshak  
for Director of Supplies and Transport

Copy to :-

Shri A. R. Gulati.

Deputy Director (MCPD) ISI

(Verbal discussion with DD(FI) on 8th June, 1978).



### **Recommendation**

Instructions were issued in May 1974 (reiterated in August 1974) to all Command Headquarters and all Officers Commanding Composite Food Laboratories regarding handling, transportation and despatch of groundnut oil from the suppliers' factories to the depots with special emphasis on the soundness of containers, adequacy of dunnage and avoidance of transshipment as far as possible. Despite these instructions heavy losses occurred not only during transit by rail between the points of loading and destination, but also during inter-depot transfers. This shows that the instructions were not strictly followed by those responsible for handling of groundnut oil.

[Sl. No. 2, Para 1.68 (iii) of the Appendix to 48th Report of  
PAC (6th Lok Sabha)]

### **Action Taken**

It would be appreciated that the transportation of this commodity was undertaken for the first time by the Army without any previous experience or expertise. Based on instructions issued by Army Headquarters, care was taken by the concerned staff to follow the same at the time of making expeditious despatches to tide over the difficult stock position in supply depots. However, in spite of the precautions taken at the various loading points, the losses occurred due to damage to the tins while in transit, primarily due to jerks and jolts sustained during rail journey. Due to low viscosity of the product contained in the tins, pressure generated due to jerks and jolts on the seem joint could have caused leakage. Another contributing factor was the transshipment over long haulage that had to be carried out from the point of despatch to ultimate destinations spread in all parts of the country. In certain cases the stocks were moved even by road in mountaneous areas where any amount of cushioning precautions could not prevent damage/leakage to the tins. It is worth mentioning that at least 35.83 per cent of the total stocks moved had to undergo transshipment enroute. The transit losses in case of consignment which had to undergo transshipment enroute was to the extent of 3.63 per cent and for others it did not exceed 1.95 per cent.

2. All cases of losses were investigated by courts of inquiry or Boards of officers and in none of these, lack of supervision at the loading end was found to be the cause of loss.

[Ministry of Defence O.M. No. F. 4(1)78(D)(QS) Dated  
14 July, 1978]

### Recommendation

It is held that the Boards of Officers at the destination stations were not expected to inspect the quality of tins in which the oil was packed. The observations of the Court of Enquiries/Boards of Officers that 'lids of tins were not soldered properly with the result that the lids were blown open, poor soldering of the containers resulting in leakage through seams and joints, a number of tins were dented and broken, used tins were again used' are clear indications of the fact that all was not well with the tin containers. The findings of the Court of Enquiries/Boards of Officers have, however, been brushed aside on the ground that the officers constituting these boards were not experts and competent enough to assess the quality of tins.

[Sl. No. 2. Para 1.63(iv) of Appendix to 48th Report of  
PAC (6th Lok Sabha)]

### Action Taken

With reference to the observation that "the officers at the destination were not expected to inspect the quality of tins", it is clarified that this only implied that since these tins bore ISI certification mark, the quality aspect of the tins had already been catered for. On reporting of heavy losses by consignee depots, the matter was referred to the Director (Marks), ISI who stated in para 4 of his report *vide* letter No. MDD: 7:2:1, dated 31st October, 1974, (copy attached) that their investigations had brought out that "the bulk of the tins found leaking, had severe dents at the points of the leakage, thus indicating the possibility of severe strain on the tins due to hazards of transport and handling etc".

2. As regards the observations of the Courts of Enquiries/Boards of Officers that "lids of tins were blown open", it is submitted that on being approached by Army Headquarters, ISI authorities detailed their representative to visit the supplying firm to assess the above aspects. In his investigation report, ISI representative had submitted *vide* para 2(g) that "as regards the capsule joint, it was clarified by them that in the normal refined oil supply in the civilian market they mechanically put the cap intact, but for the defence purposes in addition to this a capsule was put on the top of the mouth cap and this was soldered offering double protection which they normally do only for defence supplies". (extracts from the investigation report attached).

3. In addition to the facts mentioned above, all despatches were carried out under the supervision of Station Boards of officers who had certified that:—

- (a) Only ISI tins in sound and original condition have been despatched direct from the godowns.
- (b) No leaky/dented/rusty tins have been despatched thus averting all chances of damage to tins during transit.

4. Taking into consideration the findings of Director (Marks) ISI, and his representative as brought out above, it is submitted that the views expressed by Courts of Enquiries/Boards of officers should not be given undue weightage.

[Ministry of Defence O.M. No. F. 4(1)78D(QS) Dated  
14 July, 1978]

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*Extract from Indian Standards Institution letter No. MDD/7:2:1 dated 31 Oct. 1974 from Director (Marks) AS CHEEMA TO Lt. Col. OP KAPUR Offg. DD(FI), Army Headquarters, Quartermaster General's Branch DHQ PO NEW DELHI-11.*

1 to 3.                   \*                   \*                   \*                   \*

4. As explained to you in our earlier discussions and this was also mentioned by the undersigned in the meeting of TSC-3, that ISI has been certifying 18 litre square tins for packing oil hydrogenated for Defence Supplies, for the last over 12 years and except for isolated complaints, by and large the quality of the tins supplied has been found to be satisfactory. It was, therefore, rather strange that such a problem should have arisen suddenly in the case of refined ground nut oil. On the basis of the investigation carried out so far and the discussion held, we would like to summarise the reasons for these abnormalities as follows:—

- (a) The hydrogenated oil has been transported to the Army Supply Depots generally during the winter months when it was in a semi-solid condition and the possibilities of leakage were less. The ground nut oil was, however, transported during summer months.
- (b) While transporting hydrogenated oil, suitable cushioning was provided during stacking of the tins in the Railways wagoons with adequate quantities of rice stalks which

afforded sufficient safeguard against transport hazards. In the case of ground nut oil, the rice stalks supply being not available, ground nut husk was used for cushioning purposes. This proved inadequate since during movement of wagons, the husk moved down on the floor leaving the tins unprotected against possibility of damage through transport hazards.

- (c) The number of tins stacked one above the other in the railway wagons was more than normally done in the case of hydrogenated oil; and
- (d) Notice period for manufacture and filling of tins with the oil was rather short. A good number of tins were found leaking from the points where the lid had been soldered after filling apparently because the soldering of lid after filling was done in a hurry.

\* \* \* \*

Our investigation report have brought out that bulk of tins found leaking had severe dents at the points of leakage thus indicating the possibility of a severe strain on the tins due to hazard of transport handling etc.

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*Extracts from investigation of complaint pertaining to 18 litre tins supplied by M/s Tungbhadra Industries Limited, Kurnool.*

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1. To investigate the above complaint, I made a visit to M/s Tungbhadra Industries on 3 Sep. 1974 and I had detailed discussions with Shri Ramakrishna Reddy and Shri Mahalingam (both of them look after the Tin Plant) and Shri R. K. Ladha, Sales Manager. When I mentioned about the complaint that in a consignment of 17,480 tins of refined groundnut oil supplied by them to the Composite Food Laboratory, many were found leaking, they mentioned that they have supplied and are supplying refined groundnut oil to Composite Food Laboratory packed in ISI 18 litre tins produced in their Tin Plant. It was clarified by them that since they were making use of tins produced in their own plant that they were not embossing the name of manufacturer of the tins separately since that indication was already appearing as a manufacturer of refined oil (TIL, Kurnool).

2. During the discussion, the following points emerged:—

- (a) It was pointed out by them that according to the usual procedure each and every consignment of refined ground-nut oil packed in ISI marked 18-litre tins is examined by the defence inspector from the Composite Food Laboratory. As per the inspection procedure the inspector examines each and every tin of each consignment for defect such as leakage, dented tins, rusted tins and the defective tins are segregated. According to the agreement between the supplier and the defence authorities upto 10 per cent defects are replaceable. If defects are observed in more than 10 per cent of the tins then the entire lot is rejected. They stated that for each lot of 50 tons comprising of 3030 tins, they normally offer 3040 tins (10 tins extra) to take into account the replacement of defective tins. They also stated that in the recent past in all the inspections carried out, never there was an occasion for the rejection of the entire consignment and usually the 10 tins extra took care of the replacement requirements. This I later on got confirmed from the Defence Inspector who was carrying out inspection at the loading point.
- (b) In view of the above type of inspection, according to them no tin with leakages or dent or rust is allowed to be loaded in the railway wagons by the defence despatcher.
- (c) They attributed the leakage of the tins are the receiving end as due to the number of handlings and also due to mechanical impact during transportation by railway wagons, and during loading and unloading operations. It was also pointed out by them that previously the defence personnel used to load in wagons tins one above the other upto 5 heights and that they have now started keeping only 3 heights. Further, previously they used to keep on the top-most layer only few tins without forming a complete layer and thereby giving scope for the toppling of those tins. Accordingly to them the stacking of tins over a number of heights increases the strain on the lower-most layer of tins leading to possible leakage after some mechanical stress.

- (d) It was also pointed out by them that they were using ordinary quality tins for civilian consumption and there was not much leakage even in them due to proper handling and lorry transport and packing only 15.5 kg per tin. It appears that there is a Government of India ruling that the tins of refined oil should not contain more than 15.5 kg. net per tin and that all manufacturers pack only 15.5 kg. as against 16.5 kg. packed for defence requirements.
- (e) As regards handles coming out, they stated that such happenings were possible only when the stress on handle was beyond 40 kg. This is according to them happening when the workers during loading of the tins carelessly hit the top portion of the tins against some frames or other obstructions.
- (f) As regards the fixing on the handles diagonally, it was stated that this practice had been followed both for defence as well as civil requirements to facilitate handling. With the diagonal handle when the tin is lifted, bottom corner comes in a convenient position for lifting by hand.
- (g) As regards the capsule joint, it was clarified by them that in the normal refined oil supply in the civilian market they mechanically put the cap intact, but for the defence purposes in addition to this a capsule was put on the top of the mouth cap and this was soldered offering double protection which they normally do only for defence supplies.

3. I took the opportunity of my visit to find out the quality of the tins and for this purpose I drew three tins from the production of 25 Aug. 1974 and all the three tins passed in Air Pressure Test, Handle Pull Test and Hydraulic Pressure Test.

4. The soldering was done by hand operation and they are using SN45 Grade non-antimonial solder, supplied by Quality Metal Suppliers, Bombay.

5. I also visited the godown where the Defence authorities do the final inspection and also do the loading in railway wagons. In this godown I found lot of oil on the floor and I also found a few tins with leakage. They explained to me that even if one tin leaked, it was sufficient to create a messy floor in view of the non-drying properties of the oil. The tins which were leaking were found among 8 tins rejected by the Defence inspector.

6. We have received samples of two 18-litre tins pertaining to this complaint as sent by BNBO. One of the tins has hole drilled near the bottom seam to drain the oil. In the other tin there is a small hole at one of the corners where there is no seam and this hole appears in a dent which appears to have been formed as a result of the denting. These two tins have been sent to Quality Marking Scheme, Hyderabad, for testing with instructions that they should examine through air pressure test whether there is any leakage apart from these holes and then enlock these holes and subject again these tins to the hydraulic pressure test. As soon as the reports are received, the same will be sent.

7. In the light of the above it appears that the leakage of tins could have happened mainly due to poor handling and transport.

#### **Recommendation**

The suggestion of the Army Headquarters for substituting 18 litre tins by the trade pattern 1 kg tins was not given adequate consideration. The other suggestion of supplies being effected at the consignee's end by the suppliers themselves, i.e., F.O.R. destination also did not receive the attention that is deserved.

[Sl. No. 2, Para 1.68(v) of the Appendix to 48th Report  
of PAC (6th Lok Sabha)]

#### **Action taken**

1. Having observed the extent of losses in 18 litre tins, Army Headquarters had put up a proposal to obtain groundnut oil either in barrels of 200 litres or 4 kg. tins to CDP, Ministry of Agriculture, Department of Food. The whole question was discussed in a conference held on 7-9-74 and it was brought out that while 200 litre barrels of galvanised iron would be unsuitable on technical and hygienic grounds, the adoption of 4 kg. tin would entail an additional cost of Rs. 500/- per tonne. Taking this into consideration, it was decided to continue procurement in 18 litre tins, two such tins being put in a wooden crate (shook). When the consignments were despatched in a crate, the transit losses did come down.

2. The procedure adopted for taking delivery of stores from suppliers was as for all other commodities. The stores were loaded and despatched to the consignee depots under the supervision of

Board of Officers on Military Credit Note (being Government Property) to gain concessional freight from railway. The question of making suppliers themselves to make despatches was not considered as it would have been against the terms of contract and would have also added to the cost.

[Ministry of Defence, O.M. No. F 4(1) 78 D(QS),  
Dated 14th July, 1978]

### **Recommendation**

The suppliers were to provide adequate dunnage (Straw, hay, old gunny bags etc.) for packing the tins to be loaded in railway wagons. The supplies were to be packed according to ASC Specification No. 139 which provides the use of rice stalk which is normally used for cushioning purposes. However, instead of rice stalk, groundnut husk was used. The substitute use of dunnage proved inadequate as during movement of wagon the husk moved down on the floor leaving the tins unprotected against the possibility of damage through transport hazards such as shaking and jolting.

[Sl. No. 2, Para 1.68 (vi) of the Appendix to 48th Report  
of PAC (6th Lok Sabha)]

### **Action taken**

It is pointed out that ASC Specification No. 139 for oil hydrogenated does not stipulate the use of cushioning material. However, it is submitted that groundnut husk had been in use for the despatches of oil hydrogenated since 1962, *vide* Army HQ. QMG Branch letter No. 33212 Q/ST7, dated 17th April, 1962 (copy enclosed). As soon as the reports were received by Army Headquarters about groundnut husk not providing the desired protection, all concerned were instructed by Army Headquarters not to use this material as dunnage *vide* their letter No. A 56130 Q/STS of 7th August, 1974 (copy attached). These instructions contained that "dunnage used on the floor of wagons, between layers and around individual tins will be of hay, old gunny bags, paddy straws and the like".

[Ministry of Defence, O.M. No. F 4(1) 78 D(QS),  
Dated 14th July, 1978]

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No. 33212|Q|ST7  
 ARMY HEADQUARTERS  
 Quartermaster General's Branch  
 DHQ PO NEW DELHI-11  
 17th April, 1972.

To

Officers Commanding  
 All CFLs

SUBJECT.—*Despatch of Oil Hydro.*

1. It is incumbent on Inspectors carrying out despatches of oil hydrogenated that they exercise the utmost care in loading of wagons with this commodity, so that minimum loss occurs enroute.

2. A recent case brought to the notice of this HQ revealed a loss to the extent of 564 Lbs. in one wagon, as reported by the consignee. Although losses do occur during mid summer due to the oil hydrogenated being a liquid state, which during jolting or loose shunting may cause leakage from imperfect seams or even bursting of the containers due to increased internal pressure, it does not absolve the inspector of his responsibility of exercising proper skill and care in loading and ensuring that adequate dunnage and sufficient fastening material is provided by the contractor.

3. The conditions of contract governing the supply of oil hydrogenated lay down *vide* para 10 (ii) that adequate dunnage (SPM) shall be provided by the contractor. The following standard method of packing for oil hydrogenated will be adopted:—

- (a) The wagon floor will be thoroughly cleaned.
- (b) Approximately 250 Lbs. of dry hay|grass of 200 Lbs of groundnut husk will be spread evenly on the floor of the wagon (150 and 100 Lbs. respectively in case of busy wagons).
- (c) 100 lbs of the material shall be used as packing on all floor sides of the wagon.
- (d) The first layer of tins shall then be securely and tightly lashed to one another through the handles with strong rope.
- (e) A further 150 Lbs. of PM (100 Lbs. in case of MG wagons) will be used between the first and second layers of tins.

- (f) Finally 100 Lbs. of hay will be used on the top after the second layer of tins have been fastened to one another as indicated in 3 (d) above.

*Note.*—It should be ensured that the first layer of tins covers the entire floor area of the wagon. In case, the number of tins in the second layer or inadequate to cover the entire area, all vacant space will be tightly packed with straw.

- (g) Wagons loaded with Oil Hydrogenated will bear the label "NOT TO BE LOOSE SHUNTED" and the inspector i/c. despatches will ensure that these labels are securely pasted on the wagon doors.

4. These instructions will be incorporated in unit standing orders and the same specifically mentioned in the individual's movement order for strict compliance.

5. Please ack.

Sd/- (S. MADHAVAN),  
Lt.-Col. for  
Director of Supplies and TPT.

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#### MOVE/HANDLING OF REFINED GROUNDNUT OIL

Further to this HQ letter No. A.56130/Q/ST6, 22nd May, 1974.

2. Reports of heavy transit losses of refined groundnut oil have been received from various consignee depots. It would appear that instructions issued *vide* our above referred letter are not being strictly complied with. With the scale at which losses have been reported, any complacency in the enforcement of the measures prescribed is likely to subject the defaulters to disciplinary action.

3. With a view to ensuring that the losses are minimised and brought down to the lowest possible levels measures given in the subsequent paras are emphasized.

#### 4. Rail moves—

- (a) Wagons will be loaded 3 high only and no loose tins will be placed on top.
- (b) Dunnage used on the floor of wagons, between layers and around individual tins will be of hay, old gunny bags, paddy straws and the like. Groundnut husk does not provide adequate protection and will not be used.

- (c) Space between tins and side walls of the wagons will be filled up with hay|paddy straws.
- (d) Tins will be tied together in small groups and thereafter the entire contents of the wagons will be securely fastened with a strong rope capable of withstanding this load. The rope will not be passed through tin handles but around the tins.
- (e) Adequate security packing material will be used particularly near the flap doors.

5. *Road Move—*

- (a) Precautions as given for rail moves will also be taken while carrying out road moves. Vehicles will be loaded one to two high. If necessary these may be loaded only one high depending upon the road conditions. Also the speed of the convoys will be regulated so as to minimise jolting and consequent losses.
- (b) As jolting in a vehicle is unavoidable particular care will be taken in the placing of adequate dunnage both on the floor and around the containers.

6. The individuals connected with despatches will ensure that only sound containers are allowed to be loaded. Containers showing any sign of leakage|damage will not (NOT) be despatched.

7. In addition to the above, you may issue any further instructions as considered necessary. A copy of instructions issued may be endorsed to this Headquarters.

8. Please acknowledge.

C.T.C.

Sd|- (R. TIMS), Col.,

Sd|- (AM PASSI), Major  
DADS|Q|ST-7.

Dy. D.S.  
*Director of Supplies and Transport.*

NOO

Copy to:—

ST-3

ST-7

Col. Staff and Coord.

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### Recommendation

ASC Specification No. 139 also provided for cased supplies in which case the tins were to be packed in strong wooden cases conforming to standard specifications. The supplies ordered for in May—July, 1974 were, however, not required to be in cases. Only after huge losses came to be noticed that further supplies ordered for in September, 1974 were required to be in a case packing (shooks with two tins). In cased supplies transit losses were substantially less. Why were the supplies not required to be made in cases in the very first instance is a question that needs to be enquired into.

[Sl. No. 2, Para 1.68 (vii) of Appendix to 48th Report of PAC (6th Lok Sabha)].

### Action Taken

It is agreed that ASC Specification No 139 provides for cased supplies, according to which tins are required to be placed in strong wooden cases conforming to a standard specification. This was the practice being followed in transportation of oil hydro in 18-litre tins. However, for reasons of economy and taking into consideration the marginal losses in transit, this practice was discontinued about eight to ten years ago. When groundnut oil, which was accepted in lieu of oil hydro, was procured in the same 18-litre tins, the excessive losses were not anticipated and the despatches were made without tins being crated or cased. Corrective action was, however, taken once the transit losses were reported in consignments and tins were sent properly crated. The provision of wooden cases is not obligatory as indicated in the ASC specification but provision exists for its utilisation as and when requirement is felt. It will be appreciated that refined groundnut oil was being handled by the Army for the first time, and such losses could not be anticipated. Crating of tins was, therefore, not undertaken in the first instance.

[Ministry of Defence, O M. No. F 4(1) 178 D(QS), dated 14th July, 1978].

### Recommendation

The supervision of the Army authorities over the consignment came to an end when the oil tins were loaded in wagons. It was stated during evidence that care during transit was the responsibility of the railways and that "according to Railway regulations, the Military Officers were not allowed to do this." The representative of the railways, however, maintained that "if the Military authorities had thought that this consignment needed special supervision, and if they had approached us (railways) for permission, such permission would

have been given". Such permission was not asked for and, therefore, during rail transit the oil remained in the care of Railways. The responsibility for loss during rail transit is sought to be pinned on the Ministry of Railways. Why Military Supervision was not insisted upon and provided with the permission of Railways when losses were noticed for the first time requires to be enquired into.

[Sl. No. 2, Para 1.68 (viii) of the Appendix to 48th Report of PAC (6th Lok Sabha)].

#### Action taken

Under the Military Tariff Rule No. 112, the military authorities are responsible for and will perform all handling of stores and baggage in the following cases:—

- (a) Conveyed by military special trains, including transshipment at junctions and ferries.
- (b) Conveyed by ordinary trains at Military Vehicle rates, excluding transshipment at junctions and ferries.

2. The groundnut oil consignments were moved by ordinary goods train wagons under Military Credit Note and as such the question of supervision by Military authorities is not covered as brought out above. The contention railways "that if the Military authorities had thought, that those consignments needed special supervision and if they had approached us (railways) for permission, such permission would have been given", appear to be *ultra vires* to their own rules, and such statements are sought to shift the responsibility of heavy losses in transit on the Defence authorities. The railways are expected to deliver goods in the same condition as booked from the starting station and any losses arising therefrom, subject to railway rules, are recoverable from them and they cannot absolve themselves from their responsibility for not getting military supervision which is NOT normally provided to stores of similar nature, especially in covered and sealed wagons. Besides, no amount of military supervision at transshipment could preclude loose shunting, jolts and jerks to wagons which are the main factors in the loss/leakage caused due to the operation/movement carried out by railway staff. Even if a military representative is present, he cannot take advantage of any railway rule if stores are found damaged/pilfered enroute to transshipment/delivery points. Supervision under such circumstances becomes extraneous and ineffective and may prove detrimental to the interest of the Defence.

[Ministry of Defence, O.M. No. F.4(1)/78/D(QS),  
dated 14th July, 1978].

### Recommendation

Defence Secretary had stated during evidence that "the overall loss including transshipment is of the order of 2.32 per cent. It is not as if something very extra-ordinary happened in the case of Army groundnut oil alone. It seems to be the experience of the trade generally also". However, the Committee observe that according to the data furnished by the Ministry of Defence, the general pattern of trade losses experienced by the Delhi State Oil Millers Association is  $\frac{1}{2}$  per cent (on account of leakage) when groundnut oil is loaded in tins with care and proper packing is done with material like wood and bamboos etc. In cases where wagons are not loaded under the personal supervision of management and are subject to loose shunting and transshipment in between the leakage percentage ranges between 2 to 5. The losses in the current transaction were, however, much excessive, being of the order of 5.94 per cent.

[Sl. No. 2, Para 1.68(x) of the Appendix to 48th Report of PAC (6th Lok Sabha)].

### Action taken

1. In the instant case, the following quantities of oil have been reported lost:—

- (a) 271.019 tonnes while despatches were carried out ex-trade.
- (b) 317.351 tonnes while despatches were carried out from one supply depot to another supply depot (called "Inter Depot Transfers").
- (c) 43.217 tonnes—while it was in storage.

2. Defence Secretary's assessment of losses to the tune of 2.32 per cent was based on the figures of losses available at the time of evidence in respect of serial (a) above. However, the figures of losses due to "inter depot transfers" and "during storage" at serial (b) and (c) above, were not available at the time of deliberations which have now been taken into consideration by the PAC while arriving at the percentage of 5.94.

3. Taking into consideration "first time handling" of consignments and Inter Depot Transfers involved the losses in the current transaction were not excessive comparing to that of data furnished by Delhi Millers Association, i.e., 2 to 5 per cent.

[Ministry of Defence O.M. No. F.4(1)/78/D(QS) dated 14th July, 1978].

### Recommendation

The Committee are informed that in pursuance of the findings of the Courts of Enquiries/Boards of Officers convened at various depots to enquire into these losses, "action against the defaulting individuals has already been taken or will be taken". As regards the remedial measures taken to prevent the recurrence of losses during inter-depot transfers and in storage, it has been stated that "refined groundnut oil is not a normal item of supply to the troops" and that "should however, the necessity to procure refined groundnut arise in future a suitable container as approved by ISI/DFRL will be used.

[Sl. No. 3, Para 1.69 of the Appendix to 48th Report of PAC (6th Lok Sabha)].

### Action taken

The statement made is factual and no comments are offered.

[Ministry of Defence O.M. No. F.4(1)/78/D(QS) dated the 14 July, 1978].

### Recommendation

The Committee are not satisfied with the investigations made into the circumstances leading to heavy transit and storage losses of refined groundnut oil. They would like Government to set up a high-level body including *inter-alia* the representatives of the Railways and ISI to enquire into the reasons for not taking adequate precautions against possible losses during transit and storage of this commodity *abinitio* and for not taking adequate remedial measures as soon as the losses under existing arrangements came to light for the first time and fix responsibility therefor. The body should also be directed to make suggestions for the handling of this type of commodity for future guidance.

[S. No. 4 (Para 1.70) of Appendix to 48th Report of PAC (6th Lok Sabha)].

### Action taken

In depth investigations into the circumstances leading to transit and storage losses of refined groundnut oil have already been carried out by Army Headquarters. As many as 62 Courts of Inquiries and 721 Boards of Officers were set up in the Southern, Eastern, Western, Central and Northern Commands to investigate the matter in detail, including reasons for not taking adequate precautions against possible losses and whether or not timely remedial measures

were taken. The Inquiries have pin-pointed responsibility on, and awarded suitable punishments to as many as 20 personnel, the punishments ranging from rigorous imprisonment to communication of displeasure.

2. It will be appreciated that there were a large number of despatch and receipt points scattered all over the country. The Courts of Inquiries/Boards of Officers reached similar general conclusions as to the reasons for the loss in groundnut oil, as follows:—

- (a) Leakage
- (b) Inadequate security packing material (such as groundnut husk, gunny bags and plantain leaves)
- (c) Poor quality tins
- (d) Poor soldering of seams of tins
- (e) Jerks and jolts, enroute
- (f) Bad climatic conditions such as excessive heat
- (g) Loose shunting of wagons by railways
- (h) Rough and careless handling at transshipment points

3. The findings of the Courts of Inquiries/Boards of Officers from different regions in the country have been analysed for future guidance and necessary instructions based thereon are being issued to the concerned authorities in the eventuality of the Army being called upon to handle this commodity again at a future date.

4. In the circumstances, it would be appreciated that no useful purpose would be served by setting up yet another Court of Inquiry, particularly after the lapse of 4 years. Refined groundnut oil is not a basic item of supply to defence forces, and its procurement is not visualised in the foreseeable future. The PAC may, therefore, wish to reconsider their recommendation and agree to drop the suggestion for the setting up of a High Level Committee to enquire into the matter afresh.

[Ministry of Defence O.M. No. F.4(1)|78|D(QS),  
Dated 14th July, 1978]

#### **Recommendation**

The Committee would also like Government to examine whether it is feasible to purchase rum of a few different standards, specifica-



tions and qualities in bulk and to have them bottled with an exclusive name for sale to troops through the Canteen Stores Department.

[Sl. No. 9 (Para 2.73) of Appendix to 48th Report of PAC (6th Lok Sabha)].

#### **Action taken**

The rum procured by CSD is not meant for free issue to the troops. It has to be sold to the troops against payment. It is a well known fact that a customer will purchase only that article which he likes and nothing can be forced on him. Similarly CSD has to procure those brands of rum which the troops like to purchase. Brands of rum, which are not to their taste, will not be purchased by the troops and CSD, being a commercial organisation can ill-afford to have their money blocked in such transactions which may later on invite adverse comments. The rum at present purchased by CSD is of ISI Specifications/Standard only and not of different Specifications/Standards. Further CSD has neither any arrangement for bottling of rum nor is it organised to do so. CSD is only a commercial organisation, which purchases good quality and popular goods produced/manufactured by others for sale to the troops. A proposal to start a distillery by the CSD for manufacturing bottling and supply of rum to troops was examined (October 1973) by the Executive Committee of the Board of Control, Canteen Services, who did not agree to this proposal keeping in view the risk involved.

[Ministry of Defence O.M. No. 12(1)/78/D(Mov) dated 5 August, 1978].

#### **Recommendation**

The Committee find that one of the 16 firms with which the Department entered into negotiations in March, 1974 for supplies during 1974-75, was a firm (M/s Udaipur Distillery Ltd. Udaipur) which had a backlog of 1.4 lakh dozen of bottles against an earlier contract. The Committee are unable to appreciate the plea advanced by the Ministry that the brand of rum supplied by this firm was "second in popularity poll", that it was the oldest supplier to the Department and that the Managing Director had assured the Board of Administration that "he hopes to clear the backlog". The Committee feel that non-fulfilment of the existing contracted supplies by this firm was quite sizeable and before the firm was given any fresh orders for supplies, the Department should have waited for the supplies under the existing contract to be fully effected by the firm.

[Sl. No. 10(Para 2.74) of Appendix to 48th Report of PAC (6th Lok Sabha)].

**Action taken**

CSD is a commercial organisation. They have to sell the items required by the troops. They have, therefore, to keep in view the preference of troops. It is not possible to force the troops to purchase the brand they do not like. "Sohanphil" rum manufactured by firm 'A' (M/s. Udaipur Distillery Ltd.) was second in popularity. The firm could not clear the backlog earlier due to non-release of molasses and spirit to them by the Rajasthan Government which was beyond their control. Keeping this in view and the previous good relations with the firm coupled with the Managing Director's assurance to the Board of Administration for clearance of the backlog and also the popularity of "Sohanphil" rum with the troops, CSD decided to place orders with the firm (M/s. Udaipur Distillery Ltd.). Waiting for the backlog to be cleared before entering into a fresh contract would not have brought any benefit to CSD or to the clientele. The firm (M/s. Udaipur Distillery Ltd.) could not, however, supply any rum (including the backlog of 1.4 lakh dozen bottles) during the period 1974-76 as they were not allotted molasses by the Rajasthan Government during that period.

[Ministry of Defence O.M. No. 12(1)/78/D(Mov) dated 5 August, 1978].

## CHAPTER IV

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

#### Recommendation

Upto January 1977, the Ministry of Defence have preferred upon the Railways claims of the value of Rs. 35.20 lakhs on this account, out of which Railways have accepted claims of the value of Rs. 2.74 lakhs only.

[Sl. No. 2(Para 1.68(ix) of Appendix to 48th Report of PAC  
(6th Lok Sabha)].

#### Action taken

Upto 1st December 1977, claims amounting to Rs. 45.89 have been preferred on the Railways. The position as on 1st December 1977 is as under:—

(a) Claims preferred on the Railways	45.89 lakhs
(b) Claims accepted by the Railways	2.86 lakhs
(c) Claims rejected by the Railways	29.24 lakhs
(d) Claims still under correspondence	13.79 lakhs

2. The necessity of early settlement of outstanding Railway claims has been emphasised on various consignee depots/lower formations on 17th June, 1976, 3rd Feb. 1977, 17th Nov. 1977, 18th March, 1978 and 2nd May, 1978 and some senior officers have visited the office of Railway authorities for early finalisation of all outstanding railway claims. The rejected claims are treated as normal loss in transit and regularise under orders of competent financial authorities.

[Ministry of Defence O.M. No. F.4(1)/78/D(QS) dated the  
14 July, 1978].

#### Recommendation

Although the transaction relates to the period of September 1974, the losses have not so far been fully regularised.

[Sl. No. 2(Para 1.68(xi) of Appendix to 48th Report of PAC  
(6th Lok Sabha)].

### Action taken

1. The regularisation of losses is to be processed as per the procedure laid down in Rules and Regulations. According to various orders existing on the subject, depending upon the nature and volume of loss, there are various officers in the chain of command as competent financial authorities for according 'writing off' sanctions. Though these officers are empowered to exercise their discretionary powers after applying their prudent judgement based on merits of each case, yet perforce they are obliged to obtain the commander. Besides, no regularisation action can be initiated by Defence authorities until the claims raised against the Railways are finally accepted or rejected by them. As already stated in reply to the observation at para 1.68(ix), claims amounting to Rs. 13.79 lakhs are still outstanding with the Railways and awaiting finalisation.

2. Despite all these handicaps settlement of claims is being vigorously progressed. Lower formations and units have been instructed on 17th June 1976, 3rd Feb. 1977, 17th November 1977, 18 March 1978 and 2nd May 1978 to speed up the progress and get all the losses regularised with least possible delay.

[Ministry of Defence O.M. No. F.4(1)/78/D(QS) dated the  
14 July, 1978].

### Recommendation

The Committee find that at present two agencies of the Government are procuring stores for the troops—the Chief Director of Purchase in the Ministry of Agriculture as also the Canteen Stores Department of the Ministry of Defence. They feel that it would be economically advantageous to entrust procurement of stores for the troops to a single agency. They understand that the question of purchase of stores for the troops on a centralised basis by a single agency is under the consideration of Government. They would like that decision in the matter should be taken without avoidable delay.

[Sl. No. 7 (Para 2.71) of Appendix to 48th Report of PAC  
(6th Lok Sabha)]

### Action taken

The responsibility for procurement of foodstuffs supplied free to the troops as a part of their rations is entrusted with the Army Purchase Organisation, (APO) under the Department of Food in the Ministry of Agriculture and Irrigation. This is an obligation on the part of the Government. On the other hand, the Canteen

Stores Deptt. (CSD) under the Ministry of Defence supplies consumer items to the troops on *payment basis* purely as a *welfare measure*. The Canteen Stores Department is run on commercial lines.

2. The question of placing the APO under the Ministry of Defence has been considered at length from time to time. Under the existing "Allocation of Business Rules" the responsibility for the purchase of foodstuffs for civil and military requirements and their disposal rests with the Department of Food. It was, however, decided in the two meetings held on 30-7-76 and 17-8-76 (proceedings attached) that the purchase of tinned milk/whole milk powder and ration rum would be taken over by one agency, *viz.*, CSD, as a trial measure. The result of this measure was fairly satisfactory and deliveries of the articles were made as per schedule.

3. However, it was decided in April 1977, with the approval of the Raksha Mantri, to revert to the old arrangement for the following reasons:—

- (i) The bulk of the foodstuff like wheat, rice, dals etc. are procured through the Food Corporation of India which is under the Department of Food and, therefore, more amenable to the authority and control of that Department.
- (ii) Commodities like sugar and vanaspati can be more easily and efficiently procured by the Director of Sugar and Vanaspati, which is also under the Department of Food.
- (iii) The administration of the Acts, Control Orders and Rules relating to foodstuff also rests with the Department of Food, and therefore, they are in a better position to enforce them.
- (iv) It is not desirable to have the indenting, procurement and quality control authorities under the same Ministry.
- (v) The Ministry of Agriculture and Irrigation, Department of Food, have the necessary organisation and expertise to supervise the procurement of foodstuff and these will not be available if the Ministry of Defence take over the task from the former.

4. It may be pointed out here, that, as far as Government commitment is concerned, *i.e.*, the supply of rations to the troops, the procurement is entrusted to a centralised agency, *viz.*, Army Purchase Organisation under the Ministry of Agriculture and Irrigation, Department of Food. The other agency, *viz.*, the Canteen

Stores Department under this Ministry supplies consumer items to the troops on payment basis and therefore the functions of these two agencies can hardly be combined.

[Ministry of Defence O.M. No. 12(1)|78/D(Mov) dated  
5 August 1978]

#### ANNEXURE 'A'

*Minutes of the meeting held in Additional Secretary's room on the 17th August, 1976, at 3.00 p.m. to discuss the matter relating to the procurement of ration rum for Defence Services*

#### PRESENT

##### *Ministry of Defence*

Shri P. Krishnamurti, Additional Secretary—in the Chair.

Shri A. L. Venkateswaran, Joint Secretary (O).

Shri D. K. Sarker, Deputy Secretary (Q).

Shri Nachhattar Singh, Under Secretary/D (QS).

##### *Ministry of Finance (Defence)*

Shri B. K. Banerjee, Additional FA(B).

##### *Army Headquarters*

Lt. Gen. A. N. Mathur, QMG,

Brig. R. Tims, DDST,

Col. Taneja, DD(FI),

Lt. Col. Ram Chandra, CCO.

The Chairman explained that the procedure for the procurement provisioning and stocking of milk tinned/whole milk powder, i.e. as of ration Rum would broadly be the same as decided in the case of follows:—

- (i) The CSD(I) should take over the procurement of ration rum for the Defence Services.
- (ii) The ASC will pay the CSD(I) 1 (one) percent handling charges in addition to the lowest/negotiated tender rates, as fixed for different distilleries by the Board of Administration, CSD(I).
- (iii) One CDA to be nominated who will arrange payments to the CSD(I), preferably CDA (Navy), Bombay. The details in this regard would be worked out in consultation with the CGDA.

- (iv) On the basis of his experience, DST will provide necessary guide-lines to the CSD(I) for the procurement of Rum from the various manufacturers. He will also indicate the time-table for the delivery of the supplies.
- (v) The terms and conditions for the procurement through the CSD(I) would be same as those applicable to the procurement action through the CDP. These would include inspection, warranty and so on. QMG concurred.

2. As regards specifications, QMG stated that as a result of the comparison made between the ASC Specifications and ISI specifications for Rum, the medical opinion was that regular consumption of Rum with the ISI Specifications had ultimately had effects on the eyes and nerves of the consumers. Nevertheless, since in the long run, as a matter of policy, the ISI and ASC Specifications would have to be amalgamated into a common set of specifications, QMG Branch would sort out the matter with the ISI authorities. However, in the meantime, ASC Specifications would continue to be observed for the procurement of ration rum through the CSD(I).

3. As suggested by the Chairman, QMG agreed to depute a representative from the ASC to be associated with the tendering committee. The ASC Representative would give his advice relating to the location of the distillery which would be most economical for the area where the liquor was to be imported.

4. On an enquiry, the Chairman was informed by the QMG that the normal period for the procurement of Rum starts from November. The Chairman then directed that the CSD(I) should start tendering in September 1976.

Sd/-  
(Nachhattar Singh)  
Under Secretary (QS).

To

*All present*

M. of D.u.o. No. MF. C/01888/Q/ST-3/1383/S/D (QS), dated 28-8-76..

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*Minutes of the meeting held in Additional Secretary's room at 3.00 P.M. on the 30th July 1976 to discuss the question of provisioning and stocking of milk tinned/whole milk powder for the year 1976-77.*

ANNEXURE 'B'

**PRESENT**

*Ministry of Defence*

Shri P. Krishnamurti, Addl. Secretary—*In the Chair.*

Shri M. L. Dave, Joint Secretary (R&W)

Shri D. K. Sarker, Deputy Secretary (Q).

Shri Nachhattar Singh, Under Secretary (QS).

*Ministry of Finance (Defence)*

Shri B. K. Banerjee, Additional FA (B).

*Army Headquarters*

Lt. Gen. A. N. Mathur, Q.M.G.

Lt. Gen. H. S. Chopra, DST.

Col. V. S. Sharma, Dy. D.S.

Lt.-Col. Ram Chandra, C.C.O.

C.S.D. (I)

Shri V. R. Menon, Dy. Gen. Manager (Stores), CSD (I), Bombay.

Initiating the discussion the Chairman requested QMG to explain the existing procedure followed by CDP, Ministry of Agriculture & Irrigation, for the supply of Milk Tinned/Whole Milk Power.

2. The QMG explained that under existing arrangements, Army Hqrs. (ST. Dte.) place indents for the supply of Milk Tinned Whole Milk Powder on CDP for procurement. After acceptance of tenders by the CDP, the Food Inspection Unit inspects the stocks at manufacturers' premises to ensure that the stocks conform to ASC specifications. The stocks are then despatched to the various depots. The checks of consignments received at the Depots are also carried out to further ensure quality.

3. It was noted that the CDP is exclusively concerned with purchases for Defence Services only. If the CSD (I) were to purchase the milk instead of the CDP, the QMG suggested that the same procedure as followed by the CDP in regard to indenting, tender action, inspection etc. will continue to be followed into by CSD (I) on whom the ST Dte. will raise the indents. QMG confirmed that the same departmental charges of 1 per cent of purchase price as paid to the CDP, if paid to the CSD (I), will meet the requirement. On a query from Addl. FA (B), it was confirmed on behalf of the CSD (I) that the proposed purchase of milk tinned/whole milk powder will be arranged from their existing manpower resources.



4. After further discussion, the following decisions were taken:—

- (i) The CSD(I) should take over the procurement of 1160 tonnes of milk tinned and 1670 tonnes of whole milk powder. The balance/carried forward quantities of milk tinned/whole milk powder for which tenders have already been floated by the CDP will be procured through CDP under the existing system.
- (ii) ASC will pay to CSD(I), 1 per cent handling charges in addition to the tendered rates.
- (iii) One CDA to be nominated who will arrange payment to the CSD(I) preferably the CDA(N), BOMBAY. The details in this regard will be worked out in consultation with DGDA.
- (iv) On the basis of his experience, QST will provide necessary guidelines to the CSD(I) for the procurement of Milk Tinned/Whole Milk Powder to ASC from various manufacturers. He will also indicate to the CSD(I) the time schedule for the delivery of the supplies.
- (v) The CSD(I) should start negotiating tenders immediately to enable the troops to have regular supply of the Milk Tinned/Whole Milk Powder. Moreover, the manufacturers should also get ample time to arrange for the required supply.
- (vi) CSD(I) should take note that the flush season of availability of Milk Tinned/Whole Milk Powder is September to March and procurement should be done during this period in the interest of favourable rates.
- (vii) The terms and conditions of procurement through the CSD(I) will be exactly the same as are applicable to the procurement action through the CDP. This includes inspection, warranty clause and so on.

Sd/- (NACHHATTAR SINGH)

Under Secretary

7-8-1976

To

*All present*

Min. of Def. u.o. No. F/C|01907|76-77|ST-3|1305-S|D(QS) dated 7-8-1976.

### Recommendation

The Committee find it strange that although contracts for the supply of rum at prices negotiated previously were concluded with 13 firms during March-April, 1974 for supplies to commence almost immediately, all the 13 firms sought increases in prices ranging from Rs. 5.50 to Rs. 9.50 per dozen bottles on grounds of escalation of cost of production. This was done even before the commencement of supplies. Stranger still is the fact that so soon after concluding the contracts on the basis of negotiated prices, Government found the demand for price rise "reasonably genuine". It is hard to believe that the rise in prices of fuel, packing material etc., was so sudden that it could not be visualised during negotiations preceding the conclusion of contracts. The Committee are unable to appreciate the plea advanced by Government for not invoking the Risk Purchase Clause in the contracts with the firms on the ground that the default was not isolated and all the 13 firms were involved and that litigation would have resulted in supplies being delayed resulting in loss of business. The lack of ordinary prudence on the part of the Department is indicated by the fact that at the time of renegotiating the prices in June 1974, the requirement was cut down from 2 years' supplies to 1 year's supply on the ground that 'there was rising trend in prices'. Instead of calling for fresh tenders for supplies during 1975-76 the prices were renegotiated again in 1975 resulting in their further escalation. The Committee have a feeling that the firms having monopoly position in respect of their own brands of rum had deliberately created such a situation where Department found it difficult to extricate themselves from the deal. Department, being the largest single buyer of rum, should have been able to influence the price rather than be guided by the prices preferred by the firms themselves. The Committee would like Government to have a fresh look into the circumstances leading to the refusal of the firms to supply rum at the contracted prices, non-invocation of the Risk Purchase Clause in the contracts against the firms and subsequent negotiations as a result of which higher prices were allowed to these firms. This is evident from the fact that as against the purchase price of Rs. 6.98 crores contracted for the procurement of 21.04 lakh dozen bottles of rum a sum of Rs. 8.25 crores had to be paid.

[Sl. No. 8 (Para 2.72) of Appendix to 48th Report of PAC  
(6th Lok Sabha)]

### Action taken

On the basis of tender enquiries floated by the CSD(I) (now renamed CSD) in December 1973 to various distilleries for the

supply of rum during the years 1974—76, the Board of Administration negotiated with the representatives of the concerned distilleries on 9/10 January, 1974. The recommendations made by the Board of Administration on the basis of these negotiations were approved by the Executive Committee in their special meeting held on 18th February, 1974. The contracts were thereafter prepared and sent to the distilleries for their signatures and return by 31st March 1974. Some of the distilleries signed the contracts, but at the same time requested for rise in price due to the abnormal rise in the cost of material like bottles, fuel oil, pilfer proof caps, labels, packing material and various other overheads during the period January to March 1974. This will be amply borne out by the cost of living index which rose from 264 in January 1974 to 275 in March 1974. In the circumstances the demand of the distilleries for price rise was considered to be reasonably genuine. The rates given in the contract were those which were negotiated with the distilleries on 9/10 January 1974 and not those prevailing at the time of signing the contract towards the end of March 1974, when the cost of living had risen by 11 points upto March 1974 and was continuously rising even thereafter. This rise in prices could not be visualised in the beginning of January 1974 when the negotiations were held.

2. The possibility of invoking the risk purchase clause in the case of those distilleries, who had signed the contracts was examined. It was not considered advisable to invoke the risk purchase clause for the reasons given below:—

- (a) By invoking the risk purchase clause the CSD would have to purchase rum of brands, which were unknown to the Army. There was, therefore, a risk in investing the money in such transactions as the troops might have refused to purchase those brands with consequent loss to CSD besides leading to a lot complaints from the troops.
- (b) State Governments have granted excise concession on rum sold to troops through CSD. In the civil market the stocks held by the firms are pre-excise duty paid. In case CSD had procured rum from them, they would have had to pay excise duty at enhanced rates, which the distilleries would not have agreed to bear.
- (c) CSD purchases rum from such distilleries, which are periodically inspected by the Army Medical authorities from health and hygiene point of view. This was not possible to ensure if CSD had purchased rum from the civil market which would have been a health hazard for the troops.

- (d) CSD enforces quality control of rum on the Distilleries, by drawing periodically samples of rum at random and having them analytically tested by the Army Food Laboratories. The cost of these tests as well as of the samples drawn is borne by the suppliers. Rum which is found by the Army Food Laboratory as not conforming to ISI Specification is not purchased by CSD from the distilleries. Such quality control would not have been possible by purchasing rum from the civil market.
- (e) The demand of distilleries for increase in the rates being genuine, legal complications would have arisen in claiming from the distilleries, the difference between the actual cost of rum purchased from the civil market and that mentioned in the contract. Besides, this would have jeopardised the good relations existing between CSD and suppliers who had signed the contract in good faith.

3. Due to the rising trend in prices of raw material the distillers were not prepared to go in for a two years' contract at the rates prevailing at the time of negotiations. The period had, therefore, to be reduced to one year. However, to ensure that the distilleries did not ask for enhancement in prices during the period upto June 1975, an undertaking was obtained in this respect from the suppliers at the time of negotiations in June, 1974 and this was duly honoured by them.

4. Tenders were not called for by CSD in June, 1975 as the suppliers of the brands of rum, usually procured by CSD, were the same, who had earlier signed the contracts for supply of rum for a period of two years. Therefore, to avoid wastage of time and unnecessary correspondence with the suppliers the Board of Administration felt that it would be better to call the suppliers for negotiations to continue supplies at the existing rates till they completed the full contracted quantity for the period ending March, 1976. Besides, calling of fresh tenders would have, no doubt resulted in the suppliers quoting higher rates in view of the increased cost of living between May, 1974 and May, 1975. During this period the cost of living index went up by 33 points, i.e. from 294 to 327.

5. With effect from 15-12-75 a provision has been made in the contract from itself, requiring the suppliers of rum to deposit in cash or through a bank guarantee an amount to cover 2½ per cent of the cost of contracted quantity per year by way of security deposit towards the fulfilment of the contract. If a supplier fails

to deposit this amount within a reasonable time, the amount is deducted from the initial payment(s) made to the distillery for the supplies effected.

6. It may be kept in view that CSD sell rum and do not procure rum for free issue. Therefore, they have to procure those brands which are demanded by the consumers and those which have sale potential. This rise in retail cost per bottle, unit in which it is sold, varied from 46P per bottle to 53P per bottle only. There were no complaints regarding rise in prices from the troops. However, there were persistent complaints of non-availability of rum during April/June 1974.

[Ministry of Defence O.M. No. 12(1) |78|D(Mov), dated  
5 August, 1978]

#### **Recommendation**

The Committee also note that preferential treatment was accorded to a firm 'C' (M/s. Central Distillery and Chemical Works, Meerut) which had not executed any contract after the original negotiation in January, 1974, by entrusting fresh supplies to it at an increased price of Rs. 6.10 per dozen bottles (which works out to 24.6 per cent over the prices previously contracted for) without an obligation of 10 per cent of the supplies being at the original rates as was done in the case of other firms. The Committee are not convinced of the reasons advanced during evidence for this preferential treatment to the firm that it was "one of the biggest distilleries with a large capacity" and the rum "one of the cheapest brand which we could not disregard" nor do they appreciate the reason subsequently advanced in writing that the preferential treatment was on account of the firm being a shade better in its business conduct in as much as having not signed the contract it had not committed a breach of faith whereas other firms had signed the contract and subsequently resiled from it. The Committee would like Government to emphasise upon the authorities responsible for contracting supplies that they should, as far as possible, not lend themselves to suspicions of favouritism and abuse of authority which the instances referred to above tend, to reflect.

[Sl. No. 11 (Para 2.75) of Appendix to 48th Report of the  
PAC (6th Lok Sabha)]

#### **Action taken**

Unlike other Distilleries firm 'C' (M/s. Central Distillery and Chemical Works, Meerut) had not committed by signing the contract for supply of 90,000 dozen bottles during 1974-76 as negotiated earlier (January 1974) due to escalation in costs subsequent

to negotiations. At the beginning of negotiations with firm 'C' on 15th June, 1974, the Board of Administration laid down certain conditions which were accepted by the representative of the firm. One of these conditions was the supply of 10 per cent of one year quantity (i.e. 10 per cent of 45,000 dozen bottles=4,500 dozen bottles) at the original negotiated rate of Rs. 24.75 per dozen bottles. However, later on during the negotiations, the Board of Administration, on reconsideration, felt that since the firm had not committed a breach of faith, the supply of 10 per cent of the quantity at the old negotiated rate need not be insisted upon. As the firm had not signed the contract, there was no legal binding on them on this issue.

2. As the brand of rum produced by the Distillery was the cheapest and it had sale potential amongst the troops, the Board of Administration decided to go in for this brand without insisting on 10 per cent of the supplies at the original rate.

3. The rum contracts are negotiated by the Board of Administration consisting of Chairman, Canteen Stores Department (Major General), Commander Bombay Sub Area (Brigadier) and Controller of Defence Accounts (Navy) and are finalised by the Executive Committee of the Board of Control, Canteen Services, whose members are the Additional Secretary, Ministry of Defence, Financial Adviser (Defence) and the Quartermaster General, Army Headquarters.

[Ministry of Defence O.M. No. 12(1)|78|D(Mov),  
dated 5th August, 1978]

**CHAPTER V**  
**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF**  
**WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI;  
December 16, 1978.  
Agrahayana 25, 1900 (Saka).

P. V. NARASIMHA RAO,  
*Chairman,*  
*Public Accounts Committee.*

## APPENDIX

### *Statement of Conclusions and Recommendations*

Sl. No.	Para No. of the Report	Ministry/Department concerned	Conclusions on Recommendations
1	2	3	4
1	1.6	Ministry of Defence	<p>From the reply of the Government, the Committee note that after the presentation of their Report (23 December, 1977), further claims of the value of Rs. 10.69 lakhs have been preferred on the Railways aggregating to Rs. 45.89 lakhs out of which Railways have till now accepted in all claims of the value of Rs. 2.86 lakhs only with a nominal gain of Rs. 0.12 lakh over the previous figures of Rs. 2.74 lakhs during this period. Claims still under correspondence amount to Rs. 13.79 lakhs, the rest (Rs. 29.24 lakhs) having been rejected by the Railways. While the Committee appreciate the action of the Ministry of Defence in stressing urgency of the matter on various consignee depots and lower formations by reminding them periodically to get all the outstanding railway claims settled early, they feel that the progress in this regard is far from satisfactory and also makes them feel apprehensive that perhaps Defence Ministry's case for claims is not very sound.</p>
2	1.7	—do—	<p>The Committee also note that for regularisation of losses certain rules and regulations have to be followed and that regularisation</p>



of losses can be done only after the claims preferred on the Railways are either accepted or rejected by them. Nevertheless, the Committee would impress upon the Government the necessity of getting all the outstanding railway claims settled early by personal contacts and meetings at higher level and also getting the losses regularised simultaneously at the earliest.

3 1.10

—do—

The Committee, in paragraph 2.71 of their original Report expressed a feeling that it would be economically advantageous to entrust procurement of stores for the troops to a single agency. The Defence Secretary had also, during evidence earlier, appreciated the merit of the proposal of the Committee and had assured that it was under consideration. From the reply to this recommendation furnished by the Ministry, the Committee learn that the purchase of tinned milk and whole milk powder and rationed rum was taken over by one agency, viz., Canteen Stores Department, as a trial measure and that "the result of this measure was fairly satisfactory and deliveries of the articles were made as per schedule". They are, however, constrained to find that in April 1977 it was decided to revert to the old arrangement. The Committee are at a loss to understand as to why the new arrangement was reversed when it was working fairly satisfactorily. The Committee reiterate that the existence of two parallel agencies for procurement of stores for the troops under two different Ministries is unnecessary and wasteful. Either of the organisations, namely, Canteen Stores Department of the Ministry of Defence or the Army Purchase Organisation of the

Ministry of Agriculture can make the entire purchase of common articles notwithstanding the subtle distinction sought to be made between the purchase for supply of rations, and that for commercial issue. The Committee would, therefore, like the Ministry of Defence to reconsider the decision of April 1977 reverting to the old arrangement.

4 I.13 Ministry of Defence

From the reply furnished to the Committee's recommendation in para 2.72, the Committee are left with the impression that the officers concerned were more interested in looking to the interests of suppliers of rum than to the interests of the Department. Specially noteworthy is their proclaimed anxiety not to "jeopardise the good relations existing between CSD and the suppliers." The Committee would like to underline the fact that a sum of Rs. 1.27 crores was paid to the contractors over and above the contracted prices for the procurement of rum and the contractual obligations on the part of the suppliers were deliberately not enforced. The Committee reiterate that it is a fit case for proper investigations being made at appropriate level into the performance and conduct of officers who allowed such a situation to develop where the Department was required to pay to the suppliers Rs. 1.27 crores more than the contracted price. The Committee consider it hardly material that this extra cost was passed on to the consumers.

The Committee are constrained to observe that the reply furnished by the Ministry to recommendation in para 2.75 of their original Report does not erase the earlier impression of the Committee that preferential treatment was accorded to the firm 'C'. The Committee reiterate that Government may emphasise upon the authorities responsible for contracting supplies that they should, as far as possible, not lend themselves to suspicion or favouritism or abuse of authority which the instance referred to in the paragraph tended to reflect. In particular, they would like this observation to be formally communicated to all the officers associated with the deal under comment, irrespective of their rank and position.

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