

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

**(SIXTH LOK SABHA)**

**SIXTY-THIRD REPORT**

**PROCUREMENT OF FURNACES  
AND  
DISPOSAL OF FIRED EMPTY CARTRIDGE CASES**

**MINISTRY OF DEFENCE**

**[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 229th Report (Fifth Lok Sabha)]**



*Presented in Lok Sabha on 21st March, 1978*  
*Presented in Rajya Sabha on 21st March, 1978*

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*March, 1978/Phalguna, 1899 (S)*

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## PUBLIC ACCOUNTS COMMITTEE

( 1977 - 78 )

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Shri C. M. Stephen

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2. Shri H. G. Paranjpe —*Chief Financial Committee Officer*
3. Shri Bipin Behari —*Senior Financial Committee Officer*

\*Elected with effect from 23 November, 1977 *vice* Sarvaashri Sheo Narain and Jagdamb Prasad Yadav ceased to be Members of the Committee on their appointment as Ministers of State.

## INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Sixty-Third Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Two Hundred and Twenty-Ninth Report (Fifth Lok Sabha) on Defence Services.

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

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

3. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted the Report at their sitting held on 28 February, 1978. The Report was finally adopted by the Public Accounts Committee (1977-78) on 15 March, 1978.

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

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

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

NEW DELHI;

*March 15, 1978*

*Phalgun 24, 1899 (S).*

(v)

## CHAPTER 51

### REPORT

1.1. This Report of the Committee deals with the action taken by Government on the Committee's recommendations/observations contained in their 229th Report (Fifth Lok Sabha) on paragraphs 7 and 20 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government, Defence Services, relating to Procurement of Furnaces and Disposal of Fired Empty Cartridge Cases.

1.2. The Committee's 229th Report was presented to the Lok Sabha on 1 September 1976 and contained 15 recommendations/observations. Action Taken Notes in respect of all these recommendations/observations have been received from Government and these have been broadly categorised as follows :

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

\*Sl. Nos. 10 and 15.

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

Sl. Nos. 1, 2, 3, 4, 5, 9, 11, 12, and 13.

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

Sl. Nos. 6, 7 and 8.

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

Sl. No. 14.

**1.3. The Committee expect that final replies, duly vetted by Audit, to those recommendations/observations in respect of which only interim replies have so far been furnished will be submitted to them expeditiously.**

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

*Purchase of furnaces without proper planning for their utilisation. (Paragraph 1.55—Sl. No. 6)*

1.5. Expressing concern over the way in which proposal for the procurement of four furnaces from USA in 1966 for modernisation of ordnance factories in India was formulated without properly processing

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\*Not vetted in Audit.

the actual requirements, the Committee, in paragraph 1.55 of the Report, had observed :

“The Committee are further perturbed to find that the question of procurement and installation of furnaces had been handled, *ab initio*, in a slipshod fashion, apparently without adequate consultations with the actual users as to the possible utilisation of the furnaces indented for. To make things worse, there has been considerable delay in the implementation of the decision in regard to the augmentation of the melting capacity in and modernisation of the Ordnance Factories, though the programme in this respect had been conceived as far back as in 1962, just after the Chinese aggression. According to the decision communicated, in December 1966, by the Director General, Ordnance Factories, the four furnaces of 1200 lbs. capacity each ordered initially were to be installed in factories ‘A’, ‘B’, ‘G’ and ‘H’. It is, however, not clear to the Committee why Factory ‘G’ had been selected for the installation of one of the furnaces when the General Manager of the factory had clearly stated, in May 1966 itself, that the quantity of scrap arising from the machine shops in the factory was ‘almost negligible’ and that the installation of even a much smaller furnace of 200/400 lbs. capacity was not warranted. Factory ‘H’ had also subsequently pleaded its inability to install the 1200 lbs. capacity furnace, when it was decided in November 1969, to install three of the furnaces in factory ‘A’ and one in Factory ‘B’. It is evident that there had been no proper and adequate assessment of the actual requirements of the different ordnance factories for these furnaces. Since this is certainly not the way purchase proposals involving considerable investment in foreign exchange ought to be processed, the Committee trust that, learning from the experience of this case, Government will seriously examine what is wrong with the system of planning, formulation and implementation of such schemes and take suitable and early steps to see that the shortcomings are overcome.”

1.6. In their Action Taken Note furnished by the Ministry of Defence on 9 August 1977, they have stated :

“The Board of Enquiry\* in its findings, which have been accepted by the Government, have stated that while the USA offer made in September 1966 for supply of these furnaces under Military Credit Sales Programme was under examination, a considerable amount of brass scrap had accumulated in the Machining Factories.

It was considered by the DGOF that it would be useful to deploy these four furnaces for melting of fired cartridge cases and brass scrap. To dispose of these large quantities of scrap four

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\*In response to the recommendations of the Public Accounts Committee contained in 229th Report, Government appointed a Board of Enquiry on 24-11-76 under the Chairmanship of Shri P. Krishnamurti, Additional Secretary (DS) to investigate the procurement and utilisation of four American furnaces obtained under Military Credit Sales Programme. The Board of Enquiry submitted its report to Government on 25 April, 1977.

furnaces were planned to be installed in factories 'A', 'B', 'G' and 'H'. When this proposal was mooted the factories concerned raised certain practical difficulties. The point of view was that they were not equipped to handle this kind of work which is essentially of a metallurgical nature. There were also certain difficulties in obtaining power. Considering these genuine difficulties, the DGOF in 1969 planned to utilise these furnaces for strip making. Therefore, it would appear that even though during the period 1966—69 different proposals were mooted for utilisation of these furnaces, this was not due to any faulty planning but due to certain compulsions as envisaged by the Factory Managers in the efficient utilisation of the furnaces, which were yet to be received.

The Board of Enquiry which went through all aspects of procurement and utilisation of these furnaces has stated in its findings that planning is not a static process. It has to be flexible enough to meet changing circumstances. The process of consultation with the various General Managers and examination of the pros and cons of the proposals made from time to time inevitably takes time.

The Board of Enquiry in its conclusions has recommended that the planning cell in DGOF's Organisation should be strengthened and made more effective so that similar cases of non-utilisation of imported machinery over long periods are avoided."

**1.7. The Committee feel that the explanation now given by Government that various proposals were formulated for the utilisation of the furnaces but these could not be implemented as the factories to which these were allocated had expressed their inability to utilise them, is in itself an admission of the fact that planning for their procurement and utilisation was faulty. All the difficulties, viz. obtaining of power etc. should have been visualised and sorted out before deciding to accept the offer of the foreign government. The Committee regard it as unfortunate that the positive lapses on the part of the officers responsible for the procurement and utilisation of these furnaces are sought to be explained away by such general statement that planning "has to be flexible enough to meet changing circumstances" and the process of consultation "inevitably takes time." The Committee expect that Government will take prompt action on the recommendation of the Board of Enquiry for improvement in the organisation of the planning cell of DGOF so as to make it more effective.**

*Delay in installation and commissioning of furnaces.*  
(Paragraphs 1.56—1.57, Sl. Nos. 7-8).

1.8. Commenting on the delay of about 8 years in installation and commissioning of four furnaces procured from USA in May 1970, the Committee had, in paragraphs 1.56 and 1.57 of the Report, observed :

"1.56. The net outcome of this episode so far has been that after a fruitless quest to find a possible user for the unwanted higher



capacity furnaces among the different ordnance factories, these furnaces, are even yet to be installed and commissioned. Factory 'B', in which one of the furnaces was to be installed, appears to have pleaded that a 5000 lbs. capacity furnace would not match its requirement and would remain idle for a considerable period in a month. It was, therefore, decided in June 1971, to instal the furnace in factory 'C' which also pointed out, in August 1971, that it was not possible for it to accept the furnace on account of various 'technical and production reasons.' The three other furnaces received in factory 'A', could not also be installed and used in that factory because on re-examination of the proposed augmentation scheme of that factory, it was decided, in February 1973, to set up an integrated plant for brass melting, rolling and cupping at factory 'C', where it was proposed to utilise the furnaces. As this proposal had also to be given up subsequently on account of lesser requirement of ammunition as well as financial constraints, another proposal to utilise the furnaces for the melting and pigging of the fired cartridge cases of small arms ammunition (a case which has been discussed subsequently in this Report) in factories 'C' and 'D' had been mooted as a stop-gap arrangement, though the furnaces would have been too large for this purpose. The Committee are distressed that Government having taken the view that since the larger capacity furnaces had, in any case, been received, it would be wise to try and utilise them, it has still not been possible to utilise the furnaces so far."

"1.57. While taking a decision to retain these furnaces and to try and utilise them, no one appears to have applied his mind to the economics of their installation. It has been assessed only subsequently that if the furnaces are to be utilised fully certain auxiliary equipment and facilities, costing well over a crore of rupees, would be necessary. In the circumstances, the Committee regret that the decision to retain the furnaces must be pronounced unsound. The implications of retaining them had obviously not been analysed properly before acquiescing in their supply. The Committee fear they must express displeasure at the apparent haste with which this decision had been taken with results that have meant loss to the country. This state of facts calls for an investigation which will, among other things, fix responsibility for the failure and suggest steps for the future."

1.9. In their Action Taken Notes dated 9 August 1977, the Ministry of Defence, have replied :

*Paragraph 1.56*

"The Board of Enquiry in its findings, which have been accepted by the Government, has stated that as already brought out earlier, the allocation and re-allocation of these furnaces arose owing to firstly, the pressing need to handle scrap by melting and pigging and the resulting difficulties to instal these furnaces in the factories concerned, and secondly, under the replacement scheme as well, to cater for some additional requirement like the building space, the auxiliaries or supporting services. This first

part for utilisation of these furnaces prior to their receipt was also conditioned by the fact that the requirement of strips at that stage was at a low ebb, while the disposal of scrap was a pressing problem.

The Board of Enquiry which went into all aspects of procurement and utilisation of these furnaces has given the following findings, which have been accepted by the Government :

The Board agrees with the comments of the PAC that Government having taken the view since larger capacity furnaces had in any case been received, it would be wise to try and utilise them but has so far failed to utilise these furnaces. In this connection the Board found that after receipt of the larger capacity furnaces, the DGOF had put up as many as four proposals for the utilisation of these furnaces. These proposals were made to Government as follows :

1. On the basis of Sen Committee's recommendation, a project for augmentation of capacity for melting, rolling and cupping at OFA, OF KAT & MSF at a total cost of Rs. 17.76 crores, which included installation of four American furnaces at OF Katni at an expenditure of Rs. 172.50 lacs with FE content of Rs. 61.50 lacs. This report was considered in the room of Secretary (DP) on 28-5-73 and project was not pursued due to financial constraints.
2. Installation of four American furnaces at OFA at total cost of Rs. 127 lacs with FE content of Rs. 25.70 lacs for increasing brass melting capacity *vide* DGOF U.O. No. 898/73/A&C dated 12-2-75, which included civil work of Rs.41.6 lacs and provided semi continuous casting machines.
3. Augmentation of Brass Strip making capacity in Ordnance Factories at estimated cost of Rs. 10.72 crores inclusive of FE content of Rs. 3.12 crores submitted by DGOF on 26-6-76. The proposal catered for replacement of existing melting furnaces and took into account how many existing furnaces would be omitted if 4 American furnaces are installed in lieu. This proposal was considered from time to time at various levels without any final outcome.
4. Augmentation of Brass melting capacity of OFA by providing semi continuous casting machines at a total cost of Rs. 3.5 crores with FE content of Rs. 1.36 crores and providing civil work for Rs. 46 lacs *vide* DGOF UOO No. 707/AUG/Proj(M) dated 15-12-76. The proposal is under examination.
5. The first two proposals were not accepted by Government for reasons of financial stringency and also owing to the fact that the requirements of brass strips based on the existing orders from the Services were being adequately met by the existing capacity of factories at Katni and Ambarnath.

The third and fourth proposals are still under the consideration of the Government who have yet to take a decision.

*Paragraph 1.57*

“As stated in the Action Taken Note under Sl. No. 7, para 1.56, the various proposals put up for installation of these furnaces could not be proceeded with, on account of financial constraints and also till 1975 the requirement of Brass Strip for meeting Services demand of Ammunition was being adequately met by existing capacity in Ordnance Factories at Katni and Ambarnath.

The Board of Enquiry appointed by Ministry of Defence has given their findings which have been accepted by the Government as follows :

The Board finds that from 1975-76 the production of brass strip in OF Ambarnath and OF Katni was insufficient to meet the requirements of the Services and, therefore, resort had been made to obtain brass strip from the trade by melting the fired cartridge cases and scrap. It has also been brought to the notice of the Board that the rate for conversion, which is paid to the trade is considerably higher than the estimated cost of conversion in the Ordnance Factory at Ambarnath. Therefore, the Board feels that the latest proposal of the DGOF to instal the four furnaces in OF Ambarnath at a cost of Rs. 3.5 crores should be considered by Government on high priority. This may lead to considerable savings and the Ordnance Factories will no longer be dependent on trade for their requirements of brass strip.

Further, the Board in its final conclusions has observed as follows :

From its findings as recorded above, the Board has come to the conclusions that no one in the service of Government of India could be held responsible for the supply of high capacity furnaces by the American Government against low capacity furnaces asked for by DGOF. The supply of high capacity furnaces by USA to India has not put the Government to any loss. There was, however, failure on the part of the Department of Defence Production in formulating a cogent plan for the effective utilisation of these furnaces, after their arrival in India in 1971. This failure is partly due to the financial stringency and partly due to the fact that the existing furnaces at Ambarnath and Katni could supply the requirements of brass strips of DGOF till 1975. Only after 1975 the demand of the Services for ammunition showed a considerable rise and the Department of Defence Production had to go to the private trade for conversion of fired cartridge cases into brass strips. As the demand for brass strips for manufacture of ammunition has risen since 1975 and is expected to rise further in future, Department of Defence Production should take very urgent steps to exploit the four furnaces. The Board understands that the proposal to instal these four furnaces in Ordnance Factory Ambarnath is in the final stages of consideration of

Government. The Board urges that this should be expedited and the installation of the furnaces made on a crash programme. This will not only result in utilising the furnaces which have been lying idle since 1971 but would also result in considerable savings to Government as the conversion charge which is being paid to private trade is considerably higher than the estimated cost of conversion in the Ordnance Factory, Ambarnath.”

**1.10. The Committee cannot but deplore that it has not been possible for the Department to take a final decision in regard to the utilisation of the furnaces during the last eight years and meanwhile the furnaces are rusting in crates. They desire that a decision in this behalf should be taken without any further delay and thereafter immediate steps should be taken to instal and commission the machinery.**

## CHAPTER II

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

#### Recommendation

The Committee take a serious view of the heavy accumulation, since 1967, of fired empty cartridge cases of small arms ammunition in the Ordnance Depots. It is disconcerting that on account of the delays in locating a suitable machine for mutilating/crushing the cases prior to turning them over as scrap, and in settling the differences with the National Small Scale Industries Corporation over the pricing of the Scrap, 6880 tonnes of empty cases (assessed value Rs. 10.10 crores) had accumulated, as on 1st April, 1973, in 13 ordnance depots. However, according to the Ministry of Defence, the total quantity of accumulations as on 1 April, 1973 was 10,920 tonnes. The extent of deterioration in the position would be evident from the fact that as against the average annual arisings of about 2,200 tonnes during the five-year period 1968-69 to 1972-73, and the accumulation of 1,937 tonnes as on 1 April, 1967, the disposals through the Director General, Ordnance Factories and the Corporation during the six-year period from 1967 to 1972 accounted for only a small quantity of 888 tonnes. Notwithstanding the difficulties enumerated by the Ministry in disposing of the scrap, the Committee greatly regret that valuable non-ferrous scrap should accumulate uselessly over the years to such an alarming extent.

[Sr. No. 10 (Para 2.38) of Appendix IV to 229th Report  
(5th Lok Sabha)]

#### Action taken

About 10,920 tonnes fired empty cartridge cases of SAA were accumulated in 19 Ordnance Depots as on 1-4-73. Current arisings of the scrap are of the order of 250 metric tonnes per month. The main reasons for these accumulations are as follows :—

- (i) for security reasons the fired cartridge cases are to be mutilated before the same could be disposed of. Mutilation is a slow process which retards the pace of disposal by the Depot authorities.
- (ii) main mode of disposal was through Ordnance Factories, which accepted the scrap without mutilation and melted into pigs and sold them to NSIC. The off-take of the scrap by the Factories remained suspended for 3 to 4 years which led to the accumulation and this suspension in turn was due to suspension of sale to NSI Corporation due to difficulties in price fixation etc.

2. There has been no undue accumulation upto 1961 and the disposal of fired empty cartridge cases through pigging by DGOF was working satisfactorily. In the wake of the situation which arose after the emergency in 1962, this method of disposal was suspended by DGOF due to more urgent tasks in hand.

3. When the issue was re-opened in 1966, difficulties arose regarding payment of excise duty, sales tax etc. This was settled only in 1968 and certain quantities were lifted by NSIC in 1968-69.

4. There has not been any loss due to accumulation of stocks and the delay in their disposal. Due to appreciation in the price of brass, the accumulated stocks of fired empty cartridge cases would fetch much more now. There is no wastage of accommodation, covered or uncovered, for storage of the scrap. Nor are the empty cartridge cases susceptible to any deterioration.

5. The quantity of fired cartridge cases accumulated, the yearly arisings and their disposals during the period 1975—77 are indicated below:

*Accumulation*

As on 1-4-75 . . . . .	8202	Tonnes
As on 1-4-76 . . . . .	7850	„
As on 1-4-77 . . . . .	4574	Tonnes (3598 tonnes uncrushed and 976 tonnes crushed)

*Yearly arisings*

During 1974-75 . . . . .	}	Average yearly arisings in these years is 1225 Tonnes.
1975-76 . . . . .		
1976-77 . . . . .		

*Quantity disposed of during*

1974-75 . . . . .	1367	Tonnes
1975-76 . . . . .	1002	„
1976-77 . . . . .	1114	„

6. The scrap materials were sold to NSIC and DGOF.

7. With the commissioning of the crushing machines during the period March—June 1976, the accumulations of non-ferrous scrap have since progressively been liquidated. The accumulated stocks of the scrap was 4574 Tonnes (3598 tonnes uncrushed and 976 tonnes crushed), as on 31st March, 1977.

DADS has seen.

[Ministry of Defence U.O. No. 2 (14) 76-77 S/D-(O-II) dated 31st January, 1978].

### Recommendation

It is necessary to refer, in this connection, to an earlier recommendation of the Committee, contained in paragraph 1.29 of their 121st Report (Fifth Lok Sabha), that Government should consider the setting up of Metal Bank so that it can be ensured that the metal, especially non-ferrous,

rendered surplus or unfit for a particular use in one organisation is profitably utilised elsewhere without being disposed of at a loss. In spite of the lapse of more than two years, there has been no finality as yet in this regard. The Cabinet Secretariat, who had been asked, in paragraph 1.18 of the Committee's 142nd Report (Fifth Lok Sabha) and again in paragraph 1.33 of the 189th Report (Fifth Lok Sabha), to coordinate action on this important and eminently practicable recommendation of the Committee, have stated (May 1976) that the Department of Industrial Development have been assigned the nodal responsibility for the establishment of a Central Coordination Committee for the purpose and that necessary action would be initiated in this behalf. The Committee would like to be apprised, in some detail, of the specific steps taken by the Department of Industrial Development and the other Ministries/Departments concerned with the utilisation and disposal of metal and metal scrap, in pursuance of the reported decision of the Cabinet Sectt.

[Sr. No. 15 (Para 2.43) of Appendix IV to 229th Report  
(5th Lok Sabha)].

### **Action taken**

The question of setting up of a Metal Bank had been examined by the Secretaries Committee. It was accepted that the establishment of Metal Bank, as recommended by the PAC, may not be necessary as the objectives were already being met by the various Public Sector units. A Central Coordination Committee under the Chairmanship of Secretary, Technical Development and DGS&D was constituted for coordination/disposal/re-utilisation of scrap. The Committee has also been directed to evolve a system for dissemination of necessary information regarding availability of various kinds of scrap to serve the purpose of a Clearing House. The Committee would later on also take action for setting up of Metal Bank(s) if considered necessary.

2. In order to streamline the procedure for disposal of scrap, a study team was formed, and the report of the study team was considered by the Empowered Committee constituted to examine the recommendations of the Study Team and certain amendments were made in disposal procedure. In pursuance of the decision taken by the Empowered Committee, on the 5th July, 1976 the non-ferrous scrap is being disposed of through NSIC, after meeting the requirements of the Ordnance Factories.

3. DADS has seen.

[Ministry of Defence U.O. No. 2(14)/76/77/S/D-(O-II) dated 31st  
January, 1978].

## CHAPTER III

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

#### Recommendations

It would be evident from the preceding paragraphs that the procurement and installation of low-frequency induction furnaces to cater to the modernisation plan of ordnance factories had been handling in an unsatisfactory and unbusiness like manner. The United States Government had offered in September 1966, four furnaces of 1200 lbs capacity each, at a cost of Rs. 8.62 lakhs (revised subsequently to Rs. 14.14 lakhs mainly on account of devaluation of the Rupee), as part of a Military Credit Sales Programme for the modernisation of ordnance factories in India. This offer was formerly accepted, in February 1967, on behalf of the Government of India by the Military Attache, Embassy of India, Washington, on advice from the Defence Ministry. The specifications of the furnaces appear to have been settled finally in May 1967, during the visit to India of a technical team of the United States Government, when the Director General, Ordnance Factories, is stated to have 'clearly stipulated' that furnaces of 500 kilograms (1200 lbs ) capacity alone would be acceptable. In spite of this stipulation, the furnaces, on their actual receipt in May 1970 were found to be of 5,000 lbs. capacity each.

[Sr. No. 1 (Para 1.50 ) of Appendix IV to 229th Report (5th Lok Sabha)].

#### Action Taken

The Board of Enquiry appointed by Ministry of Defence to go into procurement & utilisation of 4 American Furnaces, obtained under MCSP in its findings, which have been accepted by the Government have observed that after a technical United States Production team had visited India in February 1963 for a survey of the potential available in the various Ordnance Factories and submitted their report, a plan for modernisation of the ordnance factories was drawn up. It was envisaged that to modernise the outdated plant and machinery in the Ordnance Factories and to cater to the needs of the Services in certain essential areas of production of arms and ammunition, an expenditure of approximately Rs. 15 crores would be required to be incurred, which could be spread over a period of 5 years. This programme also included procurement of six furnaces. These were to be procured for modernisation of brass melting facilities and as replacement of existing furnaces. This whole programme was originally planned to be carried out within the quantum of military aid offered by the USA immediately after the Chinese Aggression of 1962. However, in 1965 USA withdrew the military aid owing to the Indo-Pakistan hostilities. The position was however, reviewed in September 1966 when the USA offered 'Military Credit Sales Programme' for non-lethal items on long term credit.



Against six furnaces included in the original plan, DGOF sought to procure four furnaces under the Military Credit Sales Programme.

The specification for the four furnaces ordered under Military Credit Sales Programme termed as Indian Specification No. SL. 30 which specified a Low Frequency Channel (Core Type Induction Furnace) of 1200 lbs. capacity was drawn by the GDOF in consultation with the United States Technical Team which visited India and held discussions between 19th and 22nd May 1967. However, the furnaces when received in May '70 were found to be of a higher capacity of 5,000 lbs each.

CA (OF) Calcutta has seen.

[Ministry of Defence (Department of Defence Production) O. M. No. 26(4)/76/D(PA) dated 17 August, 1977].

### **Recommendation**

It appears from a communication some seventeen months later (dated 15th October, 1971), from the US Army Headquarters, Material Command, explaining the circumstances in which the higher capacity furnaces had been supplied, that one Shri Sethi, the Indian representative had 'suggested and accepted the procurement of the large capacity furnaces'. It is inconceivable to the Committee how Shri Sethi, deputed to the India Supply Mission, Washington, from the Directorate of Planning and Coordination, DGOF Cell, Ministry of Defence, as a liaison officer in this regard could have accepted on his own initiative modifications in the originally accepted offer without the concurrence of the authorities at home. Stranger still is the fact that neither the US Government nor the relevant files opened by Shri Sethi during his tenure in Washington and forwarded to the Director General, Ordnance Factories, had ever indicated the acceptance of the higher capacity furnaces. The mystery deepens when it is found that after having allegedly accepted the higher capacity furnaces, the said Shri Sethi managed to resign from Government Service and disappear without leaving a trace behind.

[Sr. No. 2 (Para 1.51) of Appendix IV to 229th Report (5th Lok Sabha)]

### **Action Taken**

The Board of Enquiry in its finding which have been accepted by the Government has stated that out of the four furnaces ordered under the Military Credit Sales Programme, three were received at Ordnance Factory, Katni and one at Ordnance Factory, Varangaon in May, 1970. The shipping documents which arrived with these consignments were very brief and did not contain the full particulars about the furnaces which were in a packed condition. Therefore, Ordnance Factory, Katni wrote to M/s. Ajax Magnathermic Corporation in their letter of 18th Nov., 1970 to send the complete particulars and the packing list which they did under cover of their letter dated 25th January, 1971. There was no doubt a delay of about six months in OF Katni in writing to the Americans but this delay could be due to the attempts of the factory to make out from the shipping documents the details of the equipment.

After receipt of the American letter of 25th January, 1971 the OF Katni made a complete check and found that these furnaces were of 5000 lbs. capacity instead of 1200 lbs. capacity. This was reported by the Ordnance Factory to DGOF on 12-5-1971 and DGOF in turn reported the matter to the Ministry of Defence on 5-1-71 for taking up the matter with the appropriate authorities in USA. This was promptly attended to by the Ministry of Defence and as a result the USA Military Sales Division replied on 15th October, 1971 as under :

“Indian specification No. SL 30 specified a low frequency channel (Core type induction furnaces). The available 1200 lbs. induction furnaces would have been a high frequency water cooled coreless type with a high operating cost and low refractory life. On the other hand the channel type furnaces of a higher capacity could melt as little as 1200 lbs. per heat or 6000 lbs. per day as specified in Indian specification SL 30. Further, Shri Sethi, the Indian representative suggested and accepted the procurement of large capacity furnace.”

The comments on the PAC's observations regarding Shri Sethi are given while dealing with the next observations under SL No. 3 para 1.52.

CA (OF) has seen.

[Ministry of Defence (Department of Defence Production) O. M. No. 25 (4)'76'D. (PA) dated 17 August, 1977]

### **Recommendation**

From the sequence of events leading to the supply of the 5,000 lbs. capacity furnaces instead of the 1200 lbs. capacity ones, it would appear that these furnaces could have been accepted if at all by Shri Sethi only between February and March 1967. If this were so, it remains to be explained why the U.S. technical team which visited India in May 1967, when the specifications were finally settled and the supply of 500 kilograms (1200 lbs.) capacity furnaces was being insisted upon by the Director General, Ordnance Factories, never informed the Indian Government that Shri Sethi had on his own accepted the higher capacity furnaces and that the lower-capacity furnaces of the requisite specifications were not available. It is significant that it was only more than four years later (October 1971) the U.S. Army authorities claimed, on an enquiry from the Government of India after the actual receipt of the furnaces, that these furnaces had certain technical advantages over the lower-capacity ones earlier offered and that Shri Sethi had accepted them. Many of the missing links in this obviously dubious transaction can, perhaps, be explained only by the afore-said Sethi, whose present whereabouts are reported to be unascertainable. Though the Committee were informed by the Director-General, Ordnance Factories, during evidence, that Sethi was working with Piccadilly Arsenal in the United States, they have been subsequently told that the efforts made to ascertain his whereabouts through the Consular and Economic Wings of the Indian Embassy as well as the U.S. Authorities have not brought forth any useful information.

[Sr. No. 3 (Para 1.52) of Appendix IV to 229th Report (5th Lok Sabha)].

### Action Taken

After a thorough investigation the Board of Enquiry appointed by Ministry of Defence whose findings have been accepted by the Government, found that the specification termed SL 30 for low frequency & low capacity induction type furnace was drawn up by DGOF in consultation with the United States Technical Team which visited India and held discussions between 18th and 22nd May 1967. Shri Sethi had resigned on 30th March and was relieved from the service of the Government of India on 30th April, 1967, before these discussions took place. Further as observed by the PAC the files maintained by Shri Sethi and later transferred from Washington to India did not contain any reference to Shri Sethi's acceptance of high capacity furnaces. If any such acceptance was to be given at all, it could have been given by authorised representative of the Government of India only after May 1967, when the Americans supplied higher capacity furnaces in lieu of lower capacity furnaces decided upon in May 1967. It has to be concluded therefore, that Shri Sethi was not connected with the alleged acceptance of high special capacity furnaces or for that matter any representative of the Government of India, before they were shipped from USA to India.

As the PAC desires that a stern probe into the episode be made, efforts were made by Ministry of Defence to locate the whereabouts of Shri Sethi in the USA by seeking assistance of the Ministry of External Affairs. After a thorough investigation, the Embassy of India in Washington wrote to the Government of India on 28th December 1976 (copy enclosed) to the effect that Shri Sethi after migration to United States in 1967, had taken up USA citizenship and was reluctant to answer any questions put to him by our Embassy. As possibly Shri Sethi could not have any hand in the acceptance of high capacity furnaces, it was not considered necessary to pursue the matter further. Any possible linkage between Ajax Magnet-hermic Corporation and Picadilly Arsonal where Mr. Sethi was employed after resigning from Government Services was difficult to establish. This also does not appear to be quite relevant in view of Shri Sethi's resignation from Government Service long before the shipment of higher capacity furnaces by U.S.A. Government. In the circumstances, it was perhaps thought that no useful purpose would be served by telling the US authorities that their statement that Shri Sethi had accepted the high capacity furnaces on behalf of Government of India was erroneous, as this would have only resulted in acrimonious correspondence and consequent ill feelings between two friendly Governments.

Chief Auditor (Ord Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26(4)/76/D(PA) dated 17th August, 1977].

Copy of D.O. No. MCS/76/5533 dated December, 28, 1976 from Shri J. N. Dixit. Minister (Commerce and Supply), Embassy of India, Washington, to Shri A. N. Abhyankar, Deputy Secretary (AMS) MEA.

Please refer to your letter No. VII/551/2/76, dated November 19, 1976 addressed to Shri K. V. Rajan, concerning Mr. B. R. Sethi, a former Deputy

Director General of India Supply Mission who migrated to the United States in 1967.

2. After considerable difficulties we have been able to find out the present address of Mr. Sethi which is as follows :—

5372 Hesperus Drive,  
Columbia, Maryland

His telephone number is (310) 730. 5079. I deputed an officer of my office to meet Mr. Sethi and to speak to him to find out the details sought in the letter of Mr. S.K. Bhatnagar, Joint Secretary (F), Ministry of Defence to Mr. J. S. Teja (letter No. PC III to 1(23)/73/D (Prod.) dated November 16, 1976).

3. Mr. Sethi was abudrate and rude when we approached him. He told us that he is not willing to give any information about where he worked after his immigration from India or other matters. He said that he is a US Citizen now and, therefore, he is not willing to cooperate with the Embassy in any matter, particularly in regard to queries which may be directed against him.

4. One alternative is to approach the US Government formally about the activities of a US Citizen to get these details. Would you like us to do this? if so, please let me know by return post. Another alternative is to ask our Security Officer in the Embassy to confidentially find out the information required. His success will depend on his resources. I am not quite sure about it. In any case, I am trying this last alternative on a discreet basis.

### **Recommendation**

The manner in which this deplorable case has been handled from the start by the Government of India has also been very unsatisfactory. Though the higher-capacity furnaces were received in May, 1970, it was only in July 1971, that is, fourteen months later, that the Military Attache, Embassy of India, was asked by the Defence Ministry to look into the reasons for the supply of 5000 lbs. capacity furnaces against the requirement of 1200 lbs. capacity furnaces. In reply, a communication dated 15th October, 1971 from the US Army Headquarters Material Command, was vouchsafed to the Department of Defence Production on 21 October, 1971. This long delay in seeking vital clarifications in regard to an important item of supply calls for an adequate explanation. The Committee are also surprised that apart from this rather lukewarm protest, the matter was not pursued further with US authorities but was just shelved. Though the likelihood of loss in the transaction might have been minimised on account of inflation and other attendant factors, as a result of which the price of the furnaces has subsequently gone up, the Committee feel that, since some doubt in regard to the acceptance of the higher capacity furnaces by Shri Sethi apparently existed and the files handled by Shri Sethi and received by the Director-General, Ordnance Factories, in 1967 also

contained no indication of the acceptance of the higher capacity furnaces, the Defence Ministry ought to have probed this issue further and ascertained with reference to whatever documentary evidence the US authorities had to support their contention, the correct factual position in this regard. That this was not done is highly deplorable.

[Sr. No. 4 (Para 1.53) of Appendix IV to 229th Report (5th Lok Sabha)].

### **Action Taken**

The reasons for the delay which occurred in making a reference to USA authorities about the supply of high capacity furnaces in place of low capacity furnace ordered have already been explained in the action taken note under Sr. 2 para 1.51.

The Board of Enquiry in its findings, which have been accepted by the Government has stated that from the reply given by the USA authorities in their letter dated 15-10-71 and extracts reproduced under Sr. 2 para 1.51 it is obvious that the furnaces supplied by USA fulfilled the purpose for which India demanded furnaces of 1200 lbs., in the first instance and also that these furnaces would be more economical to run. It was also envisaged that additional capacity for melting brass would be required in future. It was perhaps in these circumstances, the matter was not pursued further with the Government of USA. In the absence of recorded decision to this effect the Board of Enquiry appointed by M of D considered that the reasons for not pursuing the matter further with USA Government were as stated above. It is also pertinent to mention that the cost of the furnaces was only Rs. 14.14 lakhs for four furnaces of 5000 lbs. capacity which was the same price as payable for four smaller capacity furnaces of 1200 lbs. capacity each, which were also more expensive to run. These furnaces were also obtained under credit programme and considering the grant element in such low interest rate military credit (3%) which is quite high, the expenditure incurred on these furnaces is highly economical to Government. The cost of four furnaces of 5000 lbs. capacity is purchased now would be of the order of Rs. 28 lakhs.

Chief Auditor (Ord. Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26/4/76/D(PA) dated 17 August, 1977].

### **Recommendation**

The manner in which the entire deal has been handled gives rise to serious misgivings in the mind of the committee. Serious suspicion in regard to the said Shri Sethi's bonafides is, in the circumstances, inescapable. The Committee would require Government to have a stern probe into the entire episode. It is difficult to believe that Shri Sethi's whereabouts cannot be located and his version of whatever had happened cannot be secured and examined. The Committee would like particularly

also to be reassured about the linkage, if any, of the US firms, Ajax Magnethermic Corporation, which had supplied the furnaces, and of Piccadilly Arsenal, in which Shri Sethi is stated to have been employed after his resignation. This information is essential to the Inquiry that the Committee have in mind.

[Sr. No. 5 (Para 1.54) of Appendix IV to 229th Report (5th Lok Sabha)].

### **Action Taken**

The Board of Enquiry appointed by the Ministry of Defence to go into the entire subject of procurement and utilisation of 4 American furnaces went thoroughly into the role of Shri Sethi in procurement of these furnaces. The finding of the Board of Enquiry in this regard which have been accepted by the Government are detailed under Sr. No. 3 Para 1.52.

Chief Auditor (Ord. Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26(4)/76'D(PA) dated 17 August, 1977].

### **Recommendation**

The Committee have learnt that a fresh proposal for the installation and utilisation of the furnaces in Factory 'C' for augmenting the melting capacity for manufacturing cartridge cases, costing about Rs. 1.14 to 1.28 crores, was submitted by the Director-General, Ordnance Factories, and after consideration by the Department of Defence Production in consultation with the Ministry of Finance (Defence) at a meeting held on 8th April, 1975, it was decided that the economics of the proposal should be examined in relation particularly to the proposed setting-up of a Metal Bank which was already under consideration of Government. This exercise should have been completed by now. The committee would like to know if a final decision in regard to the installation and utilisation of the furnaces has been arrived at.

[Sr. No. 9 (Para 1.58) of Appendix IV to 229th Report (5th Lok Sabha)].

### **Action Taken**

The Board of Enquiry in its findings which have been accepted by the Government has stated that it is learnt that Cabinet Secretariat in May 1976 informed Lok Sabha Secretariat that Department of Industrial Development has been assigned the task of establishing a Central Coordination Committee and action for setting up a metal bank will be initiated after this committee had gone into the question of material conservation. Since decision to set up a metal bank had not yet been taken, no economics for the installation of these furnaces in the context of the metal bank has been worked out. The economics can only be worked out at the

appropriate stage after the annual turn over of the scrap, its utilisation and mode of melting and handling is known.

Chief Auditor (Ord Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26(4)/76/D(PA) dated 17 August 1977].

### Recommendation

It appears that the Defence Ministry has taken nearly four years to locate a 'simple crushing machine' for mutilating the empty cartridge cases. Though it has been claimed that 'lot of efforts' were made in this regard, the time spent in implementing a decision taken as early as in March 1970, has been much too long, particularly when these machines were far from sophisticated. The measures taken in the interim period to dispose of the empty cases by manual salvage can also be considered to be at best *ad-hoc* stop-gap arrangements which, in any case, did not contribute in any significant manner to a resolution of the problem which has by that time almost become critical. Given the will and effort, the dispute over the pricing of the scrap could have been resolved much earlier. The Committee would very much like to know why this should have taken as long as two years.

[Sr. No. 11 (Para 2.39) of Appendix IV to 229th Report (5th Lok Sabha)].

### Action Taken

It is submitted that there has been no delay in locating the machine because of any slackness on the part of procuring authority. First an attempt was made to ascertain if any existing type of stone crusher used by the Army could serve the purpose, later when it did not prove suitable, an approach was made outside parties with a view to developing a new machine. The normal procedure had to be gone through which of course took time. In the absence of a suitable crusher, the only method available was manual utilisation with all its limitations.

2. Every attempt was being made to settle the dispute with the NSIC so as to dispose of the scrap. In 1969, the Pigs were offered to the Corporation at the rate of Rs. 10,200/- to Rs. 10,500/- per tonne. The Corporation did not make any specific offer but had approached DGOF in June 1969, for reduction of the prices stating *inter-alia* that compared to the previous price of Rs. 6,220/- per tonne the quoted prices were very high and were higher than the market price. The contentions of NSIC were not agreed to. In September 1969, while accepting the prices offered by the DGOF, the Corporation expressed their inability to pay excise duty; they also wanted that once a security deposit equivalent to one wagon load to each factory has been paid, despatches should be continued without waiting for payment against earlier despatches. The then prevailing practice was to despatch only one wagon load against security deposit and subsequent despatches only after full payment against earlier despatches, and adjustment of the security deposit being carried out against last consignment moving out of the Factory. This suggests

was not agreed to by the Factory authorities. Ultimately, the Corporation obtained exemption from payment of excise duty from the Excise authorities and lifted 1570 tonnes (1100+470 tonnes) during 1970 according to the terms of payment.

3. In June 1970, the following rates were quoted by DGOF to the Corporation:

<i>Type of Pigs</i>		<i>Rate</i>	
		<i>Rs.</i>	
(i)	70/30 Brass Ingots (Pigs)	14,700	per tonne
(ii)	70/30 " " "	14,700	"
(iii)	65/35 " " "	13,900	"
(iv)	60/40 " " "	13,100	"

The Corporation did not make any specific offer but requested in July 1970 for reduction in the prices stating *inter-alia* that the prices were high and were not according to the market price. After protracted correspondence, the following rates were fixed in May 1972, and the Corporation agreed to lift the scrap:

		<i>Rs. per tonne</i>
70/30	. . .	11,500
65/35	. . .	10,900
60/40	. . .	10,400

The prices are revised from time to time after negotiations with the NSIC.

4. However, the undermentioned steps have been taken to get rid of these scrap materials:

- (i) The existing crushing machines are being run to their optimum output.
- (ii) Efforts are being made to improve the capacities of crushing of the machines.
- (iii) Disposal through NSIC and DGOF.

5. DADS has seen.

[Ministry of Defence U.O. No. 2(14)/76/77/S'D (O-II) dated 31 January, 1978].

### **Recommendation**

It is understood that Government sanction has been accorded, on 31st August 1974, for the procurement of six crushing machines (estimated cost Rs. 1.80 lakhs) to be installed at various ammunition depots and that



necessary action to procure these machines was being 'pursued actively'. The Committee would like to be informed of the progress made in this regard as well as the latest position relating to the accumulation and disposal, if any, of empty cases. It appears to have been estimated that the crushing machines would be able to crush not less than 4,000 tonnes of empty cases every year and that after liquidating past accumulations (which amounted to 9,416 tonnes as on 1 November 1974), two of these machines would be held in reserve as spare capacity. Having regard to the quantity of SAA scrap arising annually in the Ordnance Depots, the Committee fear that the provision of such a large capacity might be somewhat excessive and would like this aspect to be re-examined.

[Sr. No. 12 (Para 2·40) of Appendix IV to 229th Report (5th Lok Sabha)].

### Action taken

All the six crushing machines on order have since been installed in the concerned depots as indicated below :

Depots	Date on which machine started functioning
Ammunition Depot, Dehu . . . . .	4 March 1976
Ammunition Depot, Panagarh . . . . .	23 April, 1976
17 FAD . . . . .	1 May 1976
CAD Pulgaon . . . . .	7 May 1976
15 FAD . . . . .	15 May 1976
COD Jabalpur . . . . .	21 June 1976

2. The stocks of fired empty cartridge cases held were 4574 tonnes as on 31 March, 1977. The year-wise break up of these cases during 1973—76 is as follows :

Year	Arisings	Balance	Qty. disposed of
1973-74 . . . . .	1981·431	7859·386	1166·000 to DGOF
1974-75 . . . . .	1499·000	8202·000	1367·000 Do.
1975-76 . . . . .	971·000	7850·000	1002·000 Do.

In addition, some quantity was disposed of as salvage.

3. The 6 crushing machines which are actually in operation can crush approximately 2880 tonnes of SAA fired cartridge cases in a year

as the capacity of a machine is only 2 tonnes daily. The rated capacity of a crushing machine as 3 tonnes per day and total crushing capacity of 4000 tonnes per annum were based on the assumption of optimum running conditions. Due to frequent power failures/load shedding/breakdown of the machines, the crushing capacity of a machine has come down to 2880 tonnes in a year.

4. In view of the above and having regard to the quantity of scrap arising annually in the Ordnance Depots, the need for 6 crushing machines has been examined and it is found that the capacity is not excessive.

5. DADS has seen.

[Ministry of Defence, U.O. No. 2(14)/76/77/S/D(O-II) dated 31 January, 1978].

### **Recommendation**

Even if all the past accumulations are mutilated with the help of these machines, the disposal of the scrap would still, it seems, pose a problem, in view of the fact that the estimated requirements of the National Small Scale Industries Corporation amount to only about 3,000 tonnes per annum, which would be more or less met by the fresh arisings of empty cartridge cases. The Committee, therefore wish that this question should be examined early and all necessary steps taken for the expeditious disposal of the scrap. They consider it essential that the Ministry should lay down a suitable time schedule for disposing of the accumulated scrap, of course without detriment in any way to Government's financial interests.

The action proposed to be taken in this regard may be reported to the Committee.

[Serial No. 13 (Para 2·41) of Appendix IV to 229th Report (5th Lok Sabha)].

### **Action taken**

The mutilated stocks of fired SAA cartridge cases of brass, other than burnt ones, are offered for sale to the National Small Industries Corporation. Where quantity offered to the Corporation is not acceptable to them, these would be disposed of in public auction.

2. The quantity of uncrushed stocks accumulated as on 1-4-77 is 3598 tonnes. It is expected that the present holdings would be liquidated in 2 to 3 years. The crushed stocks as on 1-4-77 was only 976 tonnes and this has been offered to NSIC and is being accepted by them. It is therefore felt that disposal of the scrap would not pose any serious problem.

3. DADS has seen.

[Ministry of Defence, U.O. No. 2(14)/76/77/S/D(O-II) dated 31 January 1978].

## CHAPTER IV

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

#### Recommendation

The Committee are further perturbed to find that the question of procurement and installation of furnaces had been handled, ab initio, in a slipshod fashion, apparently without adequate consultations with the actual users as to the possible utilisation of the furnaces indented for. To make things worse, there has been considerable delay in the implementation of the decision in regard to the augmentation of the melting capacity in and modernisation of the Ordnance Factories, though the programme in this respect had been conceived as far back as in 1962, just after the Chinese aggression. According to the decision communicated, in December 1966, by the Director General, Ordnance Factories the four furnaces of 1200 lbs. capacity each ordered initially were to be installed in factories 'A', 'B', 'G' and 'H'. It is, however, not clear to the Committee why Factory 'G' had been selected for the installation of one of the furnaces when the General Manager of the factory had clearly stated, in May 1966 itself, that the quantity of scrap arising from the machine shops in the factory was 'almost negligible' and that the installation of even a much smaller furnace of 200/400 lbs. capacity was not warranted. Factory 'H' had also subsequently pleaded its inability to install the 1200 lbs. capacity furnace, when it was decided in November 1969, to install three of the furnaces in Factory 'A' and one in Factory 'B'. It is evident that there had been no proper and adequate assessment of the actual requirements of the different ordnance factories for these furnaces. Since this is certainly not the way purchase proposals involving considerable investment in foreign exchange ought to be processed, the committee trust that, learning from the experience of this case, Government will seriously examine what is wrong with the system of planning, formulation and implementation of such schemes and take suitable and early steps to see that the shortcomings are overcome.

[Sr. No. 6 (Para 1.55) of Appendix IV to 229th Report (5th Lok Sabha)].

#### Action taken

The Board of Enquiry in its findings, which have been accepted by the Government have stated that while the USA offer made in September 66 for supply of these furnaces under Military Credit Sales Programme was under examination a considerable amount of brass scrap had accumulated in the Machining Factories.

It was considered by the DGOF that it would be useful to deploy these four furnaces for melting of fired Cartridge cases and brass scrap.

To dispose of these large quantities of scrap four furnaces were planned to be installed in factories 'A', 'B', 'G' and 'H', when this proposal was mooted the factories concerned raised certain practical difficulties. Their point of view was that they were not equipped to handle this kind of work which is essentially of a metallurgical nature. There were also certain difficulties in obtaining power. Considering these genuine difficulties the DGOF in 1969 planned to utilise these furnaces for strip making. Therefore it would appear that even though during the period 1966-69 different proposals were mooted for utilisation of these furnaces, this was not due to any faulty planning but due to certain compulsions as envisaged by the Factory Managers in the efficient utilisation of the furnaces, which were yet to be received.

The Board of Enquiry which went through all aspects of procurement and utilisation of these furnaces has stated in its findings that planning is not a static process. It has to be flexible enough to meet changing circumstances. The process of consultation with the various General Managers and examination of the *pros and cons* of the proposals made from time to time inevitably takes time.

The Board of Enquiry in its conclusions has recommended that the planning cell in DGOF's Organisation should be strengthened and made more effective so that similar cases of non-utilisation of imported machinery over long periods are avoided.

Chief Auditor (Ord Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26(4) '76 D(PA) dated 17 August, 1977].

### **Recommendation**

The net outcome of this episode so far has been that after a fruitless quest to find a possible user for the unwanted higher capacity furnaces among the different ordnance factories, these furnaces are even yet to be installed and commissioned. Factory 'B', in which one of the furnaces was to be installed, appears to have pleaded that a 5000 lbs. capacity furnace would not match its requirement and would remain idle for a considerable period in a month. It was, therefore, decided in June 1971, to instal the furnace in factory 'C', which also pointed out, in August 1971, that it was not possible for it to accept the furnace on account of various 'technical and production reasons'. The three other furnaces received in factory 'A', could not also be installed and used in that factory because on re-examination of the proposed augmentation scheme of that factory, it was decided, in February, 1973, to set up an integrated plant for brass melting, rolling and cupping at factory 'C', where it was proposed to utilise the furnaces. As this proposal had also to be given up subsequently on account of lesser requirement of ammunition as well as financial constraints, another proposal to utilise the furnaces for the melting and pigging of the fired cartridge cases of small arms ammunition (a case which has been discussed subsequently in this Report) in factories 'C' and 'D' had been mooted as a stop-gap arrangement, though the furnaces would have been much too large for this purpose. The Committee are distressed that Government having taken the view that since the larger capacity

furnaces had, in any case, been received, it would be wise to try and utilise them, it has still not been possible to utilise the furnaces so far.

[Sr. No. 7 (Para 1.56) of Appendix IV to 229th Report (5th Lok Sabha)].

### Action Taken

The Board of Enquiry in its findings, which have been accepted by the Government has stated that as already brought out earlier, the allocation and reallocation of these furnaces arose owing to, firstly, the pressing need to handle scrap by melting and pigging and the resulting difficulties to instal these furnaces in the factories concerned, and secondly, under the replacement scheme as well, to cater for some additional requirement like the buidling space, the auxiliaries or supporting services. This first part for utilisation of these furnaces prior to their receipt was also conditioned by the fact that the requirement of strip at that stage was at a low ebb, while the disposal of scrap was a pressing problem.

The Board of Enquiry which went into all aspects of procurement and utilisation of these furnaces has given the following findings, which have been accepted by the Government:—

The Board agrees with the comments of the PAC that Government having taken the view since larger capacity furnaces had in any case been received, it would be wise to try and utilise them but has so far failed to utilise these furnaces. In this connection the Board found that after receipt of the larger capacity furnaces, the DGOF had put up as many as four proposals for the utilisation of these furnaces. These proposals were made to Government as follows :—

1. On basis of Sen Committee's recommendation a Project for Augmentation of capacity for melting, rolling and cupping at OFA, OF KAT & MSF at a total cost of Rs. 17.76 crores, which included installation of four American furnaces at OF Katni at an expenditure of Rs. 172.50 lacs with FE content of Rs. 61.50 lacs. This report was considered in room of Secretary (DP) on 28-5-73 and project was not pursued due to financial constraints.

2. Installation of four American furnaces at OFA at total cost of Rs. 127 lacs with FE content of Rs. 25.70 lacs for increasing brass melting capacity vide DGOF u.o. No. 808/73/A&C dated 12-2-75, which included civil work of Rs. 41.6 lacs and provided semi continuous casting machines.

3. Augmentation of Brass Strip making capacity in Ordnance Factories at estimated cost of Rs. 10.72 crores inclusive of FE content of Rs. 3.12 crores submitted by DGOF on 26-6-76. The proposal catered for replacement of existing melting furnaces and took into account how many existing furnaces would be omitted if 4 American furnaces are installed in lieu. This proposal was considered from time to time at various levels without any final outcome.

4. Augmentation of Brass melting capacity at OFA by providing semi continuous casting machines at a total cost of Rs. 3.5 crores with FE content of Rs. 1.36 crores and providing civil work for Rs. 45 lacs vide DGOF UO No. 707/AUG/Proj(M), dated 15-12-76. The proposal is under examination.

5. The first two proposals were not accepted by Government for reasons of financial stringency and also owing to the fact that the requirements of brass strips based on them existing orders from the Services were being adequately met by the existing capacity of factories at Katni and Ambarnath. The third and fourth proposals are still under the consideration of the Government who have yet to take a decision.

Chief Auditor (Ord Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26(4)/76/D(PA) dated 17 August, 1977].

### **Recommendation**

While taking a decision to retain these furnaces and to try and utilise them, no one appears to have applied his mind to the economics of their installation. It has been assessed only subsequently that if the furnaces are to be utilised fully certain auxiliary equipments and facilities, costing well over a crore of rupees, would be necessary. In the circumstances, the Committee regret that the decision to retain the furnaces must be pronounced unsound. The implications of retaining them had obviously not been analysed properly before acquiescing in their supply. The Committee fear they must express displeasure at the apparent haste with which this decision had been taken with results that have meant loss to the country. This state of facts calls for an investigation which will among other things, fix responsibility for the failure and suggest steps for the future.

[Sr. No. 8(Para 1.57) of Appendix IV to 229th Report (5th Lok Sabha)].

### **Action Taken**

As stated in the action taken note under Sr. No. 7 para 1.56, the various proposals put up for installation of these furnaces could not be proceeded with, on account of financial constraints and also till 1975 the requirement of Brass Strip for meeting Services demand of Ammunition was being adequately met by existing capacity in Ordnance Factories at Katni & Ambarnath.

The Board of Enquiry appointed by Ministry of Defence has given their findings which have been accepted by the Government as follows :—

The Board finds that from 1975-76 the production of brass strip in O.F. Ambarnath and OF Katni was insufficient to meet the requirements of the Services, and, therefore, resort had been made to obtain brass strip from the trade by melting the fired cartridge cases and scrap. It has also been brought to the notice of the Board that the rate for conversion, which is paid to the trade is considerably higher than the estimated cost of conversion in the Ordnance Factory at Ambarnath. Therefore, the Board feels that the latest proposal of the DGOE to instal the four furnaces in OF Ambarnath at a cost of Rs. 3.5 crores should be considered by Government on high priority. This may lead to considerable savings and the Ordnance Factories will no longer be dependent on trade for their requirements of brass strip.

Further the Board in its final conclusions has observed as follows:—

From its findings as recorded above, the Board has come to the conclusions that no one in the service of Government of India could be held responsible for the supply of high capacity furnaces by the American Government against low capacity furnaces asked for by DGOF. The supply of high capacity furnaces by USA to India has not put the Government to any loss. There was, however, failure on the part of the Department of Defence Production in formulating a cogent plan for the effective utilisation of these furnaces, after their arrival in India in 1971. This failure is partly due to the financial stringency and partly due to the fact that the existing furnaces at Ambarnath and Katni could supply the requirements of brass strips of DGOF till 1975. Only after 1975 the demand of the Services for ammunition showed a considerable rise and the Department of Defence Production had to go to the private trade for conversion of fired cartridge cases into brass strips. As the demand for brass strips for manufacture of ammunition has risen since 1975 and is expected to rise further in future Department of Defence Production should take very urgent steps to exploit the four furnaces. The Board understands that the proposal to instal these four furnaces in Ordnance Factory, Ambarnath is in the final stages of consideration of Government. The Board urges that this should be expedited and the installation of the furnaces made on a crash programme. This will not only result in utilising the furnaces which have been lying idle since 1971 but would also result in considerable savings to Government as the conversion charge which is being paid to private trade is considerably higher than the estimated cost of conversion in the Ordnance Factory, Ambarnath.

Chief Auditor (Ord Fys) has seen.

[Ministry of Defence (Department of Defence Production) O.M. No. 26(4)/76/D(PA) dated 17 August, 1977].

## CHAPTER V

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

#### Recommendation

In this context, the Committee would urge Government to examine, on a priority basis, the feasibility of retrieving the copper and zinc from the scrap and utilising them more profitably for the manufacture of Service or Civilian stores either by Defence or other Government agencies where the specifications do not prohibit the use of scrap. The Committee attach importance to such an examination in view of the fact that while on one hand large quantities of scrap have been allowed to accumulate, considerable expenditure is being incurred on the other hand, on the purchase of virgin, non-ferrous metals, which are getting scarcer and costlier. Viewing this question from an angle wider than that purely of defence, the Ministry should examine the economics of such a project and the value of its end results. Since the process for the retrieval of the base metals from scrap is said to exist now, the Committee feel that it would be worthwhile to undertake a cost benefit analysis in this regard. The Defence Secretary was good enough to concede during evidence that this matter should be examined, and the Committee trust that this examination would be completed with the utmost promptitude, in case it has not already been done.

[Sr. No. 14 (Para 2.42) of Appendix IV to 229th Report (5th Lok Sabha)].

#### Action Taken

According to the Additional DGOF, the process of extraction of primary metal from non-ferrous would be difficult and costly. However, the matter is still under examination by the Department of Defence Production. A further note will be submitted as soon as the matter is finalised.

2. DADS has seen.

[Ministry of Defence U.O. No. 2(14)/76/77/S/D(O-II) dated 31 January, 1978].

NEW DELHI;

March 15, 1978

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Phalgun 24, 1899(S).

C. M. STEPHEN,

Chairman,  
Public Accounts Committee.



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**APPENDIX**

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## APPENDIX

### Consolidated Statement of Conclusions, Recommendations

Sl. No.	Para No. of the Report	Ministry Department concerned	Conclusion Recommendation
1	2	3	4
1.	1.3	Ministry of Defence Department of Defence Production.	The Committee expect that final replies duly vetted by Audit, to those recommendations observations in respect of which only interim replies have so far been furnished will be submitted to them expeditiously.
2.	1.7	Do.	The Committee feel that the explanation now given by Government that various proposals were formulated for the utilisation of the furnaces but these could not be implemented as the factories to which these were allocated had expressed their inability to utilise them, is in itself an admission of the fact that planning for their procurement and utilisation was faulty. All the difficulties, viz. obtaining of power etc. should have been visualised and sorted out before deciding to accept the offer of the foreign government. The Committee regard it as unfortunate that the positive lapses on the part of the officers responsible for the procurement and

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Ministry of Defence/  
Department of Defence  
Production.

utilisation of these furnaces are sought to be explained away by such general statement that planning "has to be flexible enough to meet changing circumstances" and the process of consultation "inevitably takes time". The Committee expect that Government will take prompt action on the recommendation of the Board of Enquiry for improvement in the organisation of the planning cell of DGOF so as to make it more effective.

The Committee cannot but deplore that it has not been possible for the Department to take a final decision in regard to the utilisation of the furnaces during the last eight years and meanwhile the furnaces are rusting in crates. They desire that a decision in this behalf should be taken without any further delay and thereafter immediate steps should be taken to instal and commission the machinery.

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