PUBLIC ACCOUNTS COMMITTEE (1978-79)

(SIXTH LOK SABHA)

EIGHTY-EIGHTH REPORT

PURCHASE OF ZINC SLABS

DEPARTMENT OF SUPPLY

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 19th Report (Sixth Lok Sabha) relating to Department of Supply]

Presented in Lok Sabha on
Laid in Rajya Sabha on

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2. Shri T. R. Ghai—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Eighty-eight Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Nineteenth Report (6th Lok Sabha) on Purchase of Zinc Slabs commented upon in paragraph 37 of the Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government (Civil) relating to the Department of Supply.

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*

Members

3. Shri Vasant Sathe
4. Shri M. Satyanarayan Rao
5. Shri Gauri Shankar Rai
6. Shri Kanwar Lal Gupta

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 10 November, 1978. The Report was finally adopted by the Public Accounts Committee (1978-79) on 27 January, 1979.

4. For facility of reference the conclusions and recommendations of the Committee have been printed in think type in the body of the Report. For the sake of convenience, the conclusions and recommendations of the Committee have also been appended to the Report in a consolidated form.

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.

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

NEW DELHI;
January 27, 1979
Magha 7, 1900 (*Saka*).

CHAPTER I

1.1. This Report of the Committee deals with the action taken by Government on the Committee's recommendations and observations conttained in their 19th Report (Sixth Lok Sabha) on 'Purchase of Zinc Slabs', commented upon in paragraph 37 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil), relating to the Department of Supply.

1.2. The Committee's 19th Report was presented to the Lok Sabha on 15 December, 1977 and contained 27 recommendations and observations. According to the time schedule for furnishing of Action Taken Notes on Committee's recommendations and observations, the notes indicating the action taken by Government in pursuance of the recommendations and observations contained in their 19th Report duly vetted by Audit were required to be furnished to the Committee latest by 14 June, 1978. While the Department of Mines made available to the Committee advance copies of their Action Taken Notes in respect of all their 16 recommendations and observations marked to them within this time limit, the Department of Supply did not submit even a single action taken note within this period and requested for extension of time upto 31 July, 1978 for submission of action taken notes. However extension of time upto 14 July, 1978 was granted and the Department of Supply could make available Action Taken Notes only in respect of 6 recommendations and observations within the revised time schedule. Subsequently, the Department of Supply furnished to the Committee unvetted copies of action taken notes in respect of all the remaining recommendations and observations on 14 August, 1978.

1.3. Till April, 1963, Action Taken Notes/Statements were required to be furnished to the Committee within one month of the presentation of the Committee's Report to the House. The Public Accounts Committee (1962-63) however, found that this time limit was not being observed by most of the Ministries and therefore the Committee, seeking to be fair, had been extended this time limit to three months. Reverting to the subject again, the Public Accounts Committee (1967-68) while further extending the time limit for submission of Action Taken Notes/Statements to six months from the date of presentation of the Report to the House, had observed in paragraph 1.11 of their 5th Report (4th Lok Sabha):

> "The relaxation in the time limit for submission of replies should not be interpreted as implying that the Committee do not attach importance to prompt action being initiated on their recommendations. What the Committee envisage is that the Government should draw up a well-thought-out plan for processing the recommendations of the Committee as soon as a Report is presented to the House. The Committee consider that it should be reasonably possible for Government to draft the replies on these recommendations/observations within four months of their receipt and that these should be got vetted by Audit in the next two months so that final replies, duly vetted by Audit, could be sent to the Committee not later than six months of the date of presentation of the Report. With a view to ensuring that this time schedule is adhered to scrupulously, the Committee would suggest to Government that the Finance Secretary (Expenditure) should be made responsible for securing compliance, as a co-ordinating officer, and he could get the Financial Advisers attached to the different Ministries to watch that a final reply is furnished to the Lok Sabha Secretariat in respect of recommendations concerning the relevant administrative Ministry."

1.4. Even after this revised schedule had been agreed to delays in the submission of Action Taken Notes continued to occur. The Public Accounts Committee (1975-76) therefore in their 220th Report (Fifth Lok Sabha), urged the Government 'to review this thoroughly unsatisfactory state of affairs and take immediate remedial measures.' While expressing their happiness over the measures aimed at securing timely submission of action taken notes on the Committee's recommendations by setting up a 'Monitoring Cell' in the Department of Expenditure as the focal point for the Government as a whole, to co-ordinate the progress in this regard and monitor delays with the Ministries/Departments concerned, the Public Accounts Committee (1976-77) had, in paragraph 1.15 of their 25th Report (6th Lok Sabha), hoped that 'the Integrated Financial Advisers/Internal Financial Advisers in each Ministry would discharge their responsibility effectively in examining the Reports of the Committee and in co-ordinating and monitoring the expeditious submission of the Action Taken Notes thereon to the Committee.' Still the position in this regard is far from satisfactory.

1.5. The Committee are constrained to observe that in spite of their repeated recommendations and subsequently setting up of a Monitoring Cell in the Ministry of Finance, the Ministries|Departments are not furnishing the vetted Action Taken Notes on the recommendations of the Committee within the prescribed limit of six months from the date of presentation of the Report to the House. This obviously defeats the purpose of setting up the Monitoring Cell. The Committee desire that the Monitoring Cell should systematise its working and by means of effective control and mechanisms ensure that the Ministries/Departments scrupulously adhere to the time schedule prescribed for furnishing Action Taken Notes on the recommendations of the Committee. The Committee feel that a greater measure of success can be achieved in this regard if the Ministries or Departments concerned initiate action on the recommendations and observations of the Committee immediately after presentation of the Report and submit the action taken notes for vetting by Audit well before the prescribed date of their furnishing replies to the Committee.

1.6. The Action Taken Notes (vetted as well as non-vetted) received from Government have been broadly categorised as follows:

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

Sl. Nos. 2, 3, 5, 6, 10, 12, 13, 14, 23, 24 and 26.

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

Sl. Nos. 1, 4, 7, 17, 18, 19, 20, 21, 22 and 27.

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

Sl. Nos. 8, 9, 15 and 16.

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

Sl. Nos. 11 and 25.

1.7. The Committee expect that final replies to those recommendations and observations in respect of which only interim replies have so far been furnished will be submitted to them, duly vetted by Audit, without delay.

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

Revealing the fact that the public sector undertaking had asked for a price increase to a private firm not appreciated (*Paragraphs* 1.129-1.130 *Sl. Nos.* 8 *and* 9)

1.9. Commentnig on the unusual procedure adopted by the Government in informing M|s Comminco Binani Ltd. the fact that the public sector undertaking had asked for increase in the price of zinc and that it might supply cost data indicating actuals for the years 1969 and 1970 and cost projections based on the best estimation possible for the years 1971 and 1972 for revision of zinc price, the Committee, in paragraphs 1.29 and 1.130 of their Report had observed:

> "The Committee further note that while fixing the price at Rs. 2850, the producers were informed that future proposals for increase in the selling price would be considered on the basis of actual costs of production. While the public sector undertaking was being reviewed in November, 1970, it was decided that it might submit proposals for revision of zinc price duly supported by cost data. The cost data for the public sector undertaking was received by the Department of Mines and Metals in February, 1971. The Committee are perturbed to learn that in the same month the Department had informed M|s Cominco Binani Ltd. that the public sector undertaking had represented for increase in price of zinc and it might supply 'cost data indicating actuals for the year 1969 and 1970 and cost projections based on the best estimation possible for the year 1971 and 1972'. The cost data from Cominco Binani Ltd. was received in March 1971 and the cost data of both the companies were referred to the Bureau of Industrial Costs and Prices in April, 1971. The Bureau in their Report submitted on 24 January, 1972, recommended a price of Rs. 4090 per tonne with effect from 1 February, 1972. Although price for the intervening period from 1 April, 1971 to 31 January, 1972 was not fixed, the Department of Mines have stated that the price of Rs. 2850 per tonne continued during the period.

The Committee are unable to appreciate the reasons which prompted the Ministry to communicate to Cominco Binani Ltd. the fact that the public sector undertaking had asked for a price increase. The requisite information about the cost data could have been obtained from the firm without making a specific reference about the public sector undertaking. In the opinion of the Committee, this unusual procedure might have encouraged the firm to inflate their cost data and also hold up supplies to various departments in expectation of a price rise. In view of the fact that the price of zinc for the period 1 April, 1971 to 31 January, 1972 was not fixed, an atmosphere of uncertainty was unnecessarily allowed to be created. The Committee would therefore like the Government to probe the reasons for non-fixation of the prices of the zinc during the period 1 April, 1971 to 31 January, 1972".

1.10. In their reply furnished to these observations in the relevant Action Taken Note dated 7th August, 1978, the Ministry of Steel & Mines (Department of Mines) have stated:

"While reviewing the performance in November, 1970 of the Hindustan Zinc Ltd., a Central Government undertaking producing zinc in the public sector it was noted that during 1968-69 there was a loss of Rs. 34.80 lakhs and the company was likely to incur substantial losses in future. This was mainly due to the fact that the selling price of zinc fixed at Rs. 2850 per tonne was uneconomical. Accordingly, it was felt that the company might submit proposals for revision of the price of zinc, duly supported by cost data. It was also felt that proposals, if any, received from the other producer *viz.* M|s. Cominco Binani Zinc Ltd. could also be considered on merits, having regard to the actual cost of production. It was also decided at the meeting that the actual cost of production of M/s. Cominco Binani Zinc Ltd. should be ascertained by the Government representative on the Board. Pursuant to this, the cost data for 1970 was furnished by M|s Cominco Binani Zinc Ltd. in January, 1971. The data furnished indicated that the cost of production of M|s Cominco Binani Zinc Ltd., was around Rs. 3,100 per tonne for 1970 without provision for return on capital. The Hindustan Zinc Ltd. furnished cost data in February, 1971.

The cost data furnished by M|s Cominco Binani Zinc Ltd. in January, 71 and that by Hindustan Zinc Ltd. in February, 1971 were examined, and both the producers were addressed to furnish cost data for 1969-70 and cost projections for 1971-72. It will thus be seen that M|s Cominco Binani Ltd. had, in fact, submitted cost data for 1970 prior to February, 1971. The purpose of the letter of February, 1971, to the party was to seek further data.

It is felt that since the selling price of indigenous zinc was being fixed informally on a uniform basis, revision of the selling price of zinc produced by the Hindustan Zinc Ltd. alone might have led to the allegation of discrimination. All the same in retrospect, it is agreed that the letter seeking further data from M|s Cominco Binani Zinc Ltd. could have been sent without specifically referring to the representation of the public sector undertaking for price revision.

The cost data called for was for making a reference to the Bureau of Industrial Costs and Prices for a detailed cost study. The Bureau of Industrial Costs and Prices later examined the cost data after calling for further details and apparently applied necessary scrutiny and checks to verify the actuals. The calling of the cost data by the Ministry in February, 1971 could not thus have encouraged M|s Cominco Binani Zinc Ltd. to inflate their cost. In any case, the Bureau of Industrial Costs and Prices were expected to check all such data indeed their procedures provide for such scrutiny.

It was expected that the Bureau of Industrial Costs and Prices would complete the study in a short period. The Bureau was requested in April, 1971, to complete the study in about 2 months. In reply, the Bureau of Industrial Costs and Prices indicated that the report would be ready by about middle of July, 1971. The study, however, took a much longer time and the report was received only in January, 1972. It is felt that if the Bureau's study had been completed expeditiously as expected, and as earlier indicated the informal control on zinc price would have been applied earlier.

The whole matter regarding non-fixation of the selling price of indigenous zinc during the period 1-4-1971 to 31-1-1972 has been again examined from the relevant records, and it is seen that the system of informal distribution/price control on indigenous Zinc was thought of in 1968 when the public sector smelter went into production. This was with a view to avoiding unhealthy competition and speculative purchases by zinc buyers as between the two zinc producers. Further, because of slackness in demand and the liberal imports allowed after the devaluation of the rupee in 1966, the off-take of the metal was not satisfactory.

The main object of the price fixation in 1968—though not expressed in so many words—seems to have been to safeguard the interests of the public sector zinc producing unit which had just commenced production of the metal. After having obtained the consent of the two producers to an informal control, the selling price was fixed at Rs. 2700 (exclusive of excise) per tonne in June, 1968. This price, which was intended to be in force upto 31-3-1969, continued upto 31-1-1970 when it was revised to Rs. 2850 per tonne (exclusive of excise) w.e.f. 1-2-1970. In the intervening period *i.e.* from 1-4-69 to 31-1-1970, the same price of Rs. 2700 per tonne (exclusive of excise) fixed in June, 1968, continued.

The revised price of Rs. 2850 per tonne fixed in February 1970, was intended to be valid upto 31-3-1971 and the two producers were informed that in future the proposals for increase in the selling price would be considered only on the basis of actual costs of production. The cost data were received from the producers in February, 1971. As stated earlier, in April, 1971, the Bureau of Industrial Costs and Prices was requested to take up cost study for the purpose of price fixation of indigenous zinc. The Bureau was requested to complete the study within a period of two months. In his reply dated 29-4-1971, the Chairman, Bureau of Industrial Costs and Prices informed that questionnaire would be sent to the producers shortly, and assuming receipt of replies by the end of May, 1971, the report would be ready by about middle of July, 1971. The replies were sent by the producers only in July, 1971 (on 19-7-1971 by Hindustan Zinc Ltd. and on 23-7-1971 by M|s Cominco Binani Ltd.). On 8-11-1971, the Bureau of Industrial Costs and Prices was reminded to expedite the report. The Bureau's report, was however, received only on 24-1-1972. After examination of the report, the price of zinc was revised to Rs. 4090 per tonne (exclusive of excise) effective from 1-2-1972.

The Bureau's report *inter alia* brought out that the producers were incurring heavy losses. It was also clear that the price of Rs. 2850 per tonne (exclusive of excise) fixed in 1970, which continued as per the earlier precedent, was unremunerative to both the producers. But it was found that giving retrospective effect to the revised price would present administrative difficulties particularly in respect of sales to parties in the private sector.

All the same, the Government agree in retrospect that continuation of the selling price of Rs. 2850 per tonne could have been notified to the producers while making the reference in April, 1971 to the Bureau of Industrial Costs and Prices for the Cost Study. It would appear that Government went more by the earlier precedent particularly because the control was informal and hoped that the Bureau's cost study would be completed in short time.

The lesson learnt from the price fixation in 1968 and 1970 was however, kept in view while notifying the price revision subsequently. On 22nd February, 1972, while revising the selling price of zinc to Rs. 4090 per tonne no specific period was mentioned for the continuance of the price.

It is perhaps relevant to point out that M/s. Cominco Binani Zinc Ltd. incurred a loss of Rs. 48.16 lakhs in 1971. Their cumulative loss as on 31-12-1971 stood at Rs. 215.94 lakhs.

1.11. **The Department of Mines have concurred with both the observations of the Committee** viz. **(i) that the requisite information about the cost data could have been obtained from M/s. Cominco Binani Zinc without referring to the representation of the Public Sector Undertaking for price revision and (ii) since the price of zinc was not fixed for the period 1-4-71 to 31-1-72 an atmosphere of uncertainity was unnecessarily allowed to exist. It however appears to be unusual to the Committee that the fact that M/s. Hindustan Zinc Ltd., has asked for price increase was communicated to M/s. Cominco Binani Ltd., and they would therefort like the matter to be investigated so as to satisfy the Committee that there was no** malafide **intention behind it.**

Non-appointment of a Government Nominee on the Board of Directors from May 1967 to May 1970 (Paragraph 1.136—Sl. No. 15)

1.12. Expressing their concern over non-appointment of a Government Nominee on the Board of Directors of M/s. Cominco Binani Zinc Ltd., continuously for three years from May, 1967 to May, 1970, the Committee in paragraph 1.136 of their Report, had recommended:

"The Committee note with concern that Government did not nominate any person on the Board of Directors of Cominco Binani continuously for three years, *i.e.* from May, 1967 to May, 1970. The Committee consider this to be a serious lapse which should be investigated."

1.13. The Action Taken Note dated 7 August, 1978 furnished by the Department of Mines with reference to their observations, is reproduced below:

"The Industrial Licence granted to M/s. Cominco Binani Zinc Ltd. for the setting up of the Zinc Smelter contained the following conditions:—

"The Industrial Undertaking shall agree that the Government will have the right to nominate Government Director/Directors on the Board of the Company and to this end the Articles of Association of the Industrial Undertaking shall include such clauses as may be specified by Government".

Pursuant to the above, the Department of Mines nominated its representative on the Board of Cominco Binani Zinc Ltd., during August, 1966 to April, 1967, when the Zinc Smelter of M|s. Cominco Binani Zinc Ltd. was under construction. On the relinquishment of charge by that particular officer of the Department nominated on the Board of M/s. Cominco Binani Zinc Ltd., and his subsequent resignation from the Board in April, 1967, no successor was nominated immediately as it was decided at that time that Government could do without nominating an officer from the Ministry to take the place of the officer who had resigned. Thereafter Government nominated its representative on the Board of the company in June, 1970, with a view to ensuring that the funds generated by the company were utilised for expansion and not frittered away by payment of higher dividends etc. The main object of the nomination of the representative of the

Department of Mines on the Board of Cominco Binani Zinc Ltd. in 1966 was to keep a watch on the progress of setting up of the Zinc Smelter and later, in June, 1970 to ensure that the additional resources likely to be generated (following the revision of zinc price from Rs. 2700 to Rs. 2850 per tonne allowed in February, 1972) were not frittered away by way of higher dividends and/or investment in the shares/debentures of associate companies, but ploughed back for expansion."

1.14. **The Committee are not satisfied with the reply of the Department of Mines that 'the main object of the nomination of the representative of the Department of Mines on the Board of Cominco Binani Zinc Ltd., in 1966 was to keep a watch on the progress of setting up of the ine Smelter, and later, in June, 1970 to ensure that the additional resources likely to be generated (following the revision of zinc price from Rs. 2700|- to Rs. 2850 per tonne allowed in February, 1972) were not frittered away by way of higher dividents and/or investment in the shares|debentures of associate companies, but ploughed back for expansion.' The Committee consider non-appointment of a nominee on the Board of Directors of M|s. Cominco Binani Zinc Ltd. during the intervening period of three years i.e. from May, 1967 to May, 1970 to be a serious lapse. Since the firm was showing losses during these years it was all the more necessary that Government nominated their representative on the Board of Directors. The Committee would, therefore, reiterate their earlier recommendation for a thorough investigation in this case.**

Action Taken by Government on the Reports of their Nominee on the Board of Directors (*Paragraph* 1.137—*Sl. No.* 16)

1.15. Dealing with the action taken by the Government on the reports of their representatives on the Board of Directors regarding various Government Departments, the Committee, in paragraph 1.137 of their Report, had observed:

"According to the Department, the main object of the nomination of a representative on the firm's Board of Directors in August, 1966, was to keep a watch on the progress of the setting up of the zinc smelter. It was further stated that in June, 1970, the renomination of an official representative was to ensure that the additional funds generated by the smelter were not frittered away by way of higher dividends and/or investment in the shares/debentures of associate companies but ploughed back for expansion. The Committee would like to know whether the

Government Director had ever raised the question of non-supply of zinc slabs to various Government Departments in the Board Directors' meetings or brought the matter to the notice of the Department of Mines and, if so, the action taken by the Department of Mines on the basis of the Government representative's reports."

1.16. In their Action Taken Note dated 7 August, 1973 relevant to the above observations, the Ministry of Steel & Mines (Department of Mines) have replied:

"As stated by the Committee, the main object of nomination of a Government's representative on the Board of Directors of M/s. Cominco Binani Zinc Ltd. in August, 1966, was to keep a watch on the progress of setting up of the Zinc Smelter which was under construction. The object in June, 1970, was to ensure that the additional funds generated by the Company are not frittered away.

The Officers nominated on the oard of Directors of the company by the Government (Department of Mines) were invariably those dealing with the zinc industry in the Department to ensure effective communication between the zinc producers (the other zinc producer being in the public sector) and the Government. The Government Directors were making periodical reports on the affairs of the company on return from the Board's meeting, where considered necessary. From the records there is no indication that matters relating to supply of zinc to Government Departments were brought before the Board of Cominco Binani Zinc Ltd.

However, once in every six months, the Joint Secretary in the Department of Mines used to hold a meeting to consider matter relating to distribution of indigenously produced zinc. These meetings were attended by the representatives of the DGS&D, DGTD, DC, SSI, etc. as also those of the two zinc producers and the Government Director on the Board of Cominco Binani Zinc Ltd. Even at these meetings during the periods in question no specific complaints regarding supply of zinc to Government Departments were pointed out by the representatives of DGS&D, except a general mention about the backlog in supplies by the producers."

1.17. **The Committee are concerned to note that from the records in the Department of Mines there is no indication that the matters**

relating to non-supply of Zinc to Government Departments were brought before the Board of Cominco Binani Zinc Ltd. What is more disturbing is the fact that although the representativt of the DGS&D had clearly mentioned of the backlog in supplies by the producers in the meetings held by the Joint Secretary of the Department once in every six months, no action was taken by him in this matter. Tht Committee are, therefore, of the opinion that the responsibility for this grave failures may be fixed under intimation to them.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee are concerned to note the falling trend in the production of zinc in the country year after year as they find that from 28,024 tonnes in 1968-69 the production had fallen progressively to 22,781 tonnes in 1974-75. Though it picked up to 27,820 tonnes in 1975-76, it has still to reach the level of initial production of 1968-69. The result of low indigenous production of zinc has been that the country had to depend mainly on imports to meet its requirements. What is more disturbing is the fact that against the average production of 24,263 tonnes during the years from 1968-69 to 1975-76, the average imports were 65,691 tonnes.

[Serial No. 2 (Para 1.123) of Appendix to the 19th PAC's Report (6th Lok Sabha)]

Action Taken

The Government agrees with the observations of the Committee in regard to the falling trend in the production of zinc in the country from 1968-69 to 1974-75 which resulted in a corresponding increase in imports.

2. In this connection it may be mentioned that zinc technology is relatively new to the country; and production of this metal commenced in the country only in 1967-68. The two new smelters, one of Hindustan Zinc Ltd. and the other of Cominco Binani Zinc Ltd. faced a number of technological and operational problems, apart from usual teething troubles and factors like power cuts etc. These were looked into and remedial action taken to the extent possible.

3. With reference to the observation of the Committee on the trend in zinc production between 1968-69 and 1974-75, it may be noted that the production of 28,024 tonnes in 1968-69 includes the production of 13,402 tonnes of zinc produced by the Hindustan Zinc Ltd. during 1968-69, and that this tonnage includes a quantity of 4,327 tonnes of zinc ingots produced from the zinc cathodes produced by the company in the previous year, i.e. 1967-68 when the Zinc Furnace for the conversion of zinc cathodes into zinc ingots

had not been commissioned. If tonnage of 4,327 relating to 1967-68 is deducted, the actual production of zinc during 1968-69 would be of the order of 23,697 tonnes.

4. With various remedial measures taken, the zinc production has appreciably increased in the Hindustan Zinc Ltd. after the expansion of their Debari Zinc Smelter and the commissioning of the new Zinc Smelter at Visakhapatnam (Andhra Pradesh). The production figures for 1975-76, 1976-77, 1977-78 (actuals) and the estimated production in 1978-79:—

Year	HZL	MBZ	Total
1975-76	16 031	11 709	27 830
1976-77	14 533	12 500	27 033
1977-78*	33 485	9 611	43 096
1978-79	64 320	14 000	78 320

[Deptt. of Mines O.M. No. 54012(6)/77-Met. II Dated 7-8-1978]

Recommendation

The main factor, as it appears to the Committee, for the low production of zinc has been the low output of the two smelter units since their inception. It is observed that the average production of M/s. Cominco Binani Zinc Ltd. (in the private sector) and Hindustan Zinc Ltd. (in the public sector) during the years 1968-69 to 1975-76 had been 58 per cent (11,600 tonnes) and 66 per cent (11,900 tonnes) of their installed capacity of 20,000 tonnes and 18,000 tonnes respectively. The Committee need hardly emphasise that precise reasons for the low production of zinc by these units may be identified and appropriate steps taken to step up the production. Alongside the measures that the Government may take to augment the production by the existing smelters, there should be a time-bound programme for prospecting for ore so that in course of time the country may be completely self-sufficient in this vital sector.

[Serial No. 3 (Para 1.124) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

As stated in reply to recommendation No. 2 of the Committee, the low production of zinc in the two smelters has been mainly due to techonolgy being new and sophisticated. Further, while the licensed capacity of the Alwaye and Oebari Zinc Smelters (1st stage) was 20,000 and 18,000 tonnes per annum respectively, the achievable was much lower.

2. The main bottleneck for the Debari plant not being able to achieve the rated capacity of 18,000 tonnes per annum was identified to be due to the achievable througnput of the roaster being less than the rated capacity. As a result of studies carried out by foreign experts, it was concluded that due to some basic design deficiencies in the roaster layout etc., the plant was not capable of full rated capacity. With a view to overcome these dificiencies, a scheme for revamping of the old roaster at Debari is currently under implementation.

3. Though the licensed capacity of the smelter of Cominco Binani Zinc Ltd. is 20,000 tonnes, the installed capacity is only 17,000 tonnes. The main reason for not attaining the licensed capacity is attributed to certain design deficiencies in the plant. The Company has formulated a scheme for modernising and updating the existing plant and technology and to put in balancing plant and equipment, wherever necessary, with a view to reach the licensed capacity of 20,000 tonnes in a phased manner by 1971-72.

4. Action has already been taken to intensify programmes for prospecting exploration for ore. While the activities of regional mineral investigation is being carried out by Geological Survey of India, detailed explorations is being carried out by Mineral Exploration Corporation as well as Hindustan Zinc Ltd. themselves. Mining schemes already in hand are expected to fully supply indigenous ore concentrates for the total capacity of 75000 tonnes per annum of the plants of M/s. Hindustan Zinc Limited at Debari and at Visakhapatnam.

[Deptt. of Mines O.M. No. 54012(6)/77-Met. II Dated 7-8-1978]

Recommendation

The Committee would like to emphasise that concerted efforts should be made to expand the indigenous capacity of zinc in the public sector instead of depending on imports and foreign collaboration. The Committee would like to be apprised of the positive steps taken or proposed to be taken in this direction so as to achieve complete self-reliance in the production of zinc within the country.

[Serial No. 5 (Para 1.126) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

Steps have already been taken to expand the indigenous capacity of zinc in the public sector. The Debari Zinc Smelter of Hindustan Zinc Limited (public sector), which had a capacity of 18,000 tonnes per annum, has been expanded to 45,000 tonnes. The expansion was commissioned in January, 1977. A new zinc smelter has been set up by the Hindustan Zinc Ltd. at Visakhapatnam with a capacity of 30,000 tonnes per annum. This plant went into production in March 1977. As a result of the above steps, the total licensed capacity of zinc smelting in the country has now reached 95,000 tonnes per annum, comprising of 75,000 tonnes in the public sector and 20,000 tonnes in the private sector.

2. The Visakhapatnam Zinc Smelter is based entirely on imported zinc concentrates whereas the Debari Smelter is based on indigenous concentrates. With a view to reducing imports of concentrates for the public sector, Hindustan Zinc Limited had taken up development of two new mines *viz.*, Balaria and Rajpura-Dariba. The Balaria mine with a capacity of 2000 tonnes of ore per day has already gone into production in 1977-78. The Rajpura-Dariba mine with an envisaged capacity of 3000 tonnes of ore per day is under construction and is expected to go into production in 1981-82. With the commissioning fo these mining projects. the requirements of concentrates for both the smelters of Hindustan Zinc Ltd. would be fully met from indigenous sources.

3. The indigenous capacity for zinc already established/under implementation is likely to take care of a substantial portion of the estimated demand. Further expansion of capacity for zinc will be taken up at an appropriate time in future depending upon the growth of demand for the metal. and the investment priorities in relation to resource availabilities, as may be determined by the Planning Commission.

[Deptt. of Mines O.M. No 54012(6)/77-Met. II Dated 7-8-1978]

Recommendation

The Committee regret to note that there has not been any uniform policy in regard to the fixation of prices of indigenous zinc. In June 1968, the two producers agreed to sell the metal at Rs. 2700 per tonne (exclusive of excise duty). This price was orginally tenable for a period upto 31 March, 1969, but it continued upto 31 January 1970. It was stated by the Ministry that this price fixation was done on an ad hoc basis without examination of the prevailing cost of production. On February 9, 1970, the Department of Mines agreed to the proposal of the indigenous producers to fixation of the price of zinc at Rs. 2850 per tonne for the period February 1970 to March 1971. The increase of Rs. 150 per tonne was stated to be an account of the increase in the cost of principal raw materials. It has been admitted during evidence that before agreeing to the price increase, the Government only "went into major increases in the cost of main inputs" instead of going into the cost of production in detail. It is not clear to the Committee how the Ministry satisfied themselves about the increase in the cost of raw materials before conceding the request for an increase of Rs. 150 per tonne in the price of zinc in February 1970. The Committee can only draw the conclusion that there was no proper mechanism in the Ministry to determine the prices on the basis of cost of the main inputs required in the production of zinc.

[Serial No. 6 (Para 1.127) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

Zinc production in the country commenced only in 1967-68 and it took some time for it to stabilise in the smelters. The selling price of the zinc metal informally fixed in June, 1968, had, therefore, to be based on the prevailing market prices of zinc metal. As the production had just commenced and had not stabilised the then prevailing cost of production could not be taken as a reasonable basis for fixing the selling price of zinc in 1968. The basis then adopted could thus be only ad-hoc.

2. The price of Rs. 2700 per tonne (exclusive of excise) fixed in 1968 was revised to Rs. 2850 per tonne w.e.f. 1-2-1970

3. While revising the price from Rs. 2700 to Rs. 2850 per tonne it was noted that the cost of zinc concentrates, which is the main input in the production of zinc had gone up by about Rs. 350, per tonne of metal in the case of Hindustan Zinc Ltd. and about Rs. 150

per tonne of metal in the case of M/s.Cominco Binani Zinc Ltd. The increase in the cost of zinc concentrates in the case of Hindustan Zinc Ltd. was based on the cost estimates of the company and in the case of M/s.Cominco Binani Zinc Ltd., on international prices of zinc. In the case of M/s. Cominco Binani Zinc Ltd., the increase in international price of Zinc had a direct bearing on the price of zinc concentrates, which the company had to import for the production of zinc metal. The Government had thus satisfied themselves fully about the increase in the cost of the main input viz. zinc concentrates, before revising the price of zinc metal to Rs. 2850 per tonne (exclusive to excise in February, 1970.

4. It is submitted that fixing of selling price of zinc in 1968 and revising it in 1970 was done by the Government having full regard to the then prevailing circumstances of the two zinc smelters—whose production had not stabilised.

[Deptt. of Mines O.M. No. 54012(6)/77-Met. II Dated 7-8-1978]

Recommendation

The Committee learn that from April, 1975 the indigenous producers were allowed to sell zinc at prices not exceeding the prices fixed by the MMTC. One of the reasons for allowing the producers to sell zinc at this price was the representation made by the firm (M/s.Cominco Binani Ltd.) in may, 1972 in which it had stated that though the recommendation of the Bureau of Industrial Costs and Prices was supposed to allow a return on the capital employed, it was operating at a heavy net loss. The Committee are unable to understand how the Ministry instead of going into the cost data of the indigenous producers, linked the Price of Zinc, on the basis of a representation made by the firm, to that charged by the MMTC. The Commitee find from the firm's Annual Report for the year 1974-75 that this had resulted in windfall gains to the firm. The Committee are surprised that while fixing these prices, the Department of Mines and Metals did not take into consideration, as has been admitted by the Department during evidence, the fact that 40 per cen of the profits on this account would go in foreign exchange to foreign shareholders in the shape of dividend. The Committee feel that there is a strong case for conducting a thorough probe into the circumstances leading to the increase in the prices of zinc from time to time with particular reference to the undeserved profits, that must have accrued to the producers on account of shifts, the Government policy. The Ministry should also see whether the officials of the Department of Mines and Metals have rendered the proper and complete advise to the Government in this respect.

[Sl. No. 10 (Para 1.131) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

As desired by the Committee, the entire matter leading to the increase in the selling price of zinc from time to time has been thoroughly looked into and the position is briefly as under:—

(i) The zinc smelter of M/s Cominco Binani Zinc Ltd. at Alwaye in the private sector commenced commercial production in the middle of 1967 and the other smelter of Hindustan Zinc Ltd. at Bebari in the public sector went into commercial production early in 1968. With a view to avoiding un-healthy competition and speculative purchase as between two producers, the selling price of indigenously produced zinc was informally fixed with the consent of the two producers at Rs. 2.700 - per tonne (exclusive of excise) in June, 1968. for the period of 1968-69, there was no statutory or formal price or distribution control over indigenously produced zinc at that time The then existing control was purely an informal arrangement whereby the indigenous zinc was made available at a particular price to Government Departments and the balance, if any to the steel plants. priority units borne on the books of DGTD etc.

(ii) The price of zinc which was fixed in June. 1968. with the consent of the two producers. was intended for a period upto 31-3-1969. This price. however. continued upto 31-1-1970. when on representation. made by the two producers it was revised to Rs. 2.850 per tonne (exclusive of excise) with effect from 1-2-1970 for the period from February. 1970 to March. 1971. In the intervening period i.e. 1-4-59 to 31-1-70 the price of Rs. 2.700 per tonne (exclusive of excise) continued and the two producers supplied zinc metal to the allottees as this price.

(iii) While revising the price in February. 1970. the producers were informed that in future proposals for increase of the selling price would be considered only on the basis of actual cost of production. The cost data from Hindustan

Zinc Ltd. was received in February, 1971, and from M/s. Cominco Binani Zinc Ltd. in March, 1971. In April, 1971 the Chairman, Bureau of Industrial Costs and Prices was requested to take up cost study for the purpose of price fixation and complete the same within a period of two months. In his reply dated 29-4-1971, the Chairman, Bureau of Industrial Costs and Prices informed that a questionnaire would be sent to the producers shortly and assuming receipt of replies by the end of May, 1971, the report would be ready by about middle of July, 1971. The replies were sent by the producers in July, 1971 (on 15-7-1971 by the Hindustan Zinc Ltd. and on 23-7-1971 by M/s. Cominco Binani Zinc Ltd.). On 8-11-71, the Bureau of Industrial Costs and Prices was reminded to expedite the report. The Bureau submitted the report on 24-1-1972. Based on the report of the Bureau, the selling price of the two indigenous producers of zinc i.e. Hindustan Zinc Ltd. and M/s Cominco Binani Zinc Ltd. was revised to Rs. 4090 per tonne (exclusive of excise) w.e.f. 1-2-1972.

(iv) From May, 1972 onwards Cominco Binani Zinc Ltd. one of the zinc producers represented that though the selling price of the zinc based on Bureau of Industrial Costs and Prices' recommendation was appeased to allow's a return on the capital employed, they would be operating at a heavy net loss, for the following reasons:—

(a) *Assumption of average higher production of zinc*—According to the company, increase in production beyond 15,000 tonnes per annum would require heavy capital investment and prolonged shutdown which they could not afford at the then unsatisfactory financial position;

(b) *Difference in credit assumed for sale of by-products*—The Bureau had taken higher credits for realisation from sale of by-product sulphuric acid and cadmium;

(c) *Computation of capital employed*—The company apprehended that the Bureau had not reckoned working capital requirements of six months in computing the capital employed; and

(d) The company desire an element to be allowed for amortization of carried forward losses and for unabsorbed depreciation.

(v) The company also pleaded that unless they were able to demonstrate to the financial institutions and to the shareholders (no dividend had been paid by the two companies during 6 years of operation) that its operations could be made economically viable in the future, it would be difficult for them to take up the expansion of the zinc smelter for which a 'letter of intent' had been issued in July, 1971.

(vi) The company's representation was examined in consultation with the Bureau of Industrial Costs and Prices who concluded that the main difference in their approach and that of the company was that while the Bureau had projected the cost of the future without taking into account items like past losses and their repercussions on the present financial position, the company was taking these factors also in its cost computations.

(vii) The matter was examined by the Government, in great detail, in consultation with the Ministry of Finance (Deptt. of Expenditure and Economic Affairs) keeping in view the growth envisaged in the industry through the expansion programmes of the two producers and in the context of rising zinc prices all over the world, the importance of the indigenous zinc industry as a foreign exchange saver. It was felt that the pricing policy for the zinc industry should be based, *inter alia*, on the following major considerations:—

(a) Zinc industry was in its infancy and had to be nurtured as had been done in the case of to other metals such as aluminium through Tariff protection for over two decades.

(b) Zinc was in the core sector and Government was expected to prepare detailed plans for the development of the entire industry so that the targets set can be achieved, render assistance required by way of resources, foreign exchange, inputs etc. and review its performance from time to time to deal effectively with factors adversely affecting the growth of the industry. The Estimates Committee in para 2.24 of its 19th Report on Industrial Licensing had said "the real test of the effectiveness of measures taken for development of core industries is in the rate of growth of production in the core industries which, the Committee find has been none too impressive." It was, therefore, considered that it was imperative to improve the financial position of the industry consisting of only two zinc producers enabling them to optimise production from existing capacity and to generate funds to undertake the planned expansion as early as possible.

(c) Hindustan Zinc Ltd. was in the public sector and any profit made by it would accrue to Government either in the form of tax or reinvestment in its expansion programmes at Visakhapatnam and in Rajasthan. It was necessary to build up its image by enabling it to function satisfactorily from the financial point of view also.

d. There was substantial Government interest in Cominco Binani Zinc Ltd. as there was financial participation by financial institutions (Kerala State Industrial Development Corporation. life Insurance Corporation. Industrial Finance Corporation and Bank of India) to the extent of Rs. 50-61 lakhs and the Industrial Finance Corporation Kerala State Industrial Development Corporation had extended loans to the tune of Rs. 314 lakhs at that point of time.

(e) The demand for zinc was rising and there was need to step up indigenous production as rapidly as possible by expeditious expansion programmes.

(viii) According to the guidelines of the Bureau of Public Enterprises for public sector enterprises operating under monopolistic and semi-monopolistic conditions the pricing of their products should be within the basis of the landed cost of comparable imported goods.

(ix) It would be desirable to have a single price for zinc within the country and two prices resulted in some consumers getting lower priced zinc. It was also felt that the proposal would afford some relief to Cominco Binani Zinc Ltd. as MMTC was revising the price in conformity with the rise in world market prices of zinc which in turn increased the price of imported zinc concentrates.

(x) Hindustan Zinc Ltd. and Cominco Binani Zinc Ltd. had accumulated very large losses upto 31-3-72 and 31-12-72 and this adverse financial position affected their existing operations and would not allow for the planned expansion, particularly in the case of Cominco Binani Zinc Ltd. The losses incurred by the companies were as under:—

	Loss for the year	Cumulative loss	Remarks
		(Rs in lakhs)	
Cominco Binani Zinc Ltd			
Opening balance as on 1-1-68		—244·72	
year ending 12/68	—52·63	—297·00	After adjustment of dev.
year ending 12/69	—8·33	—204·44	Rebate reserve written back
year ending 12/70	—13·13	—304·76	Do
year ending 12/71	—48·16	—215·94	Method of depreciation changed and excess pro vision in previous years amounting to Rs. 137·12 lakhs written back
year ending 12/72	—94·87	—122·89	After providing dev. re.
Hindustan Zinc Ltd			
1968-69	—35·81	35.81	
1969-70	—135·27	—184·08	
1970-72	—117·74	—126·11	Method of depreciation changed
1971-72	—29·21	—152·47	
72-73	—42·42	—110·05	

(xi) The proposal for price revision of zinc was examined in the Ministry of Finance (Department of Expenditure and Economic Affairs and also by the Chief Economic Adviser) and discussed at a meeting taken by the Chief Economic Adviser on 9-3-73. The decision reached at this meeting namely to allow the two zinc producers to sell their metal at the prevailing MMTC price of imported zinc was then put upto the Chief Economic Adviser, Secretary (Economic Affairs) and Finance Secretary and their approval obtained. The matter was thereafter put into the then Minister of Steel and Mines (late Shri Mohan Kumarmangalam) and his approval obtained. It is thus seen that the matter was examined in great detail in the Department of Mines and the Ministry of Finance (including Chief Economic Adviser to the Government of India) and had the approval of the then Minister of Steel and Mines.

(xii) As a result of the price revision allowed in April, 1973 the two zinc producers (including the Hindustan Zinc Ltd. in the public sector) were able to improve their financial position. In fact, Hindustan Zinc Ltd. who had been at a more advantageous position than Cominco Binani Zinc Ltd. were able to generate funds to the extent of Rs. 27.94 crores during the years 1973-74 to 1975-76 and plough the same back for development purposes viz. setting up of a new 30,000 tonnes zinc smelter at Visakhapatnam and expansion of the compay's Debari (Rajasthan) Zinc Smelter, apart from the mines in Zawar area. Due to financial constraints during the said period several new projects in the public sector had to be postponed or delayed. In fact, in January, 1975 the Planning Commission suggested slowing down the Vizag Zinc Smelter Project by one year due to financial constraints and but for the funds generated by Hindustan Zinc Ltd., the project would prehaps have been delayed considerably.

(xiii) In 1974-75, however, there was an unprecedented and unparalleled increase in the price of zinc in the international market following the oil crisis and the monetary difficulties faced by several Central Banks. This skyrocketing price of zinc in the international market during 1974-75 and its effect on MMTC prices could not have been foreseen in 1972-73 when the price revision of indigenous zinc to the level of MMTC was examined by the Government. However, the following effective steps were taken to limit the profits of the zinc producers (in particular Cominco Binani Zinc Ltd.):—

(a) The excise duty on indigenous zinc was stepped up from Rs. 875 to Rs. 2625 per tonne without a corresponding increase in the countervailing duty on the imported metal.

(b) In 1974, Cominco Binani Zinc Ltd. were required to supply zinc (about 3,000 tonnes) to registered exporters at the lowest of the three, then ruling prices of the MMTC.

(xiv) In this connection it is relevant to point out that the pricing policy adopted in 1973 is in line with the guide-lines of the Bureau of Public Enterprises in regard to the pricing of products of units operating under mono-polistic and semi-monopolistic conditions. According to the guide-lines, the pricing of their products should be on the basis of the landed cost on comparable imported goods.

(xv) It may also be mentioned that there is a clear relation-ship between the price of zinc metal in the international market and the price of zinc concentrates. Payment for zinc concentrates is made on the basis of recoverable zinc metal content in the concentrate and the price of concen-trates varies with the increase|decrease in the price of zinc metal. The MMTC buys zinc metal in the international market and determines its selling price on the basis of the landed cost of the same.

2. It is seen that while examining the case for price revision in 1973, the note *inter-alia* brought out that the company (Cominco Binani Zinc Ltd.) has foreign equity participation to the extent of 40% (Rs. 84 lakhs). However, it is the accepted policy of the Govern-ment of India to welcome foreign equity participation in certain dulacted key and basic industries and zinc industry is one which falls in this category. It is also the policy of the Government of India not to discriminate between foreign and Indian financed pro-jects once they have been allowed to be established. The foreign equity participation in this case is within the accepted ceiling of 40% under Foreign Exchange Regulation Act. Having welcomed foreign equity participation, it is but reasonable that such Indian Companies as have foreign participation are allowed to function in a manner that they can conduct their operations in a financially satisfactory banner.

3. In this instant case, though the company was incorporated in August, 1962, a maiden dividend was declared only for the year 1974-75. The percentage of the dividend declared was 8% and the amount repatriable by the foreign equity holder was only Rs. 6.72 lakhs (remitted in April, 1976). The dividend declared for 1975-76 and 1976-77 was also same i.e. 8% or Rs. 6.72 lakhs each year. During the last 14 years or so i.e. since the Company's inception the return on the investment of Comnco works out to an average of 2.4%. The equity participation of Indian financial institution biz Kerala State Industrial Development Corporation, Life Insurance Corporation and

Industrial Financial Corporation (totalling about Rs. 60 lakhs) also fetched the same rate of return.

4. In this context it may be added that the Committee on Public Undertakings (1975-76) (5th Lok Sabha) which examined the working of the Hindustan Zinc Limited had with reference to the pricing policy concluded as follows in its 88th Report dated 16-4-1976:—

> "The Committee regret to observe that till March, 1973 the Hindustan Zinc Ltd. was made to sell zinc produced by it at a price which was not only thromunerative but also lower than the MMTC's price for imported zinc and thus suffer loss in the process. The Committee would like the Government to review the pricing policy followed till March, 1973 and draw lessons for their future guidance."

[Deptt. of Mines O.M. No. 54012 (6)/77-Met II dated 14-8-1978]

Recommendations

"The Committee also note with concern that the Ministry have no proper system to maintain records of important decisions in the Decisions Book, so that even if the files are weeded out with the efflux of time, at least the Decisions Book could be referred to and consulted. The Committee would like that this aspect should be looked into and the procedure for filing papers streamlined."

[S. No. 12 (Para 1.133) of Appendix IV of the 19th Report PAC (6th Lok Sabha)]

"To sum up, the defects in the terms of contract, such as making no provision for liquidated damages, avoiding consultation with the Ministry of Law in time, non-availability of proper machinery for controlling the activities of a recalcitrant firm which was not honouring its contractual obligations; revision of the prices of zinc haphazardly—there being a gap of one year which was exploited by the firm to its advantage; lack of proper procedure available in the DGS&D for recording their decision—loss of file which had to be reconstructed and the lack of effective surveillance over the activities of the officers who came into contact with the firm during the execution of the contract, are some of the glaring shortcomings and deficiencies which have come to the notice of the Committee during their examination of this Paragraph. The Committee strongly feel that the firm (M|s. Cominco Binani Zinc Ltd.) has belied the expectations of making available a searce metal such as zinc, to the Government Departments under one pretext or the other. It appears to the Committee that the only aim before the firm was to neutralize its earlier losses and to make windfall gains by holding the stock and offer it only after the price revision. It is clear that the suppliers had taken recourse to a ruse to inflate their hills of payment and Government did not exercise their right to intervene. The Committee hope that the authorities concerned would learn a lesson from these lapses and take suitable and conclusive measures to obviate their recurrence."

[S. No. 26 (Para 1.147) of Appendix IV of the 19th Report PAC (6th Lok Sabha)]

Action Taken *

The observations of the Committee have been noted. Instructions have since been issued by DGS&D *vide* O.M.No. I-3401078 dated 18-5-78 (copy enclosed) that all purchase Officers should maintain policy files which would contain important informations such as, allocation of raw-material, pricing policy and peculiar features of purchase for certain specified commodities.

Insofar as the question of pricing policy for Zinc is concerned attention is invited to the Action Taken Note submitted by the Ministry of Steel & Mines on 8-6-78. As regards lapses on the part of the DGS&D officials disciplinary proceedings in individual cases have already been initiated in consultation with CVC. To prevent loss of files in future it has been decided to provide Steel Almirahs to all the Purchase Directorates and this is already under implementation.

In order to ensure surveillance over the activities of the officers of the DGS&D, orders already exist that only Directors and Dy. Directors should meet the reps. of firms in connection with official business. Apart from this, the Vigilance Branch goes into all aspects of a contract in the event of a complaint from any source. The procedure for granting extension in delivery period has also been tightened and the standing instructions re-iterated *vide* DGS&D's office order No. 43 dated 20-2-78 (Copy enclosed).

[Deptt. of Supply O.M. No. P|U-17(8)|77 dated 14-7-1978].

Not vetted by Audit.

*Not vetted by Audit.

(COPY)

No. I-3401078

GOVERNMENT OF INDIA

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(Internal Work Study Unit)

Jeevan Tara Bldg., Parliament Street

New Delhi, dated 18-5-1978.

OFFICE MEMORANDUM

SUBJECT:—*Maintenance of Guard Files|Part Files.*

REFERENCE:—*This Office O.M. No. even dated* 9-3-1978.

The question of maintenance of Guard files as per O.M. under reference by Purchase Dtes. was discussed in the Senior Officers Meeting held on 12-4-78. It has been decided that instructions issued *vide* para 3 of the O.M. dt. 9-3-78 will apply to sections other than Purchase.

2. In so far as Purchase Dtes. are concerned, certan information like allocation of raw material, pricing policy, peculiar features of Purchase for certain types of commodities should be maintained in a regular file by the purchase officers concerned in a chronological order so that the same is found useful to the new incumbent in the efficient functioning of the organisation. It has, accordingly, been decided that all Directors of Supplies should ensure that a consolidated list of all policy files relating to items handled in the Directorate is maintained in their personal section, under intimation to the Coordination Directorate. This list will include all such files whether the files are actually maintained in the Directors personal section or in the respective purchase sections.

3. All Directors of Supplies are requested to ensure compliance of the above under intimation to Coordination Directorate by 30-6-1978.

Sd|-

(A. S. N. Murty),

Director (O & M & C D N)

for Director General of Supplies and Disposals.

All Directors of Supplies at Hdqrs. & Regions.

Copy to:—

1) DB|Addl. DG|DDGS|All Dy. Directors.
2) All Purchase Sections at Hdqrs. & Regions.
3) DD(CS-I|CS.II)
4) DD(Vig.)
5) CDN-3.

(*COPY*)

No. I-3401078

GOVERNMENT OF INDIA

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(INTERNAL WORK STUDY UNIT)

Jeevan Tara Bldg., Parliament Strret

New Delhi, dated 9-3-1978.

OFFICE MEMORANDUM

SUBJECT:—*Maintenance of Guard Files Opening of Par Files—instructions regarding.*

Extracts of item No. 7 of the minutes of of the meeting held by Secretary (Supply) with the officers of Department of Supply| DGS&D on 25-1-1978, are reproduced below:—

"*Management or records*:—Secretary observed that there had been quite a few cases in which it was reported to him that the files were either not traceable or destroyed prematurely. He directed that a proper record of all files should be kept and it should be ensured that they are not lost or destroyed prematurely. He also directed that the system of putting up part files should be adopted only when it became absolutely necessary and it should be ensured that such part files are brought together as soon as they have reached back in the Section. Secretary also desired that period prescribed for records to be kept should be reviewed having regard to the intrinsic importance of the case and the period for which it may be necessary. He also desired that the system of maintaining Guard Files should be followed. Particularly in the case of "reviews", it should be ensured that complete information is available at one place and it should not be necessary to look up into other files whenever any information is required at any time."

2. PART FILES:— It has been decided that part File should be opened only when it becomes absolutely necessary and also such part files should be merged with main files as soon as they reach back the Section. In this connection, attention is invited to Para 71 of the Central Secretariat Manual of Office Procedure, which provides as under:—

1) "If the main file on a subject is not likely to be available for some time and it is necessary to process a fresh receipt of a note without waiting for its return, a part file may be opened to deal with it. This device may also be resorted to where it is desired to consult simultaneously two or more sections or officers and it is necessary for each of them to see the receipt noted upon.

2) A part file will normally consists of:—

a) Receipt or note dealt with; and

b) notes relating thereto.

3) Where two or more part files are opened, each will be identified by a district number, *e.g.* part file I, part file II and so on.

4) A part file will be incorporated with the main file as soon as possible, duplicate papers, if any, being removed.

3. GUARD FILES:—It has also been further decided that the system of maintaining guard files should be followed: In this connection, extracts of para 1 (49) and 84(1) of the Central Secretariat Manual of Office Procedure is reproduced below:—

"Para 1 (49):—'Standing guard file' on a subject means a compilation consisting of the following three parts:—

a) a running summary of the principles and policy relating to the subject with number and date of relevant decisions or orders quoted in margin against each;

(b) copies of the decisions or orders referred to, arranged in chronological order; and

(c) model forms of communications to be used at different stages."

Para 84(1):— Para 84(1) of the Central Secretariat Manual of Office Procedure inter alia, provides that each section should maintain standing guard files.

4. All Sections are requested to note the above instructions for strict compliance.

Sd|-

(J. R. CHADHA),

Senior Analyst,

for Director General of Supplies and Disposals

Standard Distribution

(All Secions/Directorate at Hdqrs. & Regions including Inspection Wing|Regional Inspecterates)

Copy to :—(1) DG|ADG|DDGS|All Directors & Dy. Directors.
(2) Department of Supply.

COPY

DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS
(CO-ORDINATION SECTION CDN-2)

Office Order No. 41 Dated 20-2-1978.

SUBJECT.—*Obtaining of Security Deposit in cases where orders are placed on the defaulting firm.*

Ref: Office Order No. 21, dated 1-1-1978.

Under the provisions of clause 7 of the Conditions of Contract Security Deposit for the due performance of the contract can be called for prior to the acceptance of tender or after the acceptance. In the case of risk purchase contracts placed on the defaulting firms the instructions provide that they should be called upon to furnish a security deposit of 10 per cent before placement of the order on them.

In view of the above instructions in cases of risk purchase enquiries if the quotation of the defaulting firm happens to be the lowest acceptable one they should be asked to furnish the security deposit equal to 10 per cent of the proposed contract value within a specified date prior to contract action with a clear warning that their offer will be ignored if the security amount is not furnished by the stipulated date.

Despite the above in a risk purchase case the contract was placed on the defaulting firm without obtaining the security deposit in advance and the PAC have adversely commented on this lapse. Attention of all the Purchase Officers is invited to the instructions referred to above for strict Compliance.

Sd|-
(G. L. SYNGAL),
Dy. Director (CS-I).

Standard Distribution
on file No. CDN-2|6(3)|I|78.
Copy to Section (CDN-5).

COPY

DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS
(CO-ORDINATION SECTION CDN-2)

Office Order No. 43 Dated 20-2-1978.

SUBJECT.— *Grant in extension of delivery period.*
Ref: Office Order No. 12, dated 1-1-1978.

The procedure for granting extension in contract delivery period has been indicated in para 4 to 6 of Office Order No. 18, dated 1-1-1978. These instructions clearly provide that extension in delivery period should not be granted as a matter of course and should be granted only in such cases where extensions are inescapable. These instructions also provide that there should be no delay in considering the request for extension in delivery period. Besides, is accordance with the instructions contained in office order No. 62, dated 6-4-1976 as clarified *vide* office order No. 107, dated 13-10-1977, approval of the next higher officer should be obtained before granting extension in delivery period beyond the first extension.

In a purchase case the Public Accounts Committee have commented adversely about the grant of extension in delivery period and the manner in which there was delay in considering the request for the grant of extension in delivery period. Attention of all the Purchase Officers is invited to the instructions referred to above for strict compliance of these instructions.

Sd|-
(G. L. SYNGAL),
Dy. Director (CS-II).

Standard Distribution
On file No. CDN|6(3)|I|78.
Copy to CDN-5.

Recommendation

The Committee find that Cominco Binani had informed the DGS & D in August, 1971 that it could not supply zinc at the rate of Rs. 2850 per tonne and requested them to treat this price as provisional for supplies made from April, 1971, subject to finalisation of price by the Department of Mines. After the announcement of the revised price of Rs. 4090 effective from 1st February, 1972, the firm had asked DGS & D on 15th March, 1972 to amend the contract for payment of enhanced price for the outstanding 900 tonnes. However, on 1st September, 1973, the firm informed the DGS & D that it was treating the order for the balance quantity as having lapsed. The Department of Mines have informed the Committee that the firm did not supply zinc outside the allocations made during October, 1970—March, 1971. The Committee desire to know the steps taken by the Department of Mines and Metals against the firm for not fulfilling the contractual obligations.

[Serial No. 13 (Para 1.134) of Appendix to the PAC's 19th Report (6th Lok Sabha).]

Action Taken

The contract for the supply of 900 tonnes was between the DGS & D and M|s. Cominco Binani Zinc Ltd. As the Department of

Mines was not in the picture, it was for the DGS & D|Department of Supply to take steps, if any, against the firm for not fulfilling the contractual obligations. In this connection it may be pointed out that this matter was not brought to the notice of the Department of Mines at the appropriate time. It is, however, understood that the matter has since been settled satisfactorily by the Department of Supply with M|s. Cominco Binani Zinc Ltd.

[Deptt. of Mines, O.M. No. 54012(6)|77-Met. II, Dated 7-8-1978.]

Recommendation

The Committee find that Cominco Binani had informed the DGS & D in August, 1971 that it could not supply zinc at the rate of Rs. 2850 per tonne and requested them to treat this price as provisional for supplies made from April, 1971, subject to finalisation of price by the Department of Mines. After the announcement of the revised price of Rs. 4090 effective from 1st February, 1972, the firm had asked DGS & D on 15th March, 1972 to amend the contract for payment of enhanced price for the outstanding 900 tonnes. However on 1st September, 1973, the firm informed the DGS & D that it was treating the order for the balance quantity as having lapsed. The Department of Mines have informed the Committee that the firm did not supply zinc outside the allocations made during October, 1970—March, 1971. The Committee desire to know the steps taken by the Department of Mines and Metals against the firm for not fulfilling the contractual obligations.

[Sl. No. 13 (Para 1.134) of Appendix IV of the 19th Report (6th Lok Sabha).]

Action Taken*

This recommendation concerns primarily the Ministry of Steel and Mines and they have since sent their Action Taken Note under O.M. No. 54012(6)|77-77-ME-II, dated 23-6-1978.

2. Attention of the Committee is also invited to the reply given by the Department of Supply against Sl. Nos. 14 and 20.

[Deptt. of Supply, O.M. No. P111-17(8)|77, dated 14-8-1978.]

*Not vetted by Audit.

Recommendation

The Committee would like to point out that the representative of the DGS&D, the Department of Mines and Metals and DGTD at the meeting of Allocation Committee (October, 1971—March, 1972) held on 21, October, 1971, had pointed out the unsatisfactory performance of the firm which had a backlog of 1353 metric tons against DGS&D orders placed with it in October, 1970 to March, 1971 and other commitments of more than 6000 tonnes. The hold-up in production was attributed by the firm due to prolonged strike in their factory. As there had been a shortfall of 1569 tonnes in actual production during the period October, 1970 to March, 1971 from the estimated level, it is not understood how the firm was allowed to take shelter behind the plea of strike for the proven non-compliance of the orders to the extent of 7353 tonnes (1353 tonnes against DGS&D orders and 6000 tonnes against other commitments).

[Serial No. 14 (Para No. 1.135) of Appendix to the PAC's 19th Report (6th Lok Sabha]

Action Taken

The entire matter has been looked into thoroughly from the available records. It is seen that the record note of the meeting held 21-10-1971 to consider the policy for distribution of indigenous metal for the period October 1971—March 1972 does not specifically mention about the unsatisfactory performance of Cominoc Binani Zinc Ltd. though the backlog has been indicated as 7157 tonnes as on 1-10-71. The unsatisfactory performance of Cominco Binani Zinc Ltd., is reflected in the office note recorded by the representative of the DGS&D, after attending the meeting on 21-10-71 (referred to in Annexure 'G' to the reply given by the Department of Supply to print No 25), copy of which was received by the Department of Mines much later.

2. The backlog of Cominco Binani Zinc Ltd., of 7353 tonnes is made up of carried forward backlog of 1944 tonnes as on 1-4-71 and balance from allocation made for half year April, 1971—September, 1971.

3. During the 2 half year period in question *viz.* October, 1970-March, 1971 and April, 1971—September, 1971, production fall appreciably short of estimates mainly due to 10 days strike in December,

1970 and 90 days strike in March—June 1971. Shortfall in production compared to estimates is as below:—

Period	Production estimated at time of allocation	Actual production	Unit Tonnes Shortfall
Oct 70—Marh. 71	7,000	5,431	1,569
Apr 71—Sept. 71	7,000	4,476	2,524
	Total shortfall		4,093

4. The prolonged strike, other than effecting production, adversely affected despatches also. Thus, one of the main reasons contributing to backlog appears to be the strikes.

5. Another reason for the backlog appears to be the excess allocations made by DGTD for earlier half-yearly periods April—September, 1970 and October, 1970—March 1971 even after the expiry of the allotment periods and the finalisation of the allocations for the following periods. To obviate this problem, it was decided in August|September 1971, that allocations would be restricted to the relevant period of allotment.

[Deptt. of Mines O.M. No. 54012(6)|77-Met.-II Dated 7-8-1978]

Recommendation

"The Committee would like to point out that the representative of the DGS&D, the Department of Mines & Metals and DGTD at the meeting of Allocations Committee (October 1971—March 1972, held on 21 October, 1971, had pointed out the unsatisfactory performance of the firm which had a backlog of 1353 metric tons against DGS&D orders placed with it in October, 1970 to March, 1971 and other commitments of more than 6000 tonnes. The holdup in production was attributed by the firm due to prolonged strike in their factory. As there had been a short-fall of 1569 tonnes in actual production during the period October, 1970 to March, 1971 from the estimated level, it is not understood how the firm was allowed to take shelter behind the plea of strike for proven non-compliance of the orders to the extent of 7353 tonnes (1353 tonnes against DGS&D orders and 6000 tonnes against other commitments)."

[Serial No. 14 (Para 1.135) of Appendix IV of the 19th Report (6th Lok Sabha]

Action Taken*

The pending commitment of 7157 Tonnes as on 1-10-71, in respect of M|s Cominco Binani, as recorded in the minutes of the allocation meeting of 21-10-71, is itself indicative of unsaticfactory performance of this firm. According to note dated 24-10-71 (copy enclosed) recorded by the concerned Dy. Director of Supplies, the unsatisfactory performance of the said firm against DGS&D's Contracts was duly pointed out in the allocation meeting of 21-10-71. As regards the effect of strike on the firm's over all production, attention is invited to the reply submitted by the Ministry of Steel & Mines on 8-6-78.

[Deptt. of Supply O.M. No. P III -17(8)|77 Dated 14-7-78]

COPY

No. 6(23) Met. II|71

GOVERNMENT OF INDIA

(Bharat Sarkar)

Ministry of Steel and Mines

(Ispat Aur Khan Mantralaya)

Department of Mines

(Khan Vibhag)

New Delhi, the 27th October 1971.

SUBECT:—Distribution of indigenous zinc metal for the period October, 1971 March, 1972.

A copy of the record note of the discussion of the meeting held in the room of Shri T. N. Lakshminarayanan, Joint Secretary, Department of Mines (Khan Vibhag), on the 21st October, 1971, is forwarded herewith for information and necessary action.

Sd|-

(M. S. Bhatnagar)

Under Secretary to the Govt. of India.

To

1. Shri S. Vangala, Industrial Adviser, Department of Steel, New Delhi.

*Not Vetted in Audit

2. Shri M. Singh, Deputy Director, DGS&D, New Delhi.

3. Shri Swarajya Prakash, Deputy Director, Office of the Development Commissioner, Small Scale Industries, New Delhi.

4. Shri D. P. Sen Gupta, Development Officer, DGTD, New Delhi.

5. Shri R. S. Nakra, Deputy Economic Adviser, Deptt. of Industrial Development, New Delhi.

6. Shri K. K. Bhatnagar, Under Secretary, Ministry of Defence, (Deptt. of Defence Production), New Delhi.

7. Shri J. N. Kikan, Liaison Officer, P&T Department, New Delhi.

8. Shri S. K. Gurnani, Railway Liaison Officer, Ministry of Railways, New Delhi.

9. Shri A. K. Jain, Asstt. Development Officer, Deptt. of Steel, New Delhi.

10. Shri V. N. Sinha, Joint Divisional Manager, M.M.T.C., New Delhi.

11. Shri H. C. Sharma, M|s. Cominco Binani Zinc Ltd. 4-D, Nizamuddin West, New Delhi.

Copy forwarded to Shri A. N. Banerjee, Chairman-*cum*-Managing Director, Hindustan Zinc Ltd., Udaipur.

Copy to :—1. P.S. to JS(L)
2. P.A. to SIA
3. P.A. to Director (GR).

COPY

MINISTRY OF STEEL AND MINES

(ISPAT AUR KHAN MANTRALAYA)

DEPARTMENT OF MINES

(KHAN VIBHAG)

Record note of the meeting held in the Department of Mines on 21-10-1971 to consider the distribution of indigenous zinc metal for

October, 1971 March, 1972.

Present

Department of Mines

1. Shri T.N. Lakshminarayanan, Joint Secretary (in Chair)

2. Shri G Ramaswamy, Director

D.G.S. & D.
Shri M Singh,
Dy Director

P& T Department
Shri J.N. Kikan L.O. P&T

Ministry of Railways
Shri S.K. Gurnani,
Rly. Liaison Officer

Ministry of Defence
Shri K. K. Bhatnagar,
Under Secretary Department of Defence Production

Department of Steel
Shri S. Vangala, I.A.
Shri A K. Jain, A.D.O.

D.G.T.D.
Shri D.P Sen Gupta,
Development Officer

D.C.S.S.
Shri Swarajya Prakash,
Dy. Director

M M.T.C.
Shri V.B. Sinha,
Joint Divisional Manager

Economic Adviser (Department of Industrial Development)
Shri R.S. Nakra, Dy. Economic Adviser

Cominco Binani Zinc Ltd.
Shri H.C. Sharma

1. After taking into account the stocks on hand, pending orders and anticipated production, the availability of zinc metal with the two producers was estimated at 9734 tonnes as follows, for the half year Oct., 1971—March 1972:—

	Stock on hand as on 1-10-71	Estimated production	Pending commitments as on 1. 10. 71	Net availability
		(in tonnes)		
H.Z.L.	2,498	7,000*	2,002	7,496
C.B.Z.	2,895	6,500	7,157**	2,238
TOTAL	5,393	13,500	9,159	9,734

*Includes 1,200 tonnes in the form of cathodes

**Including 132 tonnes for which allocation orders were received subsequently.

2. Joint Secretary (Mines) stated that though the net availability of the metal was only of the order of 9,734 tonnes, there had been requests for allocation of indigenous zinc from the small scale sector as also from the non-priority sector. In the case of the small scale sector it was pointed out by the representative of C.B.Z. that it would be difficult to supply the metal in small quantities and the orders should be minimum for a wagon load. The representative of D.C., S.S.I. stated that the assessed half yearly demand of zinc of the small scale sector was of the order of 12,500 tonnes On an enquiry he replied that in the last quarter, release orders on MMTC in respect of the small scale sector came to about 2,500 tonnes. He requested for some allocation of indigenous zinc to the small scale sector and stated that the metal would be allocated to the State Small Scale Industries Corporations for further distribution to the individual units on the basis of the recommendations of the Director of Industries. This would, he said, obviate small allocation orders to be executed by the producers. Payments would also be made by the state SSI Corporation to the producer against delivery.

3. After some discussion and clarification, the demand for zinc for Oct., 1971—March 1972 of the different sectors was estimated as follows:—

	Quantity (in tonnes)	
1. Ministry of Defence (Ordnance factories etc.)	900	
2. Ministry of Defence (R&D Estts/ Laboratory)	31	
3. P&T	500	
4. Railways	500	
5. Kolar Gold Mining Undertaking	8	
6. Hutti Gold Mines.	24	1,963
7. DGTD units (Priority industries 19358) (Non priority industries 5399)		24,757
8. Department of Steel Rourkela	3,800	
IISCO	1,950	
TISCO	1,700	
Galvanising units on the list of I&S Cont	2,200	9,650
9. Small scale units		5,000
Grand Total		41,37

The demand of the consuming sectors were considered and the following decisions taken:—

(i) *Non-priority sector*—In view of the limited availability of zinc from indigenous supplies it was decided that the requirements of this sector might be met from MMTC, as in the past.

(ii) *Dry Battery|Mozak alloy manufacturers)*—As the requirements of this sector were for high purity zinc, they may be met by imports as in the past.

(iii) P&T Department (GI Wire manufacturers)—It was decided that as in the last half year, 2,000 tonnes of zinc (1000 each for the SSIs and large units) might be reserved by the DC, SSI/I&S Controller for release to units manufacturing GI wires on whom DGS&D had placed orders for meeting the requirements of the P&T Department. The I&S Controller/DC, SSI might keep apart some portion of the indigenous zinc allocated to them for meeting this demand and the balance should be met from MMTC stocks. While the actual release of the metal to the units would be on the basis of the recommendations of the DGS&D, if there are any procedural formalities for obtaining release of imported metal, these would be observed.

(iv) *Rourkela Steel Plant*—It was pointed out that in view of the break-down of the Sice furnace H.Z.L. were not able to convert their entire production of zinc into ingots. The availability of zinc in the form of cathodes indicated by H.Z.L. would about 1,200 tonnes for Oct., 1971—March 1972. It was decided to allocate this to the Rourkela Plant.

(v) The allocation of the available zinc was decided as follows:—

	Allocation (tonnes)	
1. Ministry of Defence (Ord Factores etc.)	900	
2. Ministry of Defence (R&D ESTS etc.)	31	
3. P&T	500	
4. Railways	500	
5. KGMU & Hutti	32	1963 or
say	2,000	

	Allocation (Tonnes)
6. DGTD (Priority industries	4,250
7. Department of Steel	1,280+ 1,200 (cathodes
8. Small Scale Units	1,000
Total	9,730

4. While issuing allocation orders, the DGTD etc. were to keep in view the following:—

(i) Based on the past off-take of the units concerned, the DGTD would issue allotment letters to the parties by 20-11-1971.

(ii) The DGTD/DCSSI etc. would bear in mind the location of the units and allocate as far as possible supplies from the producer nearer to them.

(iii) The producers should honour the pending orders shown in para 1 above which had been taken into account while estimating the net availability of the metal for allocation during Oct. 1971—March 1972.

(iv) In any case, no allocation should be on the producers after the expiry of the half year and the quantity, if any, remaining unallocated as on 31-3-1972 would automatically lapse.

(v) The representative of DGTD pointed out that during the last half year it was stipulated that the actual users should open irrevocable letters of credit on the indigenous producers in order to be eligible for release from MMTC stocks. This, however, led to some difficulties as the smalter of CBZ was on strike for sometime and the allottees could not open 'letters of credit'. It was decided that it should be sufficient if the allottees produce a letter of acceptance of the order from the producers for consideration for release from MMTC stocks.

(vi) While allocating zinc to the State Small Scale Industries Corporations, for release to small scale units on the basis of the recommendations of the State Directors of Industries, the DC, SSI should make it clear that the Corporations should lift the metal allocated from the producers as early as possible and the quantities remaining unlifted on 31-3-1972 would automatically lapse.

Copy of the note dated 23-10-71 recorded on DGS&D file No. SMH-5/Zinc/Cominco/HZL.

I attended the meeting in regard to the allocation of zinc in the room of Jt. Secretary, Deptt. of Mines and Metals on 21-10-1971.

It was agreed that all the priority demands of Defence and other indentors will be met out of the production capacity of the two producers—M/s. Hindustan Zinc and M/s. Cominco Binani—durng the period October, 1971 to March 1972. This would take care of the pending indents of about 1,000 M/Ts received by us from Ordnance Factories and Naval Headquarters and the expected demands of P&T. Railways, etc.

I pointed out the unsatisfactory performance of M/s. Cominco Binani who have a backlog of 1353 M/Ts against DGS&D orders placed with them in October 1970 to March 1971. The Jt. Secretary, Deptt. of Mines and Metals and the Development Officer, DGTD, also pointed out that the firm has not cleared their other commitments of more than 6,000 M/Ts. The hold-up of production was attributed by the firm to prolonged strike in their factory. Now that the strike is over, the firm's representative agreed to clear the backlogs as early as possible.

The representative of M/s. Cominco Binani and the Jt. Secretary, Deptt. of Mines and Metals also raised the question of waiver of the inspection clause against the orders placed with the firm. I explained to them that we have already told the firm that the Government would consider the waiver of inspection for which facility they should offer suitable price reduction. Firm's representative regretted their inability to give any reduction in price. We have also received a letter from them dated 13-9-1971 in this connection. They have stated that the waiver of inspection was only suggested to eliminate any delays in execution of orders without any loss to the consumers and they have no objection if we want to continue the inspection procedure. This is being examined and will be put up shortly for a decision.

M/s. Cominco Binani also represented against non-payment of their 2 per cent bills I explained to them that we have already finalised a number of cases and the rest will also be cleared shortly, after the required notice period served on the consignees for clearance of the I/Notes is over.

As for the requirement of zinc for G.I. Wire/Barbed Wire, I requested that 1,000 M/Ts may be reserved for the small scale sector and an equal quantity for the large scale sector from the MMTC imported material as was done last time.

The representative of the Development Commissioner, Small Scale Industries, pointed out that the procedure for release of zinc to contractors from imported material is very cumbersome and time consuming. Against the recommendations received from DGS & D for release of zinc to the fabricators of G.I. Wire/Barbed Wire, he has not been able to arrange the release so far on account of this protracted and cumbersome procedure. He desired that some quantity may be made available to small scale units against DGS & D and other orders on SSI from indigenous production. This was agreed to by the Jt. Secy., Department of Mines and Metals and it was decided that 1,000 M/Ts may be kept at the disposal of the Development Commissioner, Small Scale Industries for release to SSI Units.

Sd/-

(M. SINGH),
DDS 23-10-1971

Recommendation

"The Committee learn that according to clause 10 of another Accepted Tender dated 26th August, 1971, the delivery of zinc was to be made in convenient instalments by 31st September, 1971, to the Manager, Telecom Factory, Jabalpur who had so informed the DGS & D on 13th September, 1971, because of the limited loading facilities in that factory for spreading of delivery period from January 1972 to 31st March, 1972. The Committee are surprised to note that the DGS & D on 11th October, 1971, *i.e.*, after the expiry of delivery period, enquiry from the firm whether it could deliver the stores during 1st January, 1972 to March, 1972. The Committee would like to know the specific reasons for taking about a month in addressing the firm in this case. It is a matter of great concern to the Committee that action was initiated in DGS & D in May 1972 on the indentors' telegram dated 5th November, 1971 in spite of the fact that he had issued two reminders in December, 1971 and in February, 1972. It has been conceded during evidence that the relevant file was not put up by the Assistant Director during that period. The action taken against the officer on this account may be intimated to the Committee."

[Sl. No. 23 (Para 1.144) of Appendix IV of the 19th Report
(6th Lok Sabha.]

Action Taken*

The firm's letter dated 13-9-1971 was received in the Dte. on 17-9-1971. It was submitted by the dealing hand on 23-9-1971. The file remained with officers at various levels upto 4-10-1971. Further time was taken in drafting/typing/issue of the letter to the firm on 11-10-1971.

Disciplinary proceedings for a minor penalty have, however, been instituted against the concerned Asstt. Director of Supplies in consultation with C.V.C. for not taking any action on the file from 6-11-1971 to 18-5-1972.

[Deptt. of Supply, O.M. No. P.III-17(8)/77,
Dated 14-8-1978.]

Recommendation

"It is seen from the Audit Paragraph that M/s. Cominco Binani had stated on 16th November, 1971 that as the acceptance of tender of the allocation made by the Ministry of Mines and Metals without any offer from its side, the usual terms of the contract should not be binding on it. It has been admitted during evidence that this aspect was not got examined in the Ministry of Law. The Committee are unable to understand as to why the Ministry of Law was not consulted in this matter. The reasons for this lapse may be investigated under advice to the Committee."

[Sl. No. 24 (Para 1.145) of Appendix IV of the 19th Report
(6th Lok Sabha)].

Action Taken*

The question as to whether this issue ought to have been examined in consultation with the Ministry of Law, was not considered, as M/s. Cominco Binani Zinc Ltd.'s letter dated 16-11-1971 (received on 19-11-1971) was not put up and examined on the file. The file had been put up to the Asstt. Director on 6-11-1971 in connection with an earlier receipt and the file remained with him upto 18-5-1972. During this period, the said letter of the firm was apparently not put up to the Asstt. Director. It appears to have been subsequently added to the file by the concerned U.D.C. without any noting thereon. The explanations of the Asstt. Director and the U.D.C. concerned are

*Not vetted by Audit.

being called for. In addition, the Asstt. Director has been chargesheeted for a minor penalty in consultation with C.V.C. for holding up the file from 6-11-1971 to 18-5-1972.

[Deptt. of Supply, O.M. No. P. III-17(8)/77, Dated 14-8-1978.]

Recommendation

To sum up, the defects in the terms of contract, such as making no provision for liquidated damages; avoiding consultation with the Ministry of Law in time; non-availability of proper machinery for controlling the activities of a recalcitrant firm which was not honourings its contractual obligations; revision of the prices of zinc haphazardly—there being a gap of one year which was exploited by the firm to its advantage; lack of proper procedure available in the DGS & D for recording their decision—loss of file which had to be reconstructed and the lack of effective surveillance over the activities of the officers who came into contract with the firm during the execution of the contract, are some of the glaring shortcomings and deficiencies which have come to the notice of the Committee during their examination of this Paragraph. The Committee strongly feel that the firm (M/s. Cominco Binani Zinc Ltd.) has betied the expectations of making available a scarce metal, such as zinc, to the Government Departments under one pretext or the other. It appears to the Committee that the only aim before the firm was to neutralise its earlier losses and to make windfall gains by holding the stock and offer it only after the price revision. It is clear that the suppliers had taken recourse to a ruse to inflate their bills of payment and Government did not exercise their right to intervene. The Committee hope that the authorities concerned would learn a lesson from these lapses and take suitable and conclusive measures to obviate their recurrence.

[Sl. No. 26 (Para 1.147) of Appendix to the PAC's 19th Report (6th Lok Sabha.]

Action Taken

The Department of Mines have noted the above observations of the Committee which mainly relate to the Department of Supply. It is, however, submitted that the entire system of informal control on zinc had been reviewed, from time to time, and the deficiencies noticed rectified and the procedure streamlined in the light of the experience gained as indicated below:—

(i) While revising the price of zinc in 1972 no specific period for its continuance was indicated. Thus the revised price continued till further revision.

(ii) In 1973, while revising the price of zinc on par with MMTC price it was *inter alia* stipulated that supplies to parties who had opened clean letters of credit on or prior to 28-3-1973 for zinc supplies in March, 1973 should be made at the old price, *i.e.*. Rs. 4090 per tonne.

(iii) In order to cut short the delays in supplying zinc to Ordnance factories etc. as early as in January, 1973 the DGS & D was urged to waive the inspection clause which was accepted in January, 1975.

(iv) In 1973 it was suggested to the Department of Supply that Ordnance factories, etc., might procure zinc directly without the intervention of DGS & D. This was accepted in 1975.

(v) In 1974-75 when there was an unprecedented increase in the international prices of zinc, which got reflected in the MMTC price of zinc and increased the sales realisation of the two indigenous producers, the following specific steps were taken to mop up the increased earnings of the zinc producers:—

(a) The excise duty on zinc was raised from Rs. 875 to Rs. 2625 per tonne without a corresponding increase in the countervailing excise duty.

(b) Cominco Binani Zinc Ltd. was required to sell a portion of their zinc production to the registered exporters at the lowest of three prices of MMTC then prevailing.

(vi) The stock position, despatch etc., of zinc are being scrutinised, in detail, to ascertain the reasons for any abnormal position.

2. In February, 1975, the informal distribution control was relaxed and the producers were permitted to supply the metal to Government Departments, public sector undertakings and DGTD units without any formal allocation having regard to the demand—supply position. Thus there is at present no impediment in the free supply of the metal to the consuming units.

[Deptt. of Mines O.M. No. 54012(6)/77-Met. II.
Dated 14-8-1978.]

CHAPTER III

CONCLUSIONS|RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT.

Recommendation

The Committee note that India was entirely dependent on import of zinc till 1967, except for small quantities of the metal received back after smelting abroad on toll basis the zinc concentrate from Zawar Mines in Rajasthan. Zinc production commenced in the country for the first time in April, 1967, with the commissioning in the private sector of the smelter of Cominco Binani Zinc Limited at Alwaye (Kerala) with an installed capacity of 20,000 tonnes per annum. Early in 1968 the Hindustan Zinc Limited (a public sector undertaking) commissioned its zinc smelter at Debari near Udaipur with an installed capacity of 18,000 tonnes per annum. It produces zinc from Zawar ore deposits. The Committee also note that the application dated 30th December, 1958 of M|s. Binani Metal Works (Pvt.) Ltd., Calcutta for setting up a zinc smelter of 12,000 tonnes per annum capacity, to be expanded to 20,000 tonnes, at Alwaye (Kerala) in collaboration with a foreign firm (Cominco of Canada) and imported zinc concentrates, was approved by the Cabinet on 17th January, 1961. Though the firm had indicated in the application the involvement of foreign collaboration for setting up a zinc smelter, it had not specified the name of the collaborator and it was only in August, 1961, *i.e.*, after the approval of the project by the Cabinet, the party intimated name of the foreign collaborator to Government. It is incomprehensible how in the absence of adequate particulars about the foreign collaboration, the Government considered the feasibility of the project in the private sector. The Committee would like to be apprised of the rationale for adoption of this unusual procedure.

[Sl. No. 1 (Para 1.122) of Appendix to the PAC's 19th Report (6th Lok Sabha).]

Action Taken

As stated in para 1.24 of the Report of the Committee, the application of Shri G. D. Binani for the grant of an industrial licence under the Industries (D & R) Act, 1951, for setting up of a Zinc Smelter, based on imported zinc concentrates was considered by the Licensing Committee at its meeting held on 29-5-1959. The Committee recommended the grant of a licence subject to the following conditions:—

(i) the prior approval of the Government should be obtained for deviating from the terms of the Industrial Policy Resolution as the proposals envisage the establishment of these units in the private sector.

(ii) the foreign exchange requirements should be screened by the CG/HEP Committee.

(iii) the terms of foreign collaboration, if any, should be settled to the satisfaction of the Government.

2. Pursuant to the above, approval of the Cabinet was obtained in January, 1961 to the setting up of a Zinc Smelter in the private sector by the party in relaxation of the I.P.R. Thereafter the party submitted the terms of the foreign collaboration, foreign exchange financing etc. for the smelter. After examining these in consultation with the concerned authorities, a licence was granted to the party in October, 1962 under the Industries (D & R) Act, 1951, for the setting up of the zinc smelter.

3. There is nothing unusual in the procedure adopted in the instant case. The party could not be expected to go in for negotiation with foreign collaborator, unless they were sure that their application would receive favourable consideration. After approval of the proposal by the Cabinet in January, 1961, Shri Binani was asked *vide* letter No. 3(22)-Met. 59, dated 5-4-1961 (copy enclosed) to submit details regarding terms of foreign collaboration. The name of the foreign collaborator was intimated by the party in August, 1961, which was well before the grant of Industrial Licence to the party on 29-10-1962.

[Deptt. of Mines O.M. No. 54012(6)/77-Met. II.
Dated 7-8-1978]

Registered A/D

No. 3(22) Met./59

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE AND INDUSTRY

(Metal Section)

New Delhi, the 5th April, 1961.

To

Shri G. D. Binani,
38, Strand Road,
Calcutta-1.

SUBJECT.—*Licensing of Industrial undertakings under the Industries (Development and Regulations) Act, 1951—manufacture of Pig Lead or lead ingots and zinc ingots or slabs.*

Sir,

I am directed to refer to your two applications dated 30th December, 1958, for licences for the establishment of new industrial undertakings at Calcutta for the manufacture of Pig Lead or Lead Ingots and Zinc Ingots or Slabs and to say that the Government of India propose to issue licence(s) for the purpose. The drafts of two licences are enclosed and I am to request you to let this Ministry know before 20th April, 1961 whether the terms and conditions of the licences are acceptable to you. I am to invite your attention, in particular, to the conditions at (11) to (14) of the licences.

2. I am also to request you to clarify whether two companies will be floated for the manufacture of lead and zinc or only one company will be formed; the name or names of company(ies) may also be intimated to the Ministry for incorporation in the final licences. I am also to request you to submit full details regarding:—

(i) proposals for import of plant and machinery;

(ii) terms of foreign collaboration and capital particulars, if any; and

(iii) long term arrangements proposed to be entered into with producers abroad for supply of lead/zinc ores/concentrates.

3 The grant of the licences will be subject to conditions relating to import of plant and machinery, terms of foreign collaboration and other items mentioned in the draft licences being settled to the satisfaction of the Government of India.

Yours faithfully,
Sd/- (S. S. AYYANGAR),
Under Secretary to the Government of India.

Recommendation

The Department of Mines have informed the Committee that for increasing the production of zinc in the country a letter of intent for expansion of 20,000 to 40,000 tonnes was issued to M/s. Cominco Binani Ltd., in 1971 and that the Hindustan Zinc Ltd. was expanded from 18,000 tonnes to 45,000 tonnes at the same site. It is also stated that Visakhapatnam Smelter has been set up with a capacity of 30,000 tonnes but this smelter has yet to go into operation. The Committee regret that though five years have passed the letter of intent issued to the private firm for expansion has not yet been converted into an industrial licence nor has there been any progress in finalising the foreign collaboration terms for making necessary financial arrangements. The Committee would like to know the action the Ministry proposes to take against the firm for their failure to make necessary contractual arrangements. They would also like to know why M/s. Cominco Binani Ltd. were given the permission to expand their concern when they have not been able to work to their original installed capacity of 20.000 tonnes per annum

[Sl. No. 4 (Para 1.125) of Appendix to the PAC's 19th Report (6th Lok Sabha).]

Action Taken

Expansion of the two existing Zinc Smelters at Alwaye in Kerala of M/s. Cominco Binani Zinc Ltd. in the private sector and at Debari near Udaipur in Rajasthan of the Hindustan Zinc Ltd., in the public sector as also establishment of a new zinc smelter at Visakhapatnam in Andhra Pradesh by the Hindustan Zinc Ltd. were approved by the Government in 1971.

2. The Debari expansion scheme of Hindustan Zinc Ltd., was commissioned in January, 1977 and the new zinc smelter at Visakhapatnam went into production in March, 1977.

3. In the case of M|s. Cominco Binani Zinc Ltd., a "letter of intent" was granted on 9-7-1971 with initial validity of 6 months for expanding the capacity of the smelter to 40,000 tonnes. This "letter of intent" was extended from time to time upto 31-12-1976. In December, 1976, the company submitted certain proposals for expansion of the smelter to 40,000 tonnes. The proposals also included modernisation of the smelter for reaching the licensed capacity of 20,000 tonnes in a phased manner.

4. The proposals for financing the expansion scheme were not considered to be satisfactory. The Government accordingly decided that since the company had failed to formulate satisfactory proposals for the expansion in a reasonable period, the "letter of intent" issued earlier for expansion should be allowed to lapse. The company was advised in September, 1977 to take necessary steps to realise production of 20,000 tonnes per annum, as stipulated in the industrial licence. The question of grant of licence to the company for the expansion of their existing smelter beyond 20,000 tonnes per annum would be considered by the Government at the appropriate time after the licensed capacity is achieved and a fresh application for the expansion is submitted by the company.

5. As stated in reply to Recommendation No. 3 of the Committee, the installed capacity of the Alwaye Zinc Smelter of M|s. Cominco Binani Zinc Ltd. cannot be reckoned as 20,000 tonnes per annum. It was expected that the deficiencies in the smelter in achieving the licensed capacity of 20,000 tonnes per annum would *inter alia* be removed along with the proposed expansion of the plant to 40,000 tonnes per annum. The "letter of intent" was granted for expansion of the smelter after detailed examination of all relevant issues including the fact that the expansion of the smelter would be more economical than a grass-root plant.

[Deptt. of Mines O.M. No. 54012(6) 77-Met. II,
Dated 7-8-1978.]

Recommendation

The Committee have noticed that while allowing an increase of Rs. 150 per tonne with effect from 1st February, 1970, the Department in their letter dated 9th February, 1970, addressed to the producers had stated that "this is subject to the condition that a sum of Rs. 100 per tonne out of the increased price should be kept separately for development purposes. The details of the procedure for utilisation of the sum of Rs. 100 per tonne are being worked out and will be communicated to you shortly". The Committee are unaware of the amounts that have actually been spent for development purposes by the producers. The Committee would like to have this information as also the details of the procedure laid down for the utilisation of the accumulations.

[Sl. No. 7 (Para 1.128) of of Appendix to the PAC's 19th Report (6th Lok Sabha).]

Action Taken

While allowing an increase of Rs. 150 per tonne in the selling price of zinc, it was felt that this would help the two zinc producers to generate some funds. With a view to preventing the two producers from frittering away the additional funds in declaring dividends, it was stipulated that the price revision was subject to the condition that a sum of Rs. 100 per tonne out of the increase should be set apart for developmental purposes.

2. Immediately on the imposition of the above conditions, the Hindustan Zinc Ltd. informed this Ministry that their ways and means position was not likely to improve during 1970-71 and that the increase in the selling price of zinc would be more than off-set by:—

(i) lower price realisation from sale of by-products;

(ii) increase in price of zinc concentrates in the international market; and

(iii) increase in wages.

3. M/s. Cominco Binani Zinc Ltd., also informed that they did not foresee any possibility of their declaring dividends by 1972. In fact the company declared the dividend for the first time in 1974-75 after 7 years of operation.

4. It had thus become clear that the price increase allowed would not, in fact, help the companies to generate additional funds as anticipated earlier. The position explained by the two companies was accepted by the Government and the question of laying down a detailed procedure for setting apart and utilisation of funds was not pursued. The two companies, in fact, continued to incur losses even after the increase allowed by the Government in February, 1970. The Committee will appreciate that the condition regarding setting apart and utilisation of funds could not have been enforced when the companies were incurring losses and no funds were actually generated.

[Deptt. of Mines O.M. No. 54012(6) 77-Met. II. Dated 7-8-1978.]

Recommendation

"According to the Audit Paragraph the case of non-supply of zinc was referred to the Ministry of Law in July, 1974 whereas the firm had informed the DGS&D on 1st September, 1973 that it was treating the order for the balance quantity of 900 tonnes of zinc as having lapsed. This letter was followed by another letter dated 8th December, 1973. The Committee are surprised to learn that a reference to the indentors was made on 12th February, 1974, *i.e.* after a lapse of about three months asking them to intimate to the DGS&D the exact quantities received by them. It has been admitted during evidence that this delay was unfortunate. The Committee have a suspicion that undue favours were shown to the firm by the officials of the Department whose role in regard to the entire transaction relating to the award of this particular contract should be fully investigated. The Committee would like to be apprised in clear terms whether there was a collusion between the officials of the Department and the Executives of the firm."

[S. No. 17 (para 1.138) of Appendix IV of the 19th Report (6th Lok Sabha)]

Action Taken*

Delay in making reference to the Indentors appears to be due to the fact that the original file was not traceable. The concerned Asstt. Director of Supplies and the U.D.C. have been charge sheeted for a minor penalty in consultation with C.V.C. for the loss of the file. The Contract was placed on the firm on the basis of half yearly allocation made by the Department of Mines. No collusion between the officials of the Department and the Executives of the firm is suspected.

[Deptt. of Supply O.M. No. PIII-17(8)/77 dt. 14-8-78]

Recommendation

"The Committee note that one of the indentors had asked the DGS&D on 14th March, 1974 to expedite the supplies. That indentor in response to DGS&D letter dated 2nd April, 1974 had not agreed to the cancellation of unsupplied quantity. It is interesting to note that the DGS&D thereafter requested the firm on 23rd May, 1974 to forward a copy of the A/T and other relevant correspondence to them as their own file was stated to be missing. The reconstitution of file was stated to have been done after 5th July,

*Not vetted by Audit.

1974. The case was referred to the Ministry of Law on 24th July, 1974."

[S. No. 18 (para 1.139) of Appendix IV of the 19th Report (6th Lok Sabha)]

"It has been stated during evidence that the responsibility for the loss of the file in the DGS&D has been fixed on a few officers. The Committee note that two officers (one Assistant Director and one U.D.C.) who had already been warned in connection with another case referred to in the 144th Report (5th Lok Sabha) of the Public Accounts Committee, were involved in the present case also. The Committee are surprised at the leniency shown to the delinquent officers whose probity had been under a cloud. The Committee would like to be informed about the action taken against these and other officers who might be involved in this deed."

[S. No. 19 (para 1.140) of Appendix IV of the 19th Report (6th Lok Sabha)]

Action Taken*

Two officer (One Asstt. Director and One U.D.C.) involved in the present case had already been warned in the other case referred to in the 144th Report of the P.A.C. (5th Lok Sabha). These two officers were only charged for delays in that case and no loss of file was involved.

In the instant case, the Asstt. Director and the U.D.C. have been charged sheeted for a minor penalty in consultation with C.V.C. for the loss of the file. There is no evidence to indicate that any other officer was involved in the loss of the file.

[Deptt. of Supply O.M. No. PIII-17(8)/77 dt. 14 8-78]

Recommendation

"The Committee have been informed by the Department of Supply that the Ministry of Law also held the view that there might be no impediment to the Department claiming the general damages provided the Department could prove by documentary evidence that sale transactions had taken place at Rs. 5700 per metric tonne against the sale price of Rs. 2850/- per metric tonne fixed for the period February 1970 to March 1971 which continued upto 31st July, 1972. The Ministry of Law had also felt that it was

*Not vetted by Audit.

for the Arbitrator to award such sums as may deem fit and proper in the circumstances."

[S. No. 20 (para 1.141) of Appendix IV of the 19th Report (6th Lok Sabha)]

Action Taken*

The Committee has already been apprised in connection with reply to Point No. 15 of the list of Points appended to Lok Sabha Sectt. O.M. No. 2/1/14/2/76-PAC dated 16-11-77 that pursuant to a settlement approved by Government, the firm has already paid to the Govt. a sum of Rs. 14,97,290 in full and final settlement of the Government's claim. A copy of the reply sent earlier is attached for ready reference.

[Deptt. of Supply O.M. No. PIII-17(8)/77 dt. 14-7-73]

DEPARTMENT OF SUPPLY

Note furnishing supplementary information on the list of points appened to the Lok Sabha Secretariat's O.M. No. 2/1/14/2/76.PAC dated 16th November, 1976.

PARAGRAPH 37—PURCHASE OF ZINK SLABS

Point No. 15:

Please furnish a self contained consolidated statement indicating the performance of Cominco Binani Zinc Ltd. in respect of each of the four A/Ts referred to in the Audit Paragraph, bringing out clearly the original delivery schedules extensions allowed and actual materialisation of supplies.

REPLY:

A consolidated statement indicating the performance of M/s. Cominco Binani Zinc Ltd., in respect of four A/Ts dated 24-12-70, 24-4-71, 15-5-71 and 26-8-71 was attached as Annexure 'A' to the reply sent with this Department O.M. No. PIII-21(10)/76 dated 3-1-1977. Against A/T No. SMH-5/202/45 134/26-8-70/PAOM/464, dated 24-12-70, it was stated that the general damages of Rs. 21,78,747/- had been claimed from the firm. Further, in reply to point No. 24 it was stated that the Arbitrator had been appointed and the Government counsel also nominated.

*Not vetted by Audit.

Before the Arbitrator could proceed with the case, the firm, on their own, put forth certain proposals to the Department on 6-11-76 for settlement of the dispute. These proposals were rejected. The firm sought negotiations on the disputed claim and after holding a series of negotiations in the Department, at firm's request, the firm eventually agreed to pay in cash a sum of Rs. 14,97,290 in full and final settlement of the Government's claim. The rational behind this proposal was:—

"A"	"B"
Price stipulated for Contract dated 24-12-70	Revised price which DGS&D would have paid for supply beyond 1-2-72 due to firm's failure
(Rs per M/T)	(Rs per M/T)
Basic: 2,850·00	4,090·00
Excise Duty: 500·00	875·00
Total: 3,350·00 .	4,965·00
Difference between A&B	1,615·00
Add GST at 3%	48·45
Total .	1,663·45
Total for 900·111 M/Ts (Defaulted qty.) .	x14,97,289·60
(Rounded off to) . .	14,97,290·00

The aforesaid proposal was accepted by the Department in consultation with the Ministry of Law and Financial Adviser. The Ministry of Law had advised, as under:—

> "....In the present case, the Department will be receiving Rs. 14,97,290.00 as against Rs. 21,78,747.72 claimed on account of G/D in the arbitration proceedings. In view of the legal position and the trend of decrees/awards in similar cases, the proposed settlement seems beneficial to the Department and as such merits consideration."

It was considered that had the Govt. gone in for risk purchase, this amount, *i.e.*, Rs. 14.97290, would have been the excess amount at informal price control prices ruling in the period beyond February 1972 and the full realisation of this amount was equitable. Government decided accordingly to accept Rs. 14,97,290 as general damages and an application was thereafter filed before the Arbitrator for an Award on these lines and he made the Award on

12-9-77. The firm have already credited the amount of Rs. 14,97,290 in favour of the Government.

PIII-21 (10) /76.

Recommendation

The Committee find another inconsistency in the approach of the Ministry. The firm had accepted on 1 September, 1973 the rate of Rs. 2,850 per tonne for 30.20 tonnes supplied in July and October 1971 but it had refused on the same date, to accept the same price for the outstanding supplies of 900 tonnes. There is ostensible reason for not bringing this fact to the notice of the Ministry of Law, while seeking their opinion on this case. The Department of Supply have informed the Committee that a serious view of the manner in which the firm had acted in the matter was taken by the Government, but no legal action could be taken against it as the control in force was purely informal. It is not understood how the DGS&D could agree to the price fixation of a smaller quantity of 30.20 tonnes at Rs. 2,850 per tonne when the firm on the same date refused to supply a larger quantity of 900 tonnes at the original price. It appears that the Ministry had no means availble to discipline a supplier who had dictated his own terms and conditions and thereby grabbed substantial profits. The Committee feel that if the fact that the firm was asking for a higher price than what was informally fixed had been brought to the notice of the Department of Mines by the Department of DGTD and Iron and Steel Controller etc. in time, it could have been possible for the Government to take corrective/administrative measures against the firm. The Committee would like to have a satisfactory explanation for this.

[Serial No. 21 (Para 1.142) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

This is for the Department of Supply to reply. It is, however, understood that the dispute in question has since been settled satisfactorily with Cominco Binani Zinc Ltd.

[Deptt. of Mines O.M. No. 54012 (6) /77-Met.II dt. 7-8-78]

Recommendation

"The Committee find another inconsistency in the approach of the Ministry. The firm had accepted on 1 September, 1973 the rate of Rs. 2850 per tonne for 30.20 tonnes supplied in July and October

1971 but it had refused on the same date, to accept the same price for the outstanding supplies of 900 tonnes. There is no ostensible reason for not bringing this fact to the notice of the Ministry of Law, while seeking their opinion on this case. The Department of Supply have informed the Committee that a serious view of the manner in which the firm had acted in the matter was taken by the Govt. but no legal action could be taken against it as the price control in force was purely informal. It is not understood how the DGS&D could agree to the price fixation of a smaller quantity of 30.20 tonnes at Rs. 2850/- per tonne when the firm on the same date refused to supply a larger quantity of 900 tonnes at the original price. It appears that the Ministry had no means available to discipline a supplier who had dictated his own terms and conditions and thereby grabbed substantial profits. The Committee feel that if the fact that the firm was asking for a higher price than what was informally fixed had been brought to the notice of the Department of Mines by the Department of DGTD and Iron and Steel Controller etc. in time it could have been possible for the Government to take corrective/administrative measures against the firm. The Committee would like to have a satisfactory explanation for this lapse.

[S. No. 21 (para 1.142) of Appendix IV of the 19th Report (6th Lok Sabha)]

Action Taken*

The price of Rs. 2850 per M/T declared firm and final by the DGS&D in March '74 related to the following two contracts: (i) A/T No. SMH-5/479, dt. 11-2-71 for 20 M/Ts. The material was despatched on 5-7-71, (ii) A/T No. SMH-5/481 dt. 15-2-71 for 10.20 M|Ts. The material was despatched on 14-10-71.

The original contract DP against the first contract was 31-3-71. This was extended upto 30-6-71 with R|R and price denial clauses under amendment letter dated 25-5-71.

The Contract DP date against the second contract was also 31-3-71. This was extended upto 31-8-71 with the usual R|R and denial clauses through amendment letter dated 16-7-71.

Supplies against both the above contracts were made before the revised prices came into force from 1-2-72. Hence, the contract price of Rs. 2850 per M/T was declared firm and final in both these contracts. As regard A/T No. SMH5/464 dt. 24-12-70, the firm had supplied only 248.889 M/Ts against the total qty. of 1149 M/Ts on

*Not vetted in Audit.

order. (A qty. of 149.012 M/Ts was despatched on 26/27-2-71 and a further qty. of 99.877 M/Ts was despatched on 2/3rd July 1971). For the balance qty. of about 900 M/Ts, the firm had been insisting on revised prices effective from 1-2-72. This matter was considered in an inter-departmental meeting held in the Deptt. of Supply on 13-4-73, which was duly attended by the representatives of the Deptt. of Mines and the relevant para from the Record Note of the meeting is appended below:

> "After some discussion it was agreed that the DGS&D could go ahead in taking legal action against the two companies in terms of the contract entered into with them for the supply of metal at the rate of Rs. 2850/- in respect of contracts for the period 1-4-71 to 31-1-72. Shri Ramaswamy also made it clear that his Deptt. would have no objection to the DGS&D enforcing their right under the terms of the contract."

Thereafter, the case was referred to Min. of Law on 23-7-74, drawing attention to the fact that in respect of supplies made in Feb. '71 and July '71, the firm had requested for treating the Contract price of Rs. 2850/- per M/T as firm and final. Their advice was sought for on the point as to whether DGS&D could cancel the outstanding qty. of 900 M/Ts at the risk and cost of the firm. On the basis of legal advice, the outstanding qty. was subsequently cancelled at the firm's risk and cost on 20-11-74. The firm have since paid to the Government a sum of Rs. 14,97,290 in full and final settlement of the Government's claim.

[Deptt. of Supply O.M. No. PIII-17(8)|77 dated 14-7-78]

Recommendation

"The Committee find that two other Accepted Tenders were placed by the DGS & D on the firm on 2 April, and 15 May, 1971 for supply of 36,967 and 10 tonnes to Southern Railway and Western Railway respectively. The Committee are perturbed to note that the firm instead of supplying the stores within the stipulated dates of delivery, wrote to the DGS&D on 28 February, 1972 and 1 March, 1972 requesting them to amend the acceptance of tenders of 2 April, 1971 and 15 May, 1971 respectively for allowing the increase in prices effective from 1 February, 1972 and extending the period of delivery up to 30 April, 1972. In this connection, the Department of Supply have informed the Committee that the Ministry of Law advised them that in respect of these two contracts, since the DGS&D did not choose to amend the contracts nor replied to the firm, the supplier could not be forced to supply the stores at the original prices. It was, therefore, decided to cancel these two contracts without financial repercussions. The Committee are disturbed to note that the Department had no powers whatsoever of compelling the firm to meet its contractual obligations. The attitude shown by the firm is, to say the least, very much reprehensible. The Committee would like to know the reasons for not replying to the firm's above letters as it had prevented the Government from cancelling the contracts at firm's risk and cost."

[S. No. 22 (para 1.143) of Appendix IV of the 19th Report (6th Lok Sabha)]

Action Taken*

It is correct that two A/Ts were placed by the DGS&D on 2nd April, 1971 and 15th May, 1971 for supply of 36.967 M/Ts and 10 M/Ts to Southern and Western Railways respectively. The contracts provided for a provisional price equivalent to the price ruling prior to 1-4-71 and final price was to be the one fixed by the Department of Mines & Metals for sale of Zinc after 1-4-71. It has to be clarified that allocation on this firm was limited to the quantities ear-marked by the Ministry of Mines for supply to DGS&D indentors for each period and fixation of price was also the responsibility of Ministry of Mines, who did not fix the price for the period 1-4-1971 to 31-1-72. The Delivery Period was specified as "Convenient instalments and to be completed by 30th September, 1971 or earlier" and the provisional rate indicated was based on the previous price applicable upto 31-3-1971. During this period in question there was a strike in the firm's factory from 13-3-71 to 7-6-71. No supply was, therefore, possible during this period. DGS&D, in the mean time, had been pursuing with the Ministry of Mines the question of fixation of the price for the period beyond 31-3-71. The Department of Mines had intimated through demi-official letter of 22-4-71 (copy enclosed) that they had received requests for enhancement of selling price of zinc beyond 31-3-71 and that the same were under consideration. They further stated that the Department of Mines were not in a position to indicate the extent to which the proposal of the firms for enhancement in the selling price of zinc was likely to be agreed to, as also the date from which it would be given effect. In effect, the price issue was not determined and the firm would also not proceed with the supplies at the contracted price.

2. It was only in February 1972 that the Department of Mines had announced the price which would be applicable for the period

*Not vetted in Audit.

from 1-2-72 onwards. The enhanced price was Rs. 4,090/- per M/T as against Rs. 2,850 per M|T plus excise duties, prevailing upto 31-3-71. Immediately on this fixation, the firm approached DGS&D for allowing the increased price in respect of the two contracts to enable them to proceed with the supplies. A reply could be sent to the firm only after ascertaining from the indentor regarding the availability of additional funds to cover the enhanced price.

3. In one of the 2 cases (A/T No. 502) the concerned Asstt. Director is being asked to explain why the matter was not processed immediately when the case was put up to him on 3-3-72 keeping in view that the delivery period volunteered by the firm was upto 30-4-72. As a matter of fact, the Asstt. Director has already been charge-sheeted as for a minor penalty for delay of over 2 months in dealing with the case, which was submitted by the dealing hand on 3-3-72, and other charges. The UDC concerned has also been charge-sheeted as for minor penalty for other lapses. The Deputy Director concerned has been administered a warning for other lapses in consultation with Central Vigilence Commission.

In the other case (A/T No. 514) the U.D.C. concerned had delayed submission of the receipts till July 1972. Disciplinary proceedings as for a minor penalty have been instituted against him. In addition, the Asstt. Director concerned has been charge-sheeted as for a minor penalty for not taking action on the file after its submission on 8-12-71 till 25-7-72.

[Deptt. of Supply, O.M. No. PIII-17(8)|77 dated 14-8-78]

(COPY)

D.O. No. 6(12)Met.II/71

GOVERNMENT OF INDIA

DEPARTMENT OF MINES & METALS

M. S. Bhatnagar,
Under Secretary.
(Tel. No. 384334)

New Delhi, the 22nd April, 1971

Dear Shri Dastur,

Please refer to your d.o. letter No. SMH-5/503-45/479 dated the 13th April, 1971 regarding procurement and distribution of electrolytic zinc.

2. We have also received intimation regarding the indefinite strike by the workers in the Company's zinc smelter at Alwaye (Kerala).

3. As regards the price to be fixed for the indigenous zinc metal, I may mention that we have since received requests from the indigenous producers for enhancement of the selling price beyond 31-3-1971. The requests of the producers are under consideration of the Government. At this stage, we are however, not in a position to indicate the extent to which their proposal for enhancement in the selling price of zinc is likely to be agreed to by the Government and also the date from which it would be given effect to.

4. In regard to the extension of the delivery period beyond 31st March, 1971, as mentioned in the last para of your D.O. letter, we feel that it is a matter to be considered by the DGS&D.

Yours sincerely,

Sd/-

(M. S. BHATNAGAR)

Shri E. C. Dastur,
Asstt. Director of Supplies,
D.G.S.&D., New Delhi.

Recommendation

The Committee note that from April, 1973, the indigenous producers are allowed to sell zinc at prices not exceeding the prices fixed by the Minerals and Metals Trading Corporation. The Committee are of the view that the zinc price should have been fixed either on the basis of actual cost of production of indigenous producers or on the basis of price arrived at by pooling the prices of indigenous and imported zinc as has been done in the case of fertilizers instead of allowing the indigenous producers to sell zinc at MMTC prices.

[Serial No. 27 (Para 1.148) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

As stated in reply to Recommendation No. 10 of the Public Accounts Committee (19th Report), the revision of the selling price of zinc at par with MMTC prices was taken after detailed examination of the matter. In February, 1972, the selling price of zinc was fixed on the basis of cost study conducted by the Bureau of Industrial Costs and Prices but both the producers found the price unremunerative and represented for further revision. The revision of the price in April, 1973 whereby the producers were allowed to sell zinc at the MMTC prices was in accordance with the guidelines laid down by the Bureau of Public Enterprises in their Office Memorandum No. BPE|46|Adv|(F)|68|25 dated 27th December, 1968 (copy enclosed).

2. It is also relevant to mention in this connection that the Committee on Public Undertakings 1975-76 (5th Lok Sabha) which examined and reviewed the working of the Hindustan Zinc Limited including its pricing policy had observed as under in its 88th Report:—

> "The Committee regret to observe that till March, 1973, the Hindustan Zinc Ltd. was made to sell zinc produced by it at a price which was not only unremunerative but also lower than the MMTC's price for imported zinc and thus suffered loss in the process. The Committee would like the Government to review the pricing policy followed till March, 1973 and draw lessons for their future guidance."

3. The international price of zinc has been fluctuating and there was an appreciable fall in price during 1977-78. Since MMTC prices are based on the international prices, the fluctuations in the international prices have repercussions on the domestic price of zinc. With a view to insulating the indigenous producers of zinc from such violent fluctuations in the price of imported metal, the Bureau of Industrial Costs and Prices has been requested in January, 1978, to conduct a cost study with a view to adopting a pooled price for indigenous and imported zinc.

[Deptt. of Mines O.M. No. 54012(6)/77-Met.II dt. 7-8-78]

Copy of B.P.E. O.M. No. BPE|46|Adv(F)|68|25, dated 27th December, 1968.

PRICING

Pricing Policies of Public Enterprises

The pricing policies for public enterprises were recently considered by the Government at the highest level and it has been decided that public enterprises should be economically viable units and an all out effort should be made to increase their efficiency and establish their profitability at the earliest. It was decided that it would not be necessary or advantageous to lay down guidelines in regard to pricing policies to be followed by enterprises which produce goods in respect of which the prices are subject to regulations of a binding type either voluntarily by mutual arrangements or due to domestic or international regulations. It may also not be necessary to prescribe any guidelines for trading organisations like STC, MMTC etc.

2. So far as the enterprises which produce goods and services in competition with other domestic producers, the normal market forces of demand and supply will operate and their products will be governed, by and large, by the competitive prices prevailing in the market.

3. It was, however, felt that it would be useful to have suitable guidelines for those enterprises which operate under monopolistic or semi-monopolistic conditions. In regard to pricing policies to be adopted by such enterprises the following guidelines will be useful for the consideration of their Board of Directors:—

(a) The pricing of their products should be within the basis of the landed cost of comparable imported goods which would be the normal ceiling (and not on the basis of *c.i.f.* prices). In calculating the landed cost of the normal price of such goods in the country of their origin should be taken into account in cases where exports of such goods are subsidised on any appreciable scale either directly or indirectly. [Please see also under (c) below].

(b) Within the ceiling of the landed cost, it would be open to the enterprises to have price negotiations and fix price at suitable levels for their products which would give them a reasonable return on the capital invested. It was also desirable that the prices so fixed should be operative for a period of 2-3 years.

(c) Ordinarily, the landed cost should be regarded as the absolute ceiling. If, however, in assessing the landed cost, there are reasons to believe that imported COB/CIF prices are artificially low, or in other exceptional circumstances, where our own cost of production is very high, it may be necessary to have the prices higher than the landed cost; in such circumstances the matter should be referred to the administrative Ministry concerned for examination in depth in consultation with the Ministry of Finance, Bureau of Public Enterprises, etc.

4. The Ministry of Industry etc. are requested to bring the contents of this O.M. to the notice of all undertakings under their control for their guidance.

CHAPTER IV

CONCLUSIONS|RECOMMENDATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee further note that while fixing the price at Rs. 2850, the producers were informed that future proposals for increase in the selling price would be considered on the basis of actual costs of production. While the public sector undertaking was being reviewed in November, 1970, it was decided that it might submit proposals for revision of zinc price duly supported by cost data. The cost data for the public sector undertaking was received by the Department of Mines and Metals in February, 1971. The Committee are perturbed to learn that in the same month the Department had informed M|s. Cominco Binani Ltd. that the public sector undertaking had represented for increase in price of zinc and it might supply 'cost data indicating actuals for the year 1969 and 1970 and cost projections based on the best estimation possible for the years 1971 and 1972'. The cost data of both the companies referred to the Bureau of Industrial Costs and Prices in April, 1971. The Bureau in their Report submitted on 24 January, 1972, recommended a price of Rs. 4090 per tonne with effect from 1 April, 1971 to 31 January, 1972 was not fixed, the Department of Mines have stated that the price of Rs. 2850 per tonne continued during the period.

[Serial No. 8 (Para 1.129) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

The position in regard to the above recommendation has been explained in the reply of the Government to Recommendation No. 9

[Deptt. of Mines O.M. No. 54012(6)|77-Met.-II Dated 7-8-1978]

Recommendation

The Committee are unable to appreciate the reasons which promoted the Ministry to communicate to Cominco Binani Ltd. the fact that the public sector undertaking had asked for a price increase. The requisite information about the cost data could have been obtained from the firm without making a specific reference about the public sector undertaking. In the opinion of the Committee, this unusual procedure might have encouraged the firm to inflate their cost data and also hold up supplies to various departments in expectation of a price rise. In view of the fact that the price of zinc for the period 1 April, 1971 to 31 January, 1972 was not fixed, an atmosphere of uncertainty was unnecessarily allowed to be created. The Committee would therefore like the Government to probe the reasons for non-fixation of the prices of the zinc during the period 1 April, 1971 to 31 January, 1972.

[Serial No. 9 (Para 1.130) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

While reviewing the performance in November, 1970 of the Hindustan Zinc Ltd., a Central Government undertaking producing zinc in the public sector it was noted that during 1968-69 there was a loss of Rs. 34.80 lakhs and the company was likely to incur substantial losses in future. This was mainly due to the fact that the selling price of zinc fixed at Rs. 2850 per tonne was uneconomical. Accordingly, it was felt that the company might submit proposals for revision of the price of zinc, duly supported by cost data It was also felt that proposals, if any, received from the other producer *viz.*, M|s. Cominco Binani Zinc Ltd. could also be considered on merits, having regard to the actual cost of production. It was also decided at the meeing that the actual cost of production of M|s. Cominco Binani Zinc Ltd. should be ascertained by the Government representative on the Board. Pursuant to this, the cost data for 1970 was furnished by M|s. Cominco Binani Zinc Ltd. in January, 1971. The data furnished indicated that the cost of production of M|s. Cominco Binani Zinc Ltd. was around Rs. 3,100 per tonne for 1970 without provision for return on capital. The Hindustan Zinc Ltd. furnished cost data in February, 1971.

2. The cost data furnished by M|s. Cominco Binani Zinc Ltd. in January, 71 and that by Hindustan Zinc Ltd. in February, 71, were examined, and both the producers were addressed to furnish cost data for 1969-70 and cost projections for 1971-72. It will thus be seen that M|s. Cominco Binani Zinc Ltd. had, in fact, submitted cost data for 1970 prior to February, 1971. The purpose of the letter of February, 1971, to the party was to seek further data.

3. It is felt that since the selling price of indigenous zinc was being fixed informally on a uniform basis, revision of the selling price of zinc produced by the Hindustan Zinc Ltd. alone might have led to the allegation of discrimination. All the same, in retrospect it is agreed that the letter seeking further data from M|s. Cominco Binani Zinc Ltd. could have been sent without specifically referring to the representation of the public sector undertaking for price revision.

4. The cost data called for was for making a reference to the Bureau of Industrial Costs and Prices for a detailed cost study. The Bureau of Industrial Costs and Prices later examined the cost data after calling for further details and apparently applied necessary scrutiny and checks to verify the actuals. The calling of the cost data by the Ministry in February, 1971 could not thus have encouraged M|s. Cominco Binani Zinc Ltd. to inflate their cost. In any case, the Bureau of Industrial Costs and Prices were expected to check all such data indeed their procedures provide for such scrutiny.

5. It was expected that the Bureau of Industrial Costs and Prices would complete the study in a short period. The Bureau was requested in April, 1971 to complete the study in about 2 months. In reply, the Bureau of Industrial Costs and Prices indicated that the report would be ready by about middle of July, 1971. The study, however, took a much longer time and the report was received only in January, 1972. It is felt that if the Bureau's study had been completed expeditiously as expected, and as earlier indicated the informal control on zinc price would have been applied earlier.

6. The whole matter regarding non-fixation of the selling price of indigenous zinc during the period 1-4-71 to 31-1-1972 has been again examined from the relevant records, and it is seen that the system of informal distributions/price control on indigenous zinc was thought of in 1968 when the public sector smelter went into production. This with a view to avoiding unhealthy competition and speculative purchases by zinc buyers as between the two zinc producers. Further, because of slackness in demand and the liberal imports allowed after the devaluation of the rupee in 1966, the offtake of the metal was not satisfactory.

7. The main object of the price fixation in 1968 though not expressed in so many words seems to have been to safeguard the interests of the public sector zinc producing unit which had just commenced production of the metal. After having obtained the consent

of the two producers to an informal control, the selling price was fixed at Rs. 2700 (exclusive of excise) per tonne in June, 1968. This price, which was intended to be in force up to 31-3-1969, continued upto 31-1-1970 when it was revised to Rs. 2850 per tonne (exclusive of excise) *w.e.f.* 1-2-1970. In the intervening period *i.e.*, from 1-4-69 to 31-1-70, the same price of Rs. 2700 per tonne (exclusive of excise) fixed in June, 1968, continued.

8. The revised price of Rs. 2850 per tonne fixed in February 1970, was intended to be valid upto 31-3-1971 and the two producers were informed that in future the proposals for increase in the selling price would be considered only on the basis of actual costs of production. The cost data were received from the producers in February, 1971. As stated earlier, in April, 1971, the Bureau of Industrial Costs and Prices was requested to take up cost study for the purpose of price fixation of indigenous zinc. The Bureau was requested to complete the study within a period of two months. In his reply dated 29-4-1971, the Chairman, Bureau of Industrial Costs and Prices informed that questionnaire would be sent to the producers shortly, and assuming receipt of replies by the end of May, 1971, the report would be ready by about middle of July, 1971. The replies were sent by the producers only in July, 1971 (on 19-7-1971 by Hindustan Zinc Ltd. and on 23-7-1971 by M|s. Cominco Binani Zinc Ltd.) On 8-11-1971, the Bureau of Industrial Costs and Prices was reminded to expedite the report. The Bureau's report, was however, received only on 24-1-1972. After examination of the report, the price of zinc was revised to Rs. 4090 per tonne (exclusive of excise) effective from 1-2-1972.

9. The Bureau's report *inter alia* brought out that the producers were incurring heavy losses. It was also clear that the price of Rs. 2850 per tonne (exclusive of excise) fixed in 1970, which continued as per the earlier precedent, was unremunerative to both the producers. But it was found that giving retrospective effect to the revised price would present administrative difficulties particularly in respect of sales to parties in the private sector.

10. All the same, the Government agree in retrospect that continuation of the selling price of Rs. 2850 per tonne could have been notified to the producers while making the reference in April, 1971 to the Bureau of Industrial Costs and Prices for the Cost Study. It would appear the Government went more by the earlier precedent particularly because the control was informal and hoped that the Bureau's cost study would be completed in short time.

11. The lesson learnt from the price fixation in 1968 and 1970 was however, kept in view while notifying the price revision subsequently. On 22nd February, 1972, while revising the selling price of zinc to Rs. 4090 per tonne no specific period was mentioned for the continuance of the price.

12. It is perhaps relevant to point out that M|s. Cominco Binani Zinc Ltd. incurred a loss of Rs. 48.16 lakhs in 1971. Their cumulative loss as on 31-12-71 stood at Rs. 215.94 lakhs.

[Deptt. of Mines O.M. No. 54012(6)|77-Met.-II Dated 7-8-1978]

Recommendation

The Committee note with concern that Government did not nominate any person on the Board of Directors of Cominco Binani continuously for three years, *i.e.*, from May, 1967 to May 1970. The Committee consider this to be a serious lapse which should be investigated.

[Serial No. 15 (Para 1.136) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

The Industrial Licence granted to M|s. Cominco Binani Zinc Ltd. for the setting up of the Zinc Smelter continued the following condition:—

> "The Industrial Undertaking shall agree that the Government will have the right to nominate Government Director/Directors on the Board of the Company and to this end the Articles of Association of the Industrial Undertaking shall include such clauses as may be specified by Government".

2. Pursuant to the above, the Department of Mines nominated its representative on the Board of Cominco Binani Zinc Ltd. during August, 1966 to April, 1967, when the Zinc Smelter of M|s. Cominco Binani Zinc Ltd. was under construction. On the relinquishment of charge by that particular officer of the Department nominated on the Board of M|s. Cominco Binani Zinc Ltd. and his subsequent resignation from the Board in April, 1967, no successor was nominated immediately as it was decided at that time that Government could do without nominating an officer from the Ministry to take the place of the officer who had resigned. Thereafter Government nominated its representative on the Board of the company in June,

1970, with a view to ensuring that the funds generated by the company were utilised for expansion and not frittered away by payment of higher dividends etc.

3. The main object of the nomination of the representative of the Department of Mines on the Board of Cominco Binani Zinc Ltd. in 1966 was to keep a watch on the progress of setting up of the Zinc Smelter, and later, in June, 1970 to ensure that the additional resources likely to be generated (following the revision of zinc price from Rs. 2700 to Rs. 2850 per tonne allowed in February, 1972) were not frittered away by way of higher dividends and/or investment in the shares/deventures of associate companies, but ploughed back for expansion.

[Deptt. of Mines O.M. No. 54012(6)|77-Met. II, dated 7-8-78]

Recommendation

According to the Department, the main object of the nomination of a representative on the firm's Board of Directors in August, 1966, was to keep a watch on the progress of the setting up of the zinc smelter. It was further stated that in June, 1970, the renomination of an official representative was to ensure that the additional funds generated by the smelter were not frittered away by way of higher dividends and|or investment in the shares|debentures of associate companies but ploughed back for expansion. The Committee would like to know whether the Government Director had ever raised the question of non-supply of zinc slabs to various Government Departments in the Board of Director's meetings or brought the matter to the notice of the Department of Mines and, if so, the action taken by the Department of Mines on the basis of the Government representative's reports.

[Serial No. 15 (Para 1.137) of Appendix to the PAC's 19th Report (6th Lok Sabha)]

Action Taken

As stated by the Committee, the main object of nomination of a Government's representative on the Board of Directors of M|s. Cominco Binani Zinc Ltd. in August, 1966, was to keep a watch on the progress of setting up of the Zinc Smelter which was under construction. The object in June, 1970, was to ensure that the additional funds generated by the Company are not frittered away.

2. The Officers nominated on the Board of Directors of the company by the Government (Department of Mines) were invariably

those dealing with the zinc industry in the Department to ensure effective communication between the zinc producers (the other zinc producer being in the public sector) and the Government. The Government Directors were making periodical reports on the affairs of the company on return from the Board's meetings, where considered necessary. From the records there is no indication that matters relating to supply of zinc to Government Departments were brought before the Board of Cominco Binani Zinc Ltd.

3. However, once in every six months, the Joint Secretary in the Department of Mines used to hold a meeting to consider matter relating to distribution of indigenously produced zinc. These meetings were attended by the representatives of the DGS&D, DGTD, DC, SSI, etc. as also those of the two zinc producers and the Government Director on the Board of Cominco Binani Zinc Ltd. Even at these meetings during the periods in question, no specific complaints regarding supply of zinc to Government Departments were pointed out by the representatives of DGS&D, except a general mention about the backlog in supplies by the producers.

[Deptt. of Mines O M. No. 54012(6)|77-Met. II, dated 7-8-1978]

CHAPTER V

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

Recommendation

"The Committee note that the performance of Cominco Binani against orders placed on it by the DGS&D on the basis of half-yearly allocation had been far from satisfactory. According to the Audit Paragraph this firm did not supply a quantity of 900 tonnes of zinc to the Government Departments out of an allocation of 1316 tonnes made for the period October 1970 to March 1971 in spite of granting two extensions from 31 March 1971 to 30 June 1971 and again upto 31 August 1971. The Committee note with concern that these extensions were granted on 7 May 1971 and 7 July 1971 on firm's requests dated 23 March 1971 and 17 June 1971 respectively without claiming liquidated damages and without consulting the Ministry of Law. The representative of the Ministry of Law has stated during evidence that the liquidated damages clause is generally in-corporated while issuing the letter of extension of the delivery period to enable the Government to claim liquidated damages whereas the representative of the Department of Supply has stated that from the re-constituted file it is not possible to specify the reasons for not incorporating the clause for levy of liquidated damages. The Committee deplore the serious omission and would like that responsibility for the lapse should be fixed. The Committee further would like to know the reasons for not consulting the Ministry of Law in this matter and for taking about 1½ months as against the stipulated seven days in issuing the above two extensions in delivery period."

[S. No. 11 (para 1.132) of Appendix IV of the 19th Report P.A.C. (6th Lok Sabha)]

Action Taken*

The recommendation of P.A.C. has been examined from Vigilance angle and CVC were consulted in the matter. As advised by C.V.C. minor penalty proceedings are being proceeded with against the dealing hand and the concerned Assistant Director.

[Deptt. of Supply O.M. No. P III-17(8)|77 dt. 14-7-78]

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*Not vetted in Audit.

Recommendation

The Committee find that the Secretary, Department of Supply has admitted during evidence that "they are keenly conscious of the need to streamline the organisation and make it function more efficiently". The Committee have been subsequently informed by the Department of Supply that a High Power Committee comprising representative of the concerned Central Government Department and three non-official members from trade and industry had been constituted on 24th December, 1974 under the Chairmanship of Minister of Supply & Rehabilitation to review the entire gamut of purchase procedures being followed by the various Departments under Central Government and to suggest improvement of the same. The Committee would like to be apprised about the recommendations made by the Committee and the action taken by Government thereon.

[Sl. No. 25 (Para 1.146) of the Appendix IV to the 19th Report (6th Lok Sabha)]

Action Taken*

The High Power Committee, set up by the Government under the Chairmanship of Minister, Works, Housing, Supply and Rehabilitation submitted Part-I of its Report dealing with the Central Purchase Organisation in February, 1977. (A Summary of the recommendations is enclosed).

The present position regarding implementation of the recommendations is given hereunder:—

(a) Recommendations accepted by Government:—

Sr. Nos. 1(a), 1(b), 2(a), 2(b), 3(a), 3(b), 3(c), 4, 6 (Partly), 8, 9(a), 9(b), 9(c), 9(d), 10(a), 10(b), 11, 12, 14, 16, 17, 18, 19(a), 19(b), 19(c), 19(d), 19(f), 19(g), 21(a), 24, 27, 28(a), 28(b), 29, 31 (partly), 33, 34(a), 34(b), 35, 36(a), 36(b), 38(f), 38(g), 38(h), 38(i), 38(j), (39(a), 39(c), 40 (partly), 44 and 45.

(b) Recommendations could not be accepted:—

Sr. Nos. 5, 21(d), 26 and 30.

(c) Recommendations under processing:—

Sr. Nos. 2(c), 6 (partly), 7, 13, 15, 19(e), 19(h), 20, 21(b), 21(c), 22, 23, 25, 31 (partly), 32(a), 32(b), 37, 38(a), 38(b), 38(c), 38(d), 38(e), 39(b), 40(partly), 41, 42 and 43.

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*Not vetted in Audit.

SUMMARY OF RECOMMENDATIONS

Sl. No.	Recommendation	Para-graph
POLICY		
1	*Scope of centralised purchase and C.P.O. services.*	
	(a) Centralised purchase of Central Govt. requirements both in scope and function as enjoined by the Rules of Government Business and General Financial Rules should stay	4·18
	(b) Beyond the extent of direct purchase delegation presently accorded to the Central Govt. departments, which should be reviewed periodically by Govt. so as not to impair the administrative efficiency of the departments by any over centralisation, the Central Purchase Organisation must be utilised in the larger interest for maintaining uniformity and optimum advantages to production and better utilisation of capacity. The larger bargaining power enjoyed by the organisation could also be brought to bear in negotiating supply of recurring items of such stores as can be collectively pooled at the most economical prices	4·18 4·11 3·23
2	*Extent of C.P.O. services to non-Central Govt. indentors.*	
	(a) The State Govt. departments and non-Govt. indentors such as statutory corporations, autonomous bodies like Port Trusts, public sector undertakings and local bodies like municipalities could also be persuaded to increasingly avail themselves of the services of the Central Purchase Organisation for the purchase of common user items brought under Rate/Running Contracts of the C.P.O. and capital equipment like plant & machinery items particularly those which are to be imported	4·19 4·20
	(b) In addition, departments responsible for contracting for construction of projects should determine in consultation with their associate Finance the extent of use of C.P.O. Rate Contracts for supply of items to the construction contractor in order to bring down the cost of the project	4·23
	(c) To help non-Govt. departments increasingly avail of the services of the Central Purchase Organisation, there should be a suitable "Revolving Fund" made up of an initial budget appropriation from the consolidated fund and substantial cost contribution by the non-Govt. indentors at the disposal of the Central Purchase Organisation to replace the existing system of 'pre-deposits' and 'revolving deposits' to be made by such bodies. Alternative facility of establishing a letter of Credit with suitable conditions should also be made open to the non-Govt. indentors. . .	6·13 to 6·16

Sl. No.	Recommendation	Paragraph
3	*Direct purchase delegations beyond prescribed monetary limits.*	
	(a) While the C.P.O. services should be substantially improved to reduce the lead time for procurement, requests for higher delegation of purchase powers by departments should be objectively considered by the Govt. so that needs of the indentors are adequately met, if necessary by conferring a higher delegation in consultation with the concerned indentors, consistently with availability of appropriate expertise in the form of services or personnel	4·18
	(b) The major indenting departments making their own purchases of exclusive items should as far as practicable follow the same basic procedure for purchase as evolved by the Central Purchase Organisation relating to bulking, competitive tendering, inspection, payment, etc. and if the establishment is to be augmented to meet the additional workload, they may draw on the experienced personnel of the Indian Supply Service as necessary . .	4·21
	(c) Direct purchase powers similar to those delegated to Ordnance Factories may be given to other departmental production units of the Central Government	4·22
4	*Central Control on policy and procedures of Government purchases.*	
	Central control on policies and procedures for purchase of Govt. stores should vest with Department of Supply, which should also be the nodel Ministry for taking corrective action against firms who have been known or found to be unworthy of being dealt with for business by the Govt. The Department should have a suitable set up to advise other Ministries on basic procedures, terms and conditions of purchase while making direct purchase. To build up necessary expertise for uniform compliance of the basic policies and procedures of Govt. purchases, the Indian Supply Services should be adequately strengthened by recruitment into it competent persons from a wider range of disciplines	4·24 4·25
5	*Service charges of C.P.O.*	
	The service charges of the Central Purchase Organisation should be rationalised taking into account its overall expenditure	4·27
6	*Arranging Supply from registered firms.*	
	With a view to ensuring supply from reliable sources, the C.P.O. should invariably restrict its procurement through contracting with registered firms except where an offer from an unregistered supplier has discernible monetary and delivery advantages or in the case of developmental items or commodities for which an adequate number of sources is not known. Such un-registered firms should be considered unqualified for a second order for the same items without prior registration. Wide publicity on the advantages of registration should be given among the trade and industry by the Central Purchase Organisation to induce capable among them to come forward seeking registration with the C.P.O.	8·14 8·15

Sl. No.	Recommendation	Para-graph
7	*C.P.O. to publish its own bulletin.*	
	The Central Purchase Organisation should publish its own weekly bulletin which may be called Supply Service Bulletin where all advertised and limited tender enquiries, details of contracts highlighting those which are for imported stores and any other relevant information useful to suppliers may be published.	8·31
8	*Procurement from small scale industries.*	
	The policies and procedures enunciated by the Govt. to encourage purchases from small scale industries should be uniformaly implemented by all Central Govt. departments. State Governments and Public Sector Undertakings could also follow these procedures as far as possible	5·10
9	*Assistance to small scale industries to participate in Govt. purchase programme.*	
	(a) The Central Purchase Organisation should send copies of their weekly bulletins regarding advertised tender notices to the Small Industries Service Institutes. The weekly bulletin may be printed locally and made available either free or at nominal cost to the intending or interested producers and associations . .	5·11
	(b) The items under the groups for which the SSI can quote in competition with other units and those for which it can meet the entire demand should be regularly reviewed in the light of the strides made by the industry in the more sophisticated fields of manufacture. The DC SSI should take the initiative in bringing more items under Group III and IV and to persuade large scale Govt. suppliers to sub-contract with competent small scale units for their requirements of parts and components .	5·12
	(c) The National Small Industries Corporation should assess the technical capabilities of the units proposed to be registered under the new registration procedure in a critical manner and should also determine, adopting the same criteria as followed by the DGS&D. the monetary limits upto which orders could be placed on the units, to maintain uniform standard for registration. .	5·13
	(d) It should be mandatory for the small scale industrial units to get themselves registered with N.S.I.C. to be eligible for various purchase/price preference in the Central Govt. purchase programmes	5·15
10	*Procurement from public sector units.*	
	(a) The existing Govt. policy of price preference to Public Sector Undertakings and the guidelines prescribed for its implementation may continue, subject to review from time to time. . .	5·23
	(b) The B.P.E. should set certain disciplinary norms for monopolistic public sector undertakings in terms of capacity utilisation and return on capital employed/net worth and periodically the costing of selected products should also be subjected to scrutiny.. .	5·24

Sl. No.	Recommendation	Para-graph
11	*Utilisation of C.P.O. quota of foreign exchange.*	
	With a view to effecting considerable reduction in the procurement time and the price paid, the free foreign exchange allocation at the disposal of the Central Purchase Organisation should, apart from import of components/raw materials, be also utilised in exceptional cases for assisting indentors for meeting the shortfall for import of capital equipment	6·9 6·10
12	*Uniform rate of sales tax*	
	To make for standardisation in the levy of sales tax in respect of stores supplied to Central Govt. departments, all States should be persuaded to levy a flat rate equivalent to the concessional Central Sales Tax charged in respect of stores consumed by Central Govt. departments regardless of the State in which the supply is made . . .	7·3
13	*Import licence for canalised items.*	
	In cases where the canalising agency in the normal course do not maintain inventory of particular items for release against Release Orders but have to resort to importing against specific applications made through the sponsoring authority particularly the DGS&D, the contractor should be authorised to import the items direct under an import licence similar to that issued for other than canalised items against the import recommendation certificate issued by the DGS&D. Alternatively, the licensing authority could issue to the contractor a letter of authority for directly importing the canalised items under such circumstances	7·6
14	*Optimum use of test facilities.*	
	A technical survey of the existing test facilities in the country should be made by the Inspection Wing of the Central Purchase Organisation so that the suitable among them can be registered for use by Govt. Organisational Existing Test House facilities should be coordinated and no new testing institution in the public sector should be released or set up without the clearance of a Central Committee set up under the aegis of Deptt.of Supply comprising of representatives of the Deptt. of Science & Technology, Ministry of Finance, Planning Commission and selected testing institutions, after proper assessment of the current available facilities.	8·26
15	*Nomination of arbitrator for disposing of litigation cases.*	
	The proposal for nomination of an individual of standing like a retired Hign Court Judge with the status of an Arbitrator but without technically being an arbitrator to dispose of mounting litigation cases without the application of the normal rules of evidence and elaborate presentation by lawyers of both sides should be quickly pursued as in formal arbtitration by a jurist of high standing will inspire confidence and will be expedient in the disposal of litigation cases. Alternatively addl. arbitrators may be appointed to clear the backlog and it should also be explored whether a composite committee consisting of representatives of Deptt. of Supply/DGS&D, Finance and Ministry of Law could be vested with the powers of arbitrator if the parties to the contract so agree so that this procedure could be adopted more effectively and freely	8·40

Sl. No.	Recommendations	Paragraph
PROCEDURES		
16	*Submission of complete indents.*	
	To reduce the number of incomplete indents being raised on the DGS&D, the Central Purchase Organisation should periodically bring to the notice of the indenting departments defects noticed through seminars and/or through correspondence at a high level or suitable brochures, so that they can be avoided	3·7
17	*Submission of annual indents and Identification of recurring items.*	
	As done by Railways, other major indentors should also adopt definite calender for their annual recurring demands	3·9
18	*Widening the supply base.*	
	There should be more vigorous enlistment of registered firms in areas to be identified where the number of registered units is inadequate, also paying regard to the geographical and regional diversifications that have occurred	3·5
19	*Registration procedure.*	
	(a) Central Purchase Organisation should be the authority for maintaining the lists of approved suppliers of all Govt. Stores. The firms brought on these lists should undergo a thorough screening from commercial, financial and technical angles. . . .	8·13
	(b) The Inspection Organisation should be so geared up that the capacity report on the firm for registration is furnished within a period of one month from the date of reference.	8·17
	(c) By tightening the process of screening, if after the initial period of 3 years during which the registration could be reviewed at any stage of unstisfactory performance, a firm continues to qualify for registration, this should be automatically renewed for another 3 years	8·18
	(d) The Central Purchase Organisation should bring out the Directroy of Registered Firms both alphabetically and store-wise, the latter according to standard International Industrial classifications and trade groups, once every year, and issue this to the concerned departments with addenda of corrections/additions/alternations. The organisation should be properly strengthened for this ourpose. The Govt. departments while making direct purchases should address their enquiries to the firms registered with the DGS&D in addition to those on the list specifically maintained by them	8·19 8·13
	(e) The facilities accorded by the Central Purchase Organisation to the registered firms could also be considered for extension by other Govt. departments and public sector undrtakings in their purchases	8·13

Sl. No.	Recommendation	Paragraph
	(f) It should be the constant endeavour to the Central Purchase Organisation to seek to avail itself of the widening areas of supply and to check on areas and products for which the number of registered firms is not adequate for meeting the Govt. requirements and consiciously take further steps to register eligible units to provide a wiser net work of suppliers to help generate competition	8·20
	(g) There should be a standing Committee comprising representatives of the DGS&D, Defence, Rlys, DGTD, Ministries of Industrial Development and Petroleum & Chemicals and the NSIC to meet once in six months to examine and recommend areas and products where the indigenous capacity is to be created or the existing capacity needs to be cenhanced . . .	8 20
	(h) In addition to maintenance of index cards as per existing orders, data pertaining to each registered unit should be computerised. The index card should be redesigned to incorporate all essential data pertaining to a firm	8·21
20	*Catalogue of common useritems*	
	The Central Purchase Organisation should prepare a cataglogue of common user items indented by various departments and prescribe common standards and specifications which should normally be adopted ba all departments. There should be a Standing Committee of DGI (Defence), DGS&D, RDSO, National Test House and the Indian Standards Institution to classify products with the aim of evolving standards of identical characteristics	8·22
21	*Inspection Wing functioning and criteria for inspecti on*	
	(a) The Inspection Wing should conduct a technical survey of firms holding Govt. conttracts serviced by them to consider opening new isspection circles/rellocation of existing ones and place inspection personnel to attend to inspction calls within a reasonable time	8·27
	(b) Inspection Wing should undertake the task of laying down norms and criteria for inspection of various stores, to make the procedures uniform and objectives. A unucles Co-ordination Cell should be established for laying down various instructions .	8·24
	(c) No new inspection agencies should be established unless the existing facilities are fully explored by the Committee comprising representaives of the Departments of Science & Technology, Deptt. of Supply, Defence and Railways	8·23
	(d) If a firm choose to give advance intimation of the readiness of stores in their own interesst to expedite supplies, there should be no pbjection to porceed on that basis provided the firms undertake to reimburse to the Govt. expenses in T.A. and D.A. of the insfection staff if the sotores and the ecessary facilities are not myde available at the time of the inspector's visit in accordance with such notice. Continued default in tendering the goods for inspection should be visited with forfeiture of claims for such facility	8·29

Sl. No.	Recommendation	Paragraph
22	*Waiver of inspection*	
	The Inspection Wing should carefully screen the inplant qua.ty control system of registered firms and based on the efficacy of the system and past performance bring more products within the ambit of waiver of inspection. A programme should be laid down for such screening in the interest of judicious deployment of staff where it is needed. However, the premises of the manufacturers enjoying this facility must be regularly inspected to ensure that there is no relaxation in their inbuilt quality control procedures. Defence Inspection authorities shluld also follow suit in respect of stores purchased by the Central Purchase Organisation but where inspection is crried out by them	8·25
23	*Monitoring of Inspection aspects*	
	There should be a proper system for monitoring important aspects such as latent defects noticed in inspected goods, relaxation permitted in respect of specifications, advice given to tide over manufacturing defects particuarly to small scale units and on substitution of materials etc. as a part of the overall quality assurance programme.	3·55
24	*Expedition of tender decisions*	
	A conscious effort needs to be made to shorten the post-tender action particularly when it involve negotiations, to clinch the offers as early as possible	3·25
25	*Authentication*	
	Authenticated copies of contracts involving payment by Chief Accounts Officers, Washington/London should be sent directly by the DGS&D to the said officers who wold verify the genuineness of the contract documents instead of the present systems of routing the copies of the A/Ts through Controller of Accounts concerned	8·43
26	*Costing Particulars of Stores contracted.*	
	A suitable condition should be incorporated in the General Condition of Contract similar to the one available in the conditions governing in U.K. Govt. contracts, which would make it obligatory for the contractor to furnish partiuclars of costing to the Government in contracts of value Rs. 1 lakh and above. This should be invoked selectively in appropriate cases and the cost verification should be related to the available data maintained in the normal course of business	6·5
27	*Contracts for indigenous developments and import substitution.*	
	In order to encourage ndigenous manufacturers to come forward either import substitution or for development of a new item required by a department, such enterprises should be eligible for a reasonable volume of business to be entrusted to them which would adequately meet the effort and expenses incurred by them for development of designs and establishment of the production line including jigs and fixtures, if necessary, subject to a reasonable price being negotiated	5·2

Sl. No.	Recommendation	Paragraph
28	*Delivery extentivn.*	
	(*a*) To avoid delays in consultation with the indentor at the time of dealing with the request for extension in delivery period even beyond three months, the indenting departments may authorise the Central Purchase Organisation by stipulation in the indents to give extension in delivery date beyond the contractual delivery period upto 6 months	3·27
	(*b*) The C.P.O. should not allow extensionin delivery date as a matter of routine but sparingly after satisfying themselves that the firm would perform, and extension beyond 3months should ordinarily be avoided. The existing procedure regarding extension of delivery dates which enjoins on the purshase officer totake orders of his next higher officer beyond the first extension should be strictly implemented	3·27
29	*Escalation clause to stipulate documents.*	
	The price variation clauses in the contract should stipulate what documents are to be furnished in support of the sescalation claims of the firm	8·36
30	*Force Majeure.*	
	The DGS&D standard force majeure clause should be made part of the General Terms and conditions of the contract. . . .	8·37
31	*Warranty.*	
	Since there cannot be a general warranty clause for all stores a suitable minimum period of warranty should be stipulated for different products. In the case of special type of equipment/stores the indenting department should indicate the type and nature of warranty required and on that basis it should be the endeavour of the purchase organisation to negotiate the best tserms possible with the firms	8·38
32	*Payment terms in Rate Contracts and FOB contracts.*	
	(*a*) In the case of supply orders placed against Rate/Running contracts a provision should be there to enable the suppliers to realise their balance 2% payment if the consignee fails to report receipt or otherwise of the consignments despatched, automatically with in a period of 120 days provided the stores are despatched after inspection by the Government Inspector and the Inspection Notes are issued	8·41
	(*b*) In the case of f.o.b. contracts for stores which do not involve erection/commissioning at site or for which after sales services is not necessary, the agency commission should be paid simultanoosly with the payment oj f.o.b. value in respect of contracts placed by the DGS&D to be in line with the contracts placed by the Supply Missions at Washington and London. .	8·42

Sl. No.	Recommendation	Para-graph
33.	*Transit Risk.*	
	While the standard transit risk clause should remain, in suitable cases such as fragile items or stores which are despatched normally in open wagons, the Central Purchase Organisation may relax this clause and allow insurance to be taken at the cost of the purchaser	8·35
34.	*Reporting of loss/damage.*	
	(*a*) It should be made obligatory for the consignee to report any loss or damage within 30 days of receipt of consignment, failing which no deduction will be made from the firm's bills in respect of any shortage/damage.	8·35
	(*b*) The Central Purchase Organisation should prescribe a proforma for reporting loss or damage to the firms under advice to the purchase officer and controller of Accounts concerned. The controller of Accounts should not make any deduction unless authorised by the purchase officer in case the date of loss/damage reported to the firm is later than 30 days after receipt of the stores. .	8·35
35.	*Unremitting attention of finalisation of cases.*	
	The finalisation of cases should be given unremitting attention for early disposal	3·30
36.	*Review of Rate Contract failures.*	
	(*a*) DGS&D should analyse the reasons for failure of a Rate Contract in order to choose between the need for continuance thereof and entering into a fixed quantity contract or a running contract for specific quantities	3·21
	(*b*) DGS&D should make a criticsal scrutiny of items brought on the Rate Contract to identify such items as can lend themselves to bulking	8·44
37.	*Payments under Rate Contract.*	
	The system of payment under the Rate Contract may be modified to stipulate that in the case of Supply Orders placed by non-government bodies, payment can be made directly by the Direct Demanding Officer or his Accounts Officer. This system should initially be introduced in the case of Central Govt. Public Sector Undertakings and depending upon its success, it can be extended to other non-government bodies	8·45
38.	*Measures to safeguard Government interests in the case of defaults by contractors.*	
	(*a*) A proviso should be introduced in the third paragraph of Section 55 of the Indian Contract Act, so as to cover cases where there is a provision in the contract itself regarding the basis for compensation for delayed supply of stores as otherwise such a provision	

Sl. No.	Recommendation	Paragraph
	would not serve the purpose for which it is designed. This will obviate the necessity of giving a notice to claim compensation at the time of acceptance of stores after the contractural delivery period. In other words, the contract can contain in itself a conditional limitation	9·10
(b)	The Contract Law should be suitably amended so that the purchaser has the right to claim damages as per terms mutually agreed upon by the parties to the contract without producing proof in the case of default by the suppliers. . . .	9·11
(c)	A specific condition should be incorporated in the tender enquiry and the resultant contract to the effect that in case the supplies are delayed beyond the contracted delivery period and the purchaser accepts, the supplies, the latter accepts no liability for increase in the price on account of increased fresh statutory levies taking place during the extended period, but if there is any reduction in such statutory levies, the advantage will be passed on to the purchaser	9·12
(d)	Section—74 of the Indian Contract Act should be suitably amended or elucidated to enable the purchaser to forefeit the security deposit in case of default by the contractor.	9·13
(e)	The Central Purchase Organisation in consultation with the Ministry of Law should envolve suitable procedure, which while well within the laws of the land should adequately safeguard the Govt.'s legitimate interest without their being allowed to be jeopardised on account of Govt.'s inability to operate 'Recovery' and 'Set-off' clause as per recent Court Rulings. . .	9·15
(f)	Extension letter needs further amendment to enable the purchase officer take early decision the course of action in cases involving risk purchase without further reference to the defaulting firm .	9·18
(g)	The procedure for issue of stand, by enquiries, in cases involving risk purchases, should be adopted in case of operational/urgent indents of Defence as well as requirements of other Ministries such as Railways and Communications who have public service to perform and where delay in making timely supply will lead to serious administrative difficulties	9·21
(h)	The authority for taking recourse to stand-by tenders should be delegated to the DGS&D and associate Finance for value upto Rs. 30 lakhs.	9·21
(i)	To avoid the Govt. being placed at the mercy of the supplier until expiry of the delivery period in respect of contracts for substantial quantities of any commodity, the purchase organisation should always endeavour to enter into instalment contracts so that it can resort to proçurement from alternative sources if the initial instalments are not delivered in time	9·21
(j)	The time limit for making risk purchase hasbeen increased from 6 months to 9 months for certain categories of stores. There should however, be no relaxation whatever in complying with timely action to process such cases and in the compliance with the legal requirements so that risk purchase is not vitiated . .	9·25

Sl. No.	Recommendation	Paragraph
	ORGANISATION	
39.	*The Progress Wing to be merged with Purchase.*	
	(*a*) The Progress Wing as a separate unit should be disbanded and the Purchase Direcroates should be strengthened to take care of progressing supplies	10·6
	Training Institute.	
	(*b*) The Central Purchase Organisation shouldhave a proper training institute to turn out fully trained purchase and inspection officers. The officers recruited to the two services should not only be trained in the various purchase and inspection procedures and other connected aspects of conract laws, finance, cost accounts, etc., but also in management sciences. They should also be given practical training under experienced officers for suitable periods before they are placed in charge of purchase/inspection units .	10·7
	(*c*) The organisation may examine and suitably redistribute their staff particularly to cope with additional volume of work in newer industrial locations and to ensure greater accessibility to the plant and manufacturing centres	10·7
40·	*Augmentation of Planning and Development Division of the DGS&D.*	
	The Vidyalankar Study Teams' recommendation for augmenting the Planning and Development Division of the DGS&D for rationalisation of sizes and specifications, encouraging and maximising indigenous production etc. should be fully implemented. An inter-ministerial committee may be set up consisting of representatives of DGTD, DGS&D, Ministries of Rlys.. Finnance, and I.D. co-opting representatives of other production ministries to meet one in a quarter to identify the products for indigenisation and to take up programmes for creation of capacity.	5·3
41.	*Establishment of Cost Cell.*	
	To increase the efficiency as well as the efficacy of the Central Purchase Organisationin dealing with the proceurement of items of monopolistic nature or where there is inadequate competition, the organisation should be strengthened with a cost research cell	6·6
42.	*Augmentation of Litigation Branch.*	
	The Ligitation Branch of the Central Purchase Organisation should be adequately augmented to cope with the mounting litigation cases and reduce the pendency	3·39
43.	*Modernisation of Jamshedpur and Burnpur Inspectorates.*	
	With expanding need of the steel industry and consistently with modern technological changes affecting the industry, it is necessary to conduct a survey of the existing laboratory facilities of the Inspectorates at Jamshedpur and Burnpur and modernise the equiphments available with them to cope with the needs of the industry.	3·58

Sl. No.	Recommendation	Paragraph
44.	*Coordination between Central Purchase Organisation and Chief Controller of Accounts.*	
	There should be proper coordination betwen the C.P.O. and C.C.A. by arranging periodical meetings of all concerned officials in the Deptt. of Supply so that problems experienced by either organisation in complying with the contractual provisions and proper accounting of Government funds are settled as and when they crop up and remedial measures taken to avoid recurrence of such problems	10·11
45.	*Delegation of Powers.*	
	The existing delegation of powers particularly to deviate from the set procedures and terms and Conditions in respect of purchase upto the value of Rs. 3 lakhs should be critically examined to allow greater delegation to the officers of the lower rank emphasising the need for these officers to take decisions by themselves on routine problems encountered in the administration of such low value contracts.	10·10

[Deptt. of Supply O.M. No. P-III-17(8)/77. dated 23-9-78.]

NEW DELHI,
January 27, 1979
Magha 1900(S)

P.V. NARSIMHA RAO,
Chairman
Public Accounts Committee

APPENDIX

STATEMENT OF CONCLUSIONS AND RECOMMENDATIONS

Sl. No	Para No.	Ministry/Department	Conclusion and Recommendation
1	2	3	4
1	1.5	Ministry of Finance	The Committee are constrained to observe that in spite of their repeated recommendations and subsequently setting up of a Monitoring Cell in the Ministry of Finance, the Ministries/Departments are not furnishing the vetted Action Taken Notes on the recommendations of the Committee within the prescribed limit of six months from the date of presentation of the Report to the House. This obviously defeats the purpose of setting up the Monitoring Cell. The Committee desire that the Monitoring Cell should systematise their working and by means of effective control and mechanisms ensure that the Ministries/Departments scrupulously adhere to the time schedule prescribed for furnishing Action Taken Notes on the recommendations of the Committee. The Committee feel that a greater measure of success can be achieved in this regard if the Ministries/Departments concerned initiate action on the recommendations/observations of the Committee immediately after presentation of the Report and submit the action taken notes for vetting in audit well before the prescribed date of their furnishing replies to the Committee.

2	1.7	Department of Supply/ Department of Mines	The Committee expect that final replies to those recommendations/observations in respect of which only interim replies have so far been furnished will be submitted to them, duly vetted by Audit, without delay.
3	1.11	Department of Mines	The Department of Mines have concurred with both the observations of the Committee *viz.* (i) that the requisite information about the cost data could have been obtained from M|s. Cominco Binani Zinc Ltd. without referring to the representation of the Public Sector Undertaking for price revision and (ii) since the price of zinc was not fixed for the period 1-4-71 to 31-1-72 an atmosphere of uncertainty was unnecessarily allowed to exist. It however appears to be unusual to the Committee that the fact that M|s. Hindustan Zinc Ltd. has asked for price increase was communicated to M|s. Cominco Binani Ltd. and they would therefore like the matter to be investigated so as to satisfy the Committee that there was no malafide intention behind it.
4	1.14	-Do-	The Committee are not satisfied with the reply of the Department of Mines that 'the main object of the nomination of the representative of the Department of Mines on the Board of Cominco Binani Zinc Ltd. in 1966 was to keep a watch on the progress of setting up of the Zinc Smelter, and later, in June, 1970 to ensure that the additional resources likely to be generated (following the revision of zinc price from Rs. 2700|- to Rs. 2850 per tonne allowed in February, 1972) were not frittered away by way of higher dividends and| or investment in the shares/debentures of associate companies, but

1	2	3	4
			ploughed back for expansion.' The Committee consider non-appointment of a nominee on the Board of Directors of M|s. Cominco Binani Zinc Ltd. during the intervening period of three years, *i.e.,* from May, 1967 to May, 1970 to be a serious lapse. Since the firm was showing losses during these years it was all the more necessary that Government had nominated their representative on the Board of Dirésctors. The Committee would, therefore, reiterate their earlier recommendation for a thorough investigation in this case.
5	1.17	Department of Supply/ Deptt. of Mines	The Committee are concerned to note that from the records in the Department of Mines there is no indication that the matters relating to non-supply of Zinc to Government Departments were brought before the Board of Cominco Binani Zinc Ltd. What is more disturbing is the fact that although the representative of the DGS&D had clearly mentioned of the backlog in supplies by the producers in the meetings held by the Joint Secretary of the Department once in every six months, no action was taken by him in this matter. The Committee are, therefore, of the opinion that the responsibility for this grave failure may be fixed under intimation to them.

GMGIPMRND—LSII—3616 LS—5-2-79—1150.