



P.A.C. 86-A

PUBLIC ACCOUNTS COMMITTEE 1962-63

ELEVENTH REPORT

(THIRD LOK SABHA)

- I. Para 57 of Audit Report (Defence Services), 1960.
- II. Action taken on the outstanding recommendations of the Committee relating to the Defence Services Accounts.

PART I—REPORT



336-3951R
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LOK SABHA SECRETARIAT
NEW DELHI
April, 1963

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ELEVENTH REPORT OF THE P.A.C. (1962-63)

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CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	(ii)
INTRODUCTION	(iii)

Part I

CHAPTER

I. Contact with a Japanese Firm (Para 57 of Audit Report, Defence Services, 1960)	1
II. Action taken on the outstanding recommendations relating to Defence Services Accounts	14

APPENDICES:

I. Note containing Government's comments on the recommendations/ observations made in the Report of the Special Committee of Secretaries in regard to the contract for the supply of Mechanical Transport Spares with Messrs. Levy Auto Parts of Canada.	27
II. Report of the Committee of Secretaries on the contract for supply of Mechanical Transport Spares dealt with in the 28th Report (Second Lok Sabha) of the Public Accounts Committee.	38
III. Summary of main conclusions/recommendations	92

Part II*

- Proceedings of the sittings of the Public Accounts Committee held on the 8th December, 1960 and 18th January, 1963 relating to consideration of para 57 of the Audit Report (Defence Services), 1960 and 15th April, 1963.
- Proceedings of the sitting of the Sub-Committee of the Public Accounts Committee held on the 17th December, 1960 relating to consideration of para 57 of the Audit Report (Defence Services), 1960.

Part III*

- APPENDIX I—Statement showing action taken or proposed to be taken on the outstanding recommendations of the Public Accounts Committee relating to the Defence Services Accounts.
- APPENDICES II—to CVIII—Notes, memoranda, etc., submitted by the Ministries of Defence, Finance (Defence), etc., regarding action taken on the outstanding recommendations relating to the Defence Services Accounts

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PUBLIC ACCOUNTS COMMITTEE

(1962-63)

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SECRETARIAT

Shri H. N. Trivedi—*Deputy Secretary.*

Shri Y. P. Passi—*Under Secretary.*

*Expired on the 14th March, 1963.

INTRODUCTION

As authorised by the Public Accounts Committee, I hereby present this Eleventh Report on the case referred to in para 57 of the Audit Report (Defence Services)* 1960, and the action taken by Government on the recommendations of the Committee contained in their 17th (Vols. I and II), 28th, 29th, 35th and 43rd Reports (Second Lok Sabha) relating to the Defence Services Accounts.

2. The case referred to in para 57 of the Audit Report (Defence Services) 1960 regarding contract with a Japanese firm for the purchase and manufacture of tractors was considered by the Public Accounts Committee (1960-61) at their sitting held on the 8th December, 1960, who appointed a sub-Committee to examine the matter. The sub-Committee examined the representatives of the Ministries of Defence and Rehabilitation at their sitting held on the 17th December, 1960 and desired to be furnished with further information on certain points. The sub-Committee were furnished with a copy each of the two Reports of the TCM Expert who held enquiries into the working of the tractors in the Dandakaranya Project. But the note desired by the sub-Committee (duly vetted by Audit) was not furnished to them by the Ministries of Defence and Rehabilitation. The Committee could not, therefore, then report on the matter. The information called for by the sub-Committee in December 1960 and further information desired by the Committee in July 1962 was submitted by the Ministry of Works, Housing and Supply (Rehabilitation Department) in September 1962 and by the Ministry of Defence in October-November 1962. The Committee examined the representatives of the Ministries of Defence and Works, Housing and Rehabilitation (Department of Rehabilitation) at their sitting held on the 18th January, 1963. Certain further information called for by the Committee at this sitting was received from the Ministries of Defence and Works, Housing and Rehabilitation (Department of Rehabilitation) in February, 1963.

A brief record of the sittings of the Committee and sub-Committee forms Part II* of this Report.

3. The statements showing action taken on the outstanding recommendations of the Committee were considered by the Working Group (Defence Services) at their sittings held on the 24th and

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29th August, 1962 and 27th and 28th March, 1963. The statements with the comments of the Committee have been included in Part III* of the Report. A few important cases have been dealt with in the body of the Report.

4. The Committee considered and approved this Report at their sitting held on the 15th April, 1963.

5. A statement showing the summary of the principal conclusions/recommendations of the Committee is given in Appendix III. For facility of reference, these have been printed in thick type in the body of the Report.

6. The Committee place on record their appreciation of the assistance rendered to them in their examination of these statements of outstanding recommendations and the case referred to above by the Comptroller and Auditor General of India.

The Committee would also like to express their thanks to the officers of the Ministry of Defence and Ministry of Works, Housing and Rehabilitation for the co-operation extended by them in giving information to the Committee during the course of evidence.

NEW DELHI:
April 16, 1963/
Chaitra 26, 1885 (Saka).

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee.

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CONTRACT WITH A JAPANESE FIRM

[Para 57 of Audit Report (Defence Services) 1960]

In March 1958, Government invited limited tenders for the supply of three types of tractors. Of the five tenders received, that of a firm 'A' (a major American manufacturing firm) was the cheapest in two items and higher in the third. A contract was concluded with this firm for supply of two types of tractors and an agreement was also made that they would assist the Government in the manufacture of these tractors in India. The contract for manufacture was contingent upon the conclusion of a satisfactory agreement within thirty days of the signing of the contract, for the manufacture of the third type (size 1) also in India. But there was some difficulty in getting the consent of their principals in U.S.A. to the manufacture of the third type in India. The contract, therefore, fell through. Of the other tenderers, firm 'B' (a British firm) were the second lowest and cheaper than firm 'A' for the third type. They were not considered, as they did not manufacture the heavy tractor (size 1) of the requisite horse power.

The Committee were informed during evidence that it was not possible to enter into a manufacturing agreement with two other American manufacturers; one of them had categorically declined to collaborate and the other had already a contract with a private firm. Another firm (European) were understood to be in the process of going out of market.

On 9th September 1958, the Ministry of Defence concluded an agreement with a Japanese firm (M/s. Komatsu Manufacturing Co.), who were not one of the original tenderers, without going out to tender again. Their tractors had not been imported earlier and the performance even in the civil use was not known. A technical team consisting of the Director General, Ordnance Factories (D.G.O.F), and another officer was sent to Japan to investigate the performance of tractors, but after the contract had been concluded. The Committee asked the justification for concluding the agreement before investigating the performance of the tractors. The representative of the Ministry of Defence stated that the specifications

of tractors had been examined by technical authorities and found satisfactory before signing the contract. Negotiations with the Japanese Firm had been started after studying the data available with the Ministry of Commerce and Industry. The firm were a major supplier of tractors in Japan and had also supplied equipment to the Japanese Defence Forces. The Committee understand from a note submitted by the Ministry of Defence that the terms offered by the Japanese firm were more favourable as compared with those offered by the American firm in their tender accepted earlier. The Committee were informed that the interests of Government with regard to performance of tractors were safeguarded by including in the agreement a provision under which the licensor guaranteed proper performance of tractors to be purchased from him and was responsible for their efficient working under tropical conditions. Under the agreement the licensor was required to incorporate any modifications found necessary as a result of the tests and trials to bring the equipment upto specifications for its successful performance under tropical conditions without further cost to Government within a reasonable time. The agreement however did not contain any warranty clause in respect of the tractors manufactured by the Ordnance Factories.

The Committee were informed that the purpose of the visit by the technical team to Japan subsequently was to satisfy themselves about the production capacity of the firm, quality control and other related matters. The tests of tractors were held in India at Kirkee in December, 1958.

Difficulties in the working of the tractors supplied to the Dandakaranya Development Project:

2. In 1959-60, 58 of these tractors (16 of D-80 Type and 42 of D-120 Type), assembled in the Ordnance Factories were purchased by the Ministry of Rehabilitation for use in the Dandakaranya Development Project. These were put into operation in the middle of December, 1959. Dandakaranya Project Authorities complained in January, 1960 of certain defects in them, like excessive oil consumption etc. and the tractors were grounded in February, 1960. 19 engines of D-120 tractors and 8 engines of D-80 tractors were removed by the Director General, Ordnance Factories, for overhauling and reconditioning in the Ordnance Factories.

In June 1960, the Ministry of Rehabilitation instituted an enquiry into the defective working of the Komatsu tractors, by the Construction and Equipment Adviser, Central Water and Power Commission

(a TCM Expert). The expert came to the conclusion that 'primarily the difficulties concerned the engines in use. The major difficulty is high oil consumption and loss of power. The overall design of the tractor is very similar to that of Caterpillar and as such is satisfactory.' Referring to the causes for defects in the tractors, the expert observed:—

"Most of these difficulties may be attributed to 'growing pains'. The Komatsu tractor was a new and strange piece of equipment to the project authorities. Owing to the inexperience with Indian conditions and this type of project, the manufacturers and the D.G.O.F. did not have the requisite experience or advice to fit these tractors out properly. The type of lubrication oil recommended for these engines in these conditions was incorrect. No complete and proper preventive maintenance system has as yet been worked out by the D.G.O.F. and project authorities."

The Expert suggested certain modifications to be made in the tractors.

In his evidence, before the Committee in December 1960, the Controller General, Defence Production stated that the defects in D-80 tractors had developed due to the provision of a single air-cleaner instead of two. The tractors were attended to by the representative of the D.G.O.F. and put back into operation after fitting them with double air-cleaners. It was admitted that there was an error of judgment in providing a single air-cleaner in these tractors, which were required for use in the severe operational conditions prevailing in Dandakaranya. As regards D-120 tractors, the Controller General, Defence Production expressed the view that the wear in engines was due to 'deliberate' mishandling of the machines.

At the instance of the Ministry of Rehabilitation, another enquiry was made in February 1961 by the TCM Expert, who was also assisted this time by an Indian officer of the Central Water and Power Commission, to investigate into the maintenance of the tractors by the Dandakaranya Project. In their report, the experts found no evidence of 'deliberate abuse or mishandling of these machines'. They attributed the wear in engines of tractors to the practice of stopping the machine by using the decompression lever, which was considered a 'very bad practice and amounted to abuse or mishandling'. This practice was actually a result of mis-interpretation of the Manuals or mis-instruction by the Japanese mechanics.

Referring to the maintenance of the tractors, the experts quoted an instance where the water taken from the radiators of Komatsu tractors was found to be muddy and had been taken from tanks, etc. while the water in Caterpillar tractors was found to be clean having been obtained from hand-pumps. The experts expressed the view that the people working with the Caterpillar Units seemed to be more experienced. The Secretary, Ministry of Works, Housing and Rehabilitation (Department of Rehabilitation) did not subscribe to the view that the staff put on Komatsu tractors was not experienced, and added that the staff put on the Komatsu and other types of tractors were equally experienced and had been working since 1946.

Referring to the difficulties in the use of the tractors, the experts stated that it had happened several times in the past that when a new make or new design of machine was introduced into the country, considerable difficulty was encountered in getting the machines adopted. The difficulties which had been encountered with Komatsu tractors could not be considered to be nearly as serious as difficulties encountered in the Hirakud Dam Project in the use of Caterpillars, Allis Chalmers and Le Tourneau C Roadsters. Primarily, the difficulties with Komatsu tractors were unsatisfactory air-cleaners, lack of prefuel filters and a possible marginal radiator design in the D-80. All these difficulties could have been readily corrected if the D.G.O.F. had a proper after-sale service organisation to assist the purchasers of tractors. In their note submitted to the Committee, the Ministry of Defence stated that a servicing organisation had been set up under a chief engineer with nucleus staff which was to be strengthened by additional staff. During evidence before the Committee the representative of the Ministry of Defence stated that the working of the servicing organisation was not satisfactory and some proposals in this behalf were under consideration.

The Committee were informed during evidence, by the Secretaries of the Ministries of Defence and W.H. & R. that there was a general agreement between them that the difficulties experienced in the working of the Komatsu tractors in the Dandakaranya Project constituted 'teething troubles' with the machines, which were usual in the use of equipments of new manufacture, and that the officers of the Dandakaranya Project were apprehensive about the performance of these tractors being unfamiliar in this country. The Controller General, Defence Production stated that the difficulties were due to putting out of the tractors for extremely severe conditions in Dandakaranya. The witness admitted that the working conditions:

in Dandakaranya were not foreseen at the time of placing the order. The Committee were given to understand that no serious complaints had been received about the working of Komatsu tractors from other users such as Army, Border Roads Organisation, Rajasthan Canal Board etc.

The Committee note that the terms negotiated with the Japanese firm were more favourable as compared with those offered by the American firm which was the lowest tenderer, but the agreement with which had fallen through.

While the Committee were assured by the Secretaries of the Ministries of Defence and Works, Housing and Rehabilitation that the difficulties experienced in the use of Komatsu tractors in the Dandakaranya Project were of the nature of teething troubles, they feel that these could have been largely avoided with better planning and forethought. They also feel that these 'teething troubles' have lasted a little too long. The Controller General, Defence Production admitted that the operating conditions in Dandakaranya were not foreseen at the time of placing the order for tractors. The Committee are therefore of the view that the tests of tractors conducted at Kirkee in December 1958 were not quite adequate. As these types of tractors were not used in this country before, it would have been advisable to put them to intensive tests in the various parts of the country having different soil conditions, where these were actually required to be operated, before entering into this agreement. The Ministry of Defence could have also benefited themselves from the experience of the operations of tractors of various makes and types used on land reclamation work by other organisations like the Central Tractor Organisation, Hirakud Dam Project, etc.

The Committee are surprised that even the type of lubrication oil recommended for the tractor engine in the conditions in Dandakaranya was unsuitable and that no preventive maintenance system was worked out by the D.G.O.F. and the Project Authorities.

The Committee are glad that controversy over the alleged mishandling of Komatsu tractors in the Dandakaranya Project is now a closed chapter. The experts who investigated into this, came to a definite conclusion that there was 'no evidence of deliberate abuse or mishandling of these machines'. The Committee hope that with the effecting of the modifications in the tractors and preventive maintenance scheme, as suggested by the experts, initial difficulties which occurred in the Dandakaranya Project would be overcome.

3. The Committee will now deal with certain other aspects concerning the performance of the Komatsu tractors in the Dandakaranya Project.

Failure of Mitsubishi engines:

The Committee were informed that the difficulties had been experienced mainly with the tractors fitted with Mitsubishi engines, and that those fitted with Komatsu engines had shown better performance. The Controller General, Defence Production, however, stated that both the engines were satisfactory. The principal difference in the two engines was that the Komatsu engines were fitted with a Bosch type of fuel pump which was familiar to most people in India; the adjustment of the Mitsubishi fuel pump required more experience. The Committee are, however, not quite convinced of this argument in view of the fact that all the 19 engines of D-120 tractors which had broken down during operations and had to be sent to the D.G.O.F. for overhaul were of Mitsubishi make. Moreover, out of these 19 engines which had been overhauled by the EME Workshop, Kankinara, 12 engines had prematurely given way after a short run due to unsatisfactory repairs. The Director General, Ordnance Factories had accepted the responsibility for the failure of 2 engines and had agreed to supply spare parts free of cost for their overhaul. As regards the remaining 10 engines, the matter was still under correspondence with the D.G.O.F.

The Committee feel concerned over the failure of the overhauled engines. They desire that early steps should be taken to repair these engines and the reasons for their failure should be investigated into. The Committee note with satisfaction that the D.G.O.F. has switched over to the use of Komatsu engines.

Loss of Tractor Hours:

4. In their note, the Department of Rehabilitation informed the Committee that on the first lot of 58 Komatsu tractors, which had been received in December, 1959, a total of 3850 tractor hours were lost during the operational season upto 31st May, 1960 due to manufacturing defects. (This does not include working hours lost due to delay in supply of equipment). During the seasons 1960-61 and 1961-62, the tractor hours lost on the first lot of the tractors were 30,000 and 18,000 respectively. The reasons for loss of tractor hours are stated to be higher percentage of breakdowns and non-availability of spare parts. (During 1960-61 the loss of working hours was also partly due to delay in carrying out modifications suggested by the T.C.M. Expert before putting tractors in operation).

A second lot of 75 Komatsu tractors was received by the Dandakaranya Project in 1960-61. Of these only 10 tractors could be put into operation during the season 1960-61 by about the middle of May

1961, even though 58 machines had been received upto the end of May 1961. The remaining machines could not be put into use, as these were incomplete in one respect or the other and even fast moving items of spare parts like lub.-oil filter etc. had not been supplied by the D.G.O.F. During the season 1961-62, 2750 tractor hours were lost due to defects in these tractors. The Department of Rehabilitation have attributed less loss of tractor hours on the second lot of tractors to the fact that most of the engines provided on them were of Komatsu make as against 36 Mitsubishi engines fitted on 36 out of 58 tractors of the first lot.

The Committee view with concern loss of considerable tractor hours on the first lot of tractors during the year 1960-61. They however note that there was a remarkable decrease in the loss of working hours on these tractors during the year 1961-62. They hope that the position would further improve in the future years.

Difficulties in supply of spare parts:

5. In evidence, the Secretary of the Ministry of W.H. & R. (Department of Rehabilitation) stated that the Dandakaranya Project were experiencing great difficulty due to non-supply of spare parts by the Director General, Ordnance Factories, on demand. In June 1962, due to non-availability of spares 11 tractors had to be grounded. The Ministry of W.H. & R. (Department of Rehabilitation) stated in their note that supplies of spare parts for the tractors and equipment ordered with the first lot of 58 tractors in August 1959 were completed by the D.G.O.F. after a period of over one year, after the receipt of tractors in the Project in 1959. Similarly in the case of the second lot of 75 tractors, first consignment of spare parts ordered in August 1960 was received only during the second week of June 1961, i.e. after a period of 10 months. (Even in this consignment there was a serious discrepancy; instead of lubricating oil filters—non-availability of which was one of the reasons for non-commissioning of most of the tractors—the package contained screws and washers.) Further, out of 81 items of spare parts which were intended to be supplied from indigenous sources, only 39 items were received till November 1961 and 25 items yet remain to be supplied.

The representative of the Ministry of Defence (Production) admitted that the DGOF had not been able to hold spares enough in stock to meet the customers' urgent demands but added that a bank of imported tractor spare parts had been created since. As regards the delay in supply of spare parts initially, the Ministry of Defence informed the Committee that this was unavoidable under

the Japanese Yen Credit and Export Regulations. The demand of the DDA for spare parts against their first and second orders was small.

The Committee are unhappy over the delays in supply of spare parts, for want of which considerable tractor hours were lost in the Dandakaranya Project. The Committee hope that with the setting up of a Bank of spare parts, difficulties in the supply position of spares would be overcome. The Dandakaranya Project authorities should also, on their part, intimate their full requirements of spares reasonably in advance.

The Committee understand that indigenous production of *40 per cent. of parts had been achieved. In a year's time further increase of 15 per cent. of the components is expected to be secured from trade. The Committee desire that priority should be given to the manufacture of fast moving parts in order to obviate difficulties in meeting the requirements of users and to save more foreign exchange.

Comparison of Efficiency of Komatsu Tractors with other tractors:

6. At their instance, the Committee were furnished with comparative details of the potential working hours and working hours lost due to break-downs of tractors and equipment for the various makes and types of tractors used by the Dandakaranya Project. The following table shows the percentages of break-downs and availability with respect to potential hours during the working seasons 1960-61 and 1961-62.

Sl. No.	Make and Model of tractor	Year of purchase	Season	Percentage of break-down on tractor and equipment with respect to potential hours	Percentage of availability with respect to potential hours	Remarks
1	2	3	4	5	6	7
1.	Cat. Old D-8	1950	1960-61	30.7	69.3	Tractors worked in double shift. Tractors worked in single shift.
			1961-62	6.4	93.6	
2.	Cat. Old D-8	1953	1960-61	20.1	79.9	Tractors worked in double shift. Tractors worked in single shift.
			1961-62	10.2	89.8	
3.	Int. T.D. 24	1950	1960-61	37.4	62.6	Tractors worked in double shift. Tractors worked in single shift.
			1961-62	17.8	82.2	
4.	New D-8	1961	1960-61	11.9	88.1	Tractors worked in double shift. Tractors worked in single shift.
			1961-62	4.0	96.0	

*According to Audit is about 34 per cent.

1	2	3	4	5	6	7
5.	Old Komatsu	1959-60	1960-61	29.6	70.4	Tractors worked in single shift. Tractors worked in single shift.
			1961-62	27.9	72.1	
6.	New Komatsu	1960-61	1960-61	8.6	91.4	Only 10 tractors worked for a few days at the fag end of the season. Tractors worked in single shift.
			1961-62	18.9	81.1	

While working out the availability for Komatsu tractors both of first and second lot for the seasons 1960-61 and 1961-62, the DDA have not taken into consideration, the tractors which required major overhaul and were not put into commission during the seasons at all. If the hours lost on this account were also taken into account, the percentages of availability would further come down. According to the Department of Rehabilitation in the case of new tractors percentage of availability which could be normally expected for the first three years should be 85 to 90. As against this the percentages of availability of the first lot of Komatsu tractors were 70.4 and 72.1 during the seasons 1960-61 and 1961-62 respectively, even though most of the tractors were either new or very little used and some of the modifications recommended by the TCM Expert had been carried out on them. As regards the second lot of tractors, the 91.4 per cent availability attained during the season 1960-61 was stated to be due to the fact that only 10 machines were used for a very short period in the season. Moreover apart from these machines being provided with Komatsu make of engines instead of Mitsubishi make, some of the modifications recommended by the TCM Expert had also been carried out on them, which had somewhat increased their efficiency. The availability for the second lot of Komatsu tractors, however, came down to 81.1 per cent during the season 1961-62. One of the major reasons for the drop in the percentage availability was stated to be due to the premature failure of some of the repaired Mitsubishi engines which had been provided on a few tractors of this lot also.

The Committee note the sub-normal availability of the first lot of Komatsu tractors during the working seasons 1960-61 and 1961-62 due to frequent break-downs. During evidence, the Secretary, Ministry of W H & R (Deptt. of Rehabilitation) stated that on the present performance, the Komatsu tractors were somewhat inferior to other makes and types used in the Dandakaranya Project.

Cost of repairs and overhaul:

7. The Committee desired to know the increase in the manufacturing cost of tractors on account of removal of the manufacturing defects in them. The Ministry of Defence informed the Committee that there was no loss involved due to repair|replacement, as an adequate margin had already been provided to cover such contingencies and extra expenditure involved was within the amount provided. An expenditure of Rs. 1,54,500 was incurred by the D.G.O.F. on repair, rectification and replacement of defective tractor parts. This does not include the expenditure on account of overhauling of D. 120 and D. 80 tractor engines, which has been recently completed. Replacement of defective parts to the value of Rs. 15,000 was made by the Japanese firm free of charges, as required under the contract.

The Committee would like to know in due course the total extra expenditure incurred by the DG.O.F. on repairs, modifications, overhaul etc. and whether these were within the margin provided in the cost of tractors.

Increase in Operational Cost due to defects:

8. The Committee enquired about the increase in the operational cost of tractors due to defects. The Department of Rehabilitation informed the Committee that certain estimates worked out by the Dandakaranya Project authorities were not accepted by the Ministry of Defence and that it was agreed to have further investigations in the matter. One of the important elements of the increased operational cost was expenditure on engine oil and oil filters. Experiments were in progress on change of engine oil every 120 hours as advised by the Expert from 60 hours at present. There are certain other details relevant to the operational cost which have to be gone into by the DDA and DGOF.

The Committee desired to know the comparative operational cost of Komatsu tractors and other tractors in use in the Dandakaranya Project on the basis of past experience. The Department of Rehabilitation have stated in a note that during the working season 1961-62, as against the cost of reclamation per acre of Rs. 234.72 by new Caterpillar D-8 tractors, the average cost of reclamation per acre by Komatsu tractors of Divisions II and III worked out to Rs. 298.50, which was higher by Rs. 63.78 per acre. The higher cost of operation by Komatsu tractors has been attributed mainly to more time taken for reclaiming an acre of land, more consumption of engine and air cleaner oils, greater use of spares and higher depreciation and establishment charges because of lower output.

The Committee feel concerned at the high operational cost of Komatsu tractors as compared with other makes and types in use in the Dandakaranya Project. They desire that the investigation of the

various factors affecting the operational cost of the Komatsu tractors should be completed as early as possible and necessary steps taken to reduce it. The Committee hope that the DGOF and DDA will address themselves to this problem, as the price of tractors should co-relate to their operational cost.

General

9. The Committee were informed that the total capital invested in the Tractor Project upto October 1962 was Rs. 53 lakhs as per details given below:—

(In lakhs of rupees)

	Rupce currency	Foreign Exchange
Building	10.02	..
Plant and Machinery	15.00	27.98

The value of actual production amounted to Rs. 698 lakhs upto November, 1962 and saving in foreign exchange on 459 tractors was of the order of Rs. 82 lakhs upto 31st December 1962.

The percentage of indigenous content anticipated and actually achieved during the period October 1959 to September 1962 is indicated below:—

Year	Percentage of indigenous contents anticipated	Percentage of indigenous contents actually achieved.
October 1959 to D-120	10%	D-120 4%
September 1960 D-80	10%	D-80 4%
D-40	15%	D-40 3%
(Attachments—Attachments 68%)		
October 1960 to D-120	30%	D-120 30%
September 1961 D-80	40%	D-80 6%
D-40	40%	D-40 34%
(Attachments—Attachments 70%)		
October 1961 to D-120	50%	D-120 30.75%
September 1962 D-80	70%	D-80 33.30%
D-40	50%	D-40 34.35%
(Attachments—Attachments 70%)		

According to the Ministry, it is expected that about 80 per cent indigenous content as per details below would be possible in the foreseeable future:—

(i) Already reached a stage of	40%	indigenous content
(ii) Engine manufacture when established will account for	25%	do.
(iii) Trade assistance in the manufacture of tractor components expected to be received in a year's time	15%	do.
Total	80%	do.

From the above table, it will be seen that the percentage of indigenous content in these tractors actually achieved has been lagging behind the anticipated targets. The Committee would like the Ministry to make special efforts to improve the position in this regard.

10. To sum up, the unsatisfactory features brought out in this case are—

- (1) the rather prolonged "teething troubles" leading to heavy loss of tractor hours which may, to some extent, be attributed to the initial decision to enter into a contract with the Japanese firm merely after a study of the technical specifications but without adequate trials in this country. A team was sent subsequently to Japan to satisfy themselves about the production capacity of the firm, quality control and other related matters.
- (2) the inability to achieve a saving in foreign exchange to the extent envisaged, one of the major factors being the slow progress achieved in improving the indigenous content of the tractors;
- (3) the discovery of serious mechanical defects in the tractors, particularly the failure of the Mitsubishi engines and the premature breakdown of 12 of them even after overhaul;
- (4) the non-establishment of an adequate servicing and maintenance organisation for a period of some years;
- (5) the prolonged controversy between the Ministry of Works, Housing and Rehabilitation and Defence which has taken an unduly long time to settle regarding the causes of the defects in the tractors used in Dandakaranya; and
- (6) the high operational cost of the Komatsu tractors which still await investigation and remedial action

11. The Committee understand that the DGOF has in hand outstanding orders for more than 350 tractors and attachments for the various civil indentors, besides the requirements of the Army and that Government are contemplating the augmentation of the existing capacities to cater for production of 500 tractors and attachments. The Committee hope that every effort will be made by the Ministry of Defence to achieve the contemplated targets of production without impairing in any way the production of defence stores which is the foremost function of the Ordnance Factories in the present national emergency. In this matter the Committee trust that the lessons already learnt in this case regarding the need for adequate precautionary measures at every stage to obviate dislocation and loss will be fully kept in view.

II

ACTION TAKEN ON OUTSTANDING RECOMMENDATIONS

Contract for supply of mechanical transport spares with a Canadian firm, Messrs Levy Auto Parts—28th Report (Second Lok Sabha)

12. In their 28th Report, Second Lok Sabha, P.A.C. reported on a contract entered into by the Ministry of Defence with a Canadian firm (M/s. Levy Auto Parts) for supply of mechanical transport spares (cf. para 13 of Audit Report, Defence Services, 1959). This case had been examined in some detail by a sub-Committee of the P.A.C., whose report was approved by the main Committee and included in the aforesaid report.

The Sub-Committee of the P.A.C. were not happy over the manner in which the contract had been concluded and executed. They, therefore, considered that the case required an impartial investigation.

In pursuance of the recommendation of the P.A.C., a Committee of Enquiry was appointed by Government with the Cabinet Secretary, Shri Vishnu Sahaya, as Chairman and the following Secretaries to Government as members:—

- (1) Shri S. S. Khara, Department of Mines & Fuel.
- (2) Shri T. Sivasankar, Ministry of W.H. & S.
- (3) Shri P. M. Menon, Ministry of Labour.

The Ministry of Defence submitted a copy of the report of the Special Committee along with a note containing the Ministry's comments on 8-12-1961. (A copy of the note and the copy of the report of the Special Committee was also laid on the Table of the House on the same day). A copy of the note and the copy of the report of the Special Committee are enclosed as Appendices I and II.

The Committee have carefully considered the report of the Special Committee, and they would refer to some of the important disquieting features as revealed in their Report.

- (a) *Failure to undertake special review for assessing the firm requirement of spares before the final conclusion of the contract*

13. The Sub-Committee of the P.A.C. were critical of the failure to undertake a provision review in 1957, considering that the lists

supplied to the firm were based on the annual provision review undertaken in 1956. The Director of Electrical and Mechanical Engineering in his evidence before the Special Committee is reported to have stated that as changes in the scales for 'A' vehicles had been notified by and large before the contract was finalised, the Director of Ordnance Services could have carried out the necessary corrections in the indent. The Director of Ordnance Services on the other hand claimed that the revision could not have been made in time as the revised scale which mainly affected the reduction were received in December, 1957. Also, an intermediate provision review could not be undertaken before the Government sanction for the review was issued, which in this case was given only in January 1958, i.e. after the contract had been concluded.

The Special Committee have stated on this point: "We found it difficult to understand how a special review could establish the need for such large scale cancellations. The period to be covered by it, was longer and additional requirements were, therefore, to be expected but not large scale cancellations to the extent of 45 per cent. in value and 41 per cent. in terms of items." The Special Committee came to the conclusion that "the arrangements regarding the timely fixation and revision of scales and wastage rates were unsatisfactory. Also, it appears that there was some lack of co-ordination between the Director of Electrical and Mechanical Engineering and the Director of Ordnance Services in regard to the provisioning of spares." The Special Committee recommended that "the Ministry of Defence may arrange for a detailed study on provisioning in the Army with particular reference to the provisioning of spares for 'A' and 'B' vehicles."

The Committee are not satisfied with the explanation for non-revision of requirements before placing the final order in view of the fact that changes in the scales of 'A' vehicles had been notified by the D.E.M.E. by December, 1957. Considering that a bulk order for spares had been placed on the basis of the review conducted in 1956, the revision of requirements on the basis of revised scales should have been undertaken in December, 1957 and the final contract on the firm should have been deferred till the revised firm requirements had been worked out. The sanction of Government for an intermediate review (which was given in Jan. 1958) could also have been expedited. The very fact that after placing the contract, the D.O.S. was able to complete a special review within four weeks, indicates that such a review was necessary and could have been conveniently undertaken before placing the final order. The

Committee understand from Audit that in pursuance of the recommendation of the Special Committee, a committee was set up in April, 1962 to examine all aspects of provisioning with particular reference to provisioning of spares for 'A' and 'B' vehicles. The Committee would like to know the remedial measures suggested by this departmental committee and action taken to streamline the existing provisioning procedure.

14. In para 38 of their Report, the Sub-Committee of the P.A.C. had referred to the failure to secure the right of reducing, increasing or cancelling items and quantities within 90 days of signing the contract as envisaged in the letter of intent. The Sub-Committee had been informed by the Chairman of the Negotiating Committee that this clause had been deliberately included in the letter of intent as he was familiar with the fluctuations in the M.G.O.'s indents. (As no list of doubtful items was attached to the contract, the firm repudiated in March 1958 the cancellation of 45 per cent of the stores valuing \$ 5,73,000). The explanation given to the Special Committee for omission of the list was that the Indian Supply Mission achieved the object by deleting from the contract all items about the need for which the M.G.O. had expressed doubts. The Special Committee has observed: "Considering that within a few months of the signing of the contract the list of requirements was sought to be drastically reduced, we hesitate to accept the argument that the list of doubtful items was sufficiently comprehensive. It would appear that on the basis of past experience, it should have been possible to pick out items the demand for which was likely to change."

The Committee feel that on the basis of the revised scales for 'A' vehicles given by the D.E.M.E. and the D.O.S.'s own experience about the utilisation of 'B' vehicles spares, it should have been possible in this case to furnish a list of 'doubtful' items to the firm at the time of signing the contract. Such an action could have largely avoided gross over-provisioning (45 per cent of the value i.e. \$ 5,73,000) that actually occurred in this case.

(b) Cancellation of the sale of surplus spares to the firm

15. While discussing this aspect of the matter in Chapter IV, the Special Committee has stated: "The justification for the (subsequent) decision (in September, 1957) to sell (the surplus spare parts) by open tender rests on the claim that better prices could have been obtained by this method and that the deal would have been more defensible in the public eye." Eventually a decision was

taken not to dispose of the surplus spares at all as a result of re-appraisal of finances and of the likelihood of certain type of equipment being available for procurement from abroad. It was decided that the correct policy would be to repair a large number of vehicles and it was considered unwise to dispose of surplus spares which might possibly cease to be surplus. The Special Committee came to the conclusion that "in these circumstances, it is quite understandable that, if one could not hope to get brand new equipment, one would be compelled to revise earlier ideas of requirements and make do with repairing what one has."

The Ministry of Defence have stated that "about 4250 tons (approximate book value Rs. 526 lakhs) of surplus 'A' and 'B' vehicle spares were under consideration for sale to M/s. Levy at \$100 per ton. According to the latest information available, it is estimated that out of the above tentative surpluses, spares weighing about 1382 tons have already been consumed and 374 tons are likely to be consumed by March, 1964". The Committee note that less than one third of the total quantity of spares was actually utilised before December 1961, i.e. more than 4 years after the decision to drop the sale of surpluses was taken.

As pointed out in the concluding portion of para 30 of the report of the Sub-Committee of the P.A.C. the Defence Ministry was laying stress as late as June 1957 on the need for an early disposal of the surplus stock and it was only after receipt of a letter from the firm in September 1957 that the question of the utilisation of surplus stores appears to have been taken up; even then the appraisal of the quantity which could really be used up seems to have been defective as evidenced by the large quantity—still lying unutilised, more than five years after the decision was taken to retain them. The Committee suggest that a review might be undertaken to see as to which of the spares are such as have not been issued for the last several years and are not likely to be used within a reasonable time. It should be examined as to which of the items could be disposed of so that the depots are relieved of the much needed space and expenditure on care and maintenance of unwanted spares.

(c) *Performance of the contract*

(i) *Inclusion of identical spares in more than one place in the contract with different prices*

16. In this connection, in Chapter III of the report, the Special Committee has pointed out: "There was a first list and then an

additional list. Both contained some common items with different price tags. Both lists were sent at the same time to the India Supply Mission." Referring to the existence of some common items in the two lists with different price tags, the Special Committee has stated that "a careful revision at either end could have eliminated the duplication. We think it should be the responsibility both of the authorities initiating the indent and of India Supply Mission to scrutinise the lists with a view to avoid such duplication". The Ministry of Defence have calculated that overpayment of about \$10,000 was made on account of this. **The Committee consider it unfortunate that such patent mistakes should have crept in. They suggest that responsibility should be fixed for these mistakes which resulted in an overpayment of about \$10,000. The Committee would like to be informed whether this overpayment has been recovered from the firm.**

(ii) *Acceptance of "Rzeppa joints" in lieu of "Bendix joints"*

17. While discussing this aspect in Chapter III of their report, the Special Committee has stated: "The order placed on the firm included the item known as 'Bendix joints'. The firm supplied 'Rzeppa joints' as an 'in lieu' item. The Ordnance Depots carried a large surplus of the latter and though at first objection was raised to the supply of 'Rzeppa joints' as not being properly substitutable for 'Bendix joints', on fuller investigation their substitutability was accepted. The Technical Team also has confirmed that the two joints are properly substitutable. In the result, Government have received 'Rzeppa joints' of which they already had a surplus." The Special Committee has also observed that the real failure in this connection lies on the part of the technical authorities in not establishing the interchangeability of these two joints before the indent was placed. **The Committee feel gravely concerned at this lack of technical information with the M.G.O's Organisation. The Committee hope that this failure would be suitably taken notice of and necessary action taken to strengthen the arrangements for such technical information, as suggested by the Special Committee.**

The Committee are glad to be informed by Audit that the Ministry have issued instructions that prior concurrence of the indenter should be obtained before supply of 'in lieu' items.

(iii) *'Refer India' items*

18. There was a complaint that in respect of certain items called "Refer India" items the firm wanted revision of the prices originally negotiated, which had to be referred back to India for further

consideration. It was alleged that instead of insisting on the original quotation and enforcing their supply at the agreed rates, some of them were deleted from the contract and I.S.M. arranged for their procurement on separate contracts at higher rates. The Director I.S.M., however, has refuted that these items were later procured at higher prices. **The Committee consider the deletion of 'Refer India' items from the contract as unjustifiable in view of the fact that the whole transaction was a package deal. The Committee would like to be informed of the outcome of the inquiry into the matter as suggested by the Special Committee.**

(iv) *Utilisation of spares*

19. According to the information furnished by Audit, the position regarding utilisation of spares, purchased from the firm as on 31-3-1962, was as follows:—

'A' Vehicles spares

Out of 763 items. (valued at \$ 329,889 nett) received from the firm, 288 items have been totally utilised, 319 items partially utilised and the remaining 156 items valued at \$34,698 (Rs. 1,63,080) are held without any issues so far. The total value of the stores remaining in stock was \$ 108,310 (Rs. 5,09,057) which works out to 33 per cent approximately of the value of the total receipts.

'B' Vehicles spares

Out of 1159 items (valued at \$ 10,69,400) received from the firm, 529 items have been totally utilised, 351 items partially utilised and the remaining 279 items are held without any issues so far. The value of the items remaining in stock amounts to \$ 240,107 (Rs. 11,28,503) which represents 22 per cent approximately of the total value of these spares received.

The Committee feel concerned at the slow utilisation of the spares. This is a further confirmation of the fact that there has been considerable over-provisioning of spares as a result of this Agreement. They would like to have a further report about the progress in the utilisation of these spares.

(v) *Delay in supplies and discrepancies*

20. Under the terms of the contract the supplies were to be completed by 18-12-1958. This date was further extended to 18-3-1959. According to the information supplied to Audit by the Ministry of Defence, supply of 'B' vehicles spares was completed on

29-7-1959 and of 'A' vehicles spares on 17-2-1960, the latter nearly a year after the extended date of supply. Moreover, according to the information available with Audit, out of the 3255 items to be supplied, discrepancies were reported by the depots in 878 cases and the total value of these discrepancies was \$1,68,412. The value of these discrepancies was reduced to \$49,985 and \$974 on 1-12-1960 and 31-12-1962 respectively. The Committee are, therefore, surprised to note a categorical statement in Chapter II of the Special Committee's Report that "the supplies contracted for were, in point of fact, made in full and in time." **The Committee would like to be furnished with a note explaining this anomaly.**

(d) *General*

21. On the question of the justification for negotiating with the firm without inviting tenders, the Special Committee has observed: "When supplies were difficult and involved fresh manufacture, one would naturally negotiate with the firm most likely to be able to supply the whole range of spares needed. In the circumstances, the choice of this particular firm to negotiate with was not unreasonable." In regard to the prices negotiated with the firm, the Special Committee has stated "it would be difficult to arrive at precise figures of prices for the purchase of these difficult spares. Figures showing reductions from the original quotations of the supplying firm are not of any real importance, as the original quotations were known to be high. Conversation of war-time prices into current prices also could have been only an indication and no more, for these items had ceased to be in current production. On the other hand, they must have acquired an artificial scarcity value. The price paid for items already procured was a good indication, but that helped only in a comparatively small percentage of the total items. Estimates of price on 'visual examination' were no more than rough guesses. In these circumstances, the Negotiating Committee could only have bargained to get the firm's prices down as much as they could. They were not in a position (except in regard to recently purchased articles) to check the prices against figures which would have stood that test of the 'market rate'. But they did succeed in obtaining substantial reductions and the final prices were not on an overall view, out of line with their own estimates."

The following facts brought out in the report of the Sub-Committee of the P.A.C. have not been disputed:

(i) Before the letter of intent was issued to Messrs Levy on May 4, 1957, an offer was received from a firm in Bombay offering

signal spares at a price which was Rs. 6 lakhs lower than quoted by the foreign firm.

(ii) When in September, 1957, India Supply Mission was authorised to conclude the deal, they reported on October 9, that they had received a more attractive offer from another foreign firm for the full range of spares.

(iii) The market quotations obtained by the I.S.M. when a subsequent demand arose in 1958 were lower than the prices accepted by the Negotiating Committee. The Special Committee themselves have referred to this and observed that this contract was subsequently concluded by I.S.M. with Messrs Levy, after negotiations, for \$ 2,00,000 worth of spares, the cost of which on the basis of the prices agreed to by the Negotiating Committee was \$ 2,37,000. The Special Committee have also stated that though the figures were only partially comparable, they would give an indication of the margin of reduction possible if the buyer could afford to wait.

In view of the above, the Committee consider it unfortunate that the suggestion to obtain prices through the India Supply Mission, Washington made earlier by both the Financial Advisers, Defence Services and Ministry of Works, Housing and Supply was not implemented.

22. From some of the unsatisfactory features as brought to light by the investigation of the Special Committee, the Committee have come to the conclusion that the letter of intent sent to the firm was based on incorrect assessment of the requirements necessitating substantial modifications later. This resulted in considerable over-provisioning of stores. The Committee do appreciate that occasions may arise for the Ministry of Defence to arrive at special agreements for urgent procurement of military stores by dispensing with normal procedures. The Committee, however, hope that the Ministry will profit by their experience in this case and enter into special agreements only where it is absolutely necessary to do so after examining all the pros and cons of the situation and base their proposals on firm data so as to avoid the contingency of shifting the ground subsequently.

Delay in provision of covered accommodation—paras 41—44 of 35th Report (Second Lok Sabha)

23. No covered accommodation was available at a new station where an ammunition depot was shifted in 1948. Owing to storage of ammunition in the open, they had to be downgraded as either un-

serviceable (Rs. 23 lakhs) or as requiring repairs (Rs. 22 lakhs). A proposal was made by Depot authorities in 1950 for provision for 274 Nissen huts at a cost of Rs. 6.85 lakhs to provide cover for the ammunition but this was not accepted. But in October 1958 Government sanction was accorded for provision of 184 Nissen huts, at the Depot at a cost of Rs. 5.6 lakhs, but the work was not taken in hand till December 1959.

The Committee of 1960-61 were told that in 1950 field storage was considered adequate as it was suspected that a decision regarding permanent location of the depots would not take long later, as the decision on the permanent location of the depot was delayed it was decided to provide some temporary accommodation in the depot. The PAC expressed surprise that the authorities should have taken 12 years to decide on the permanent location of the depot. In their view it was an unfortunate decision to provide field storage accommodation for ammunition. Non-acceptance of the proposal of the depot authorities for provision of Nissen in 1950 was a grave error.

In a note submitted to the Committee (Appendix LXXXVIII to the statement of outstanding recommendations) the Ministry of Defence have stated that the depot was established in 1948 when it became necessary for strategic reasons to close down the then existing depot. The Ministry have stated that viewed in retrospect it might appear that the non-acceptance of the proposal in 1950 for the provision of Nissen huts was a mistake. Actually, however, in September 1951 it was observed that the total cost of the project would be Rs. 34 lakhs although it was mentioned that the provision of Nissen huts would cost approximately Rs. 6.85 lakhs. The Army authorities felt while examining this project that it might not be advisable to pursue such a costly project on a temporary basis. Subsequently, it was decided to provide pre-fabricated shedding at the depot and this project was completed in June 1961 at a cost of Rs. 5.6 lakhs. The accommodation already constructed represents approximately 60 per cent provision on the basis of the existing holdings of serviceable and repairable ammunition.

The Committee are not convinced of the validity of the arguments advanced for the non-acceptance of the proposal of the Depot authorities in 1950. The fact that in 1961 prefabricated shedding could be actually constructed at a cost of Rs. 5.6 lakhs only for 60 per cent of the holdings of the depot, reinforces the observation of the Committee of 1960-61 that the non-acceptance of the proposal in 1950 was a grave error. The Committee are also surprised how the

total cost of the project (providing Nissen huts) was estimated at Rs. 34 lakhs by the Board in September 1951 as against the original estimate of Rs. 6.85 lakhs for providing Nissen huts. This clearly exhibits a lack of proper scrutiny, supervision and judgment on the part of the authorities concerned.

NEW DELHI;

April 16, 1963

Chaitra 26, 1885 (Saka).

MAHAVIR TYAGI,

Chairman,

Public Accounts Committee.

APPENDICES

APPENDIX I

MINISTRY OF DEFENCE

Note containing Government's comments on the recommendations/ observations made in the Report of the Special Committee of Secretaries in regard to the contract for the supply of mechanical transport spares with Messrs Levy Auto Parts of Canada.

In paragraph 46 of the 28th Report dealing with the contract for supply of mechanical transport spares with Messrs. Levy Auto Parts of Canada, the Public Accounts Committee considered that the case required an impartial investigation with reference to the following aspects:—

- (i) The justification for negotiating with the firm without inviting open tenders;
- (ii) The safeguards taken to protect the interests of Government against the risk of high prices inherent in a single negotiated contract;
- (iii) The reasons for the failure to undertake special review for assessing the firm requirement of spares before the final conclusion of the contract;
- (iv) The reasons that led to the cancellation of the sale of surplus spares to the firm;
- (v) The performances of the contract with reference to its terms and conditions; and
- (vi) Fixation of responsibility on individuals for lapses, if any, and introduction of remedial measures for future.

2. On the 19th May, 1960, a Special Committee was accordingly set up with the Cabinet Secretary as Chairman and the following Secretaries of Government as Members of the Committee:—

- (1) Shri S. S. Khera
- (2) Shri T. Sivasankar
- (3) Shri P. M. Menon

The above Committee was requested to investigate the various aspects of the contract with Messrs. Levy Auto Parts of Canada for the supply of mechanical transport spares and they were given the

aspects pointed out by the Public Accounts Committee as Terms of Reference.

3. The Special Committee submitted its Report to Government on the 19th May, 1961. A copy of the letter, dated 19th May, 1961 from the Chairman of the Committee addressed to the Defence Minister and a copy of the Report are forwarded herewith for the information of the Public Accounts Committee. The observations of the Committee on the specific aspects pointed out by the Public Accounts Committee in its 28th Report and the comments of the Ministry of Defence thereon where necessary are given below:—

(i) *The justification for negotiating with the firm without inviting open tenders.*

Committee's Views:

There is no doubt that the firm in question has been by far the biggest supplier of these spares in the past. It was known to be well organised for supply of such spares. The information furnished by the Defence Ministry justifies their claim that the usual procedure would not have enabled the vehicles to be put in order in a reasonable time. According to the Ministry of Works, Housing and Supply the full range of spares was not being supplied to the Defence Ministry against indents placed on India Supply Mission Washington prior to May 1956. When supplies were difficult and involved a fresh manufacture, one would naturally negotiate with the firm most likely to be able to supply the whole range of spares needed. In the circumstances, the choice of the particular firm to negotiate with was not unreasonable.

(ii) *The safeguards taken to protect the interest of Government against the risk of high prices inherent in a single negotiated contract.*

Committee's Views:

It was known that the firm selected had a tendency to quote high prices. Considering that these spares were not ordinary commodities in the market, it would have been surprising if high prices were not quoted by anyone who possessed extensive supplies of them or had hopes of acquiring them. A negotiating committee was set up under the orders of Minister of Defence Organisation with the concurrence of the Minister of Works, Housing and Supply and the Minister of Finance. This Committee, after prolonged bargaining, was able to effect a reduction from the Original quotation of the firm by about 38 per cent. in the case of 'A' vehicles spares and 32 per cent. in the

case of 'B' vehicles spares. From the information furnished by the Defence Ministry about some competing offers which were received during negotiations, it was observed that the prices quoted were, by and large higher than those agreed to with this firm. By comparing the prices agreed to with the firm with a subsequent deal for the purchase of these spares by the India Supply Mission, Washington, on the results of open tenders, it was clear that the prices settled by the Negotiating Committee were not unreasonable. Wherever possible, the Negotiating Committee used the quotations already available with the India Supply Mission, Washington, for the purpose of settling the prices of individual items. They also took the precaution of putting in a clause whereby in case some previous quotations received by the India Supply Mission had not been considered by the Negotiating Committee or there had been a mistake prices could be revised by the India Supply Mission even after settlement by the Negotiating Committee. The payment terms negotiated by the Committee were such that the financial risk to Government was guarded against. The final terms agreed to were that only 80 per cent. payment would be made on each shipment of balanced spares and the rest would be payable after two years. We think that, on this point, the precautions taken were adequate.

(iii) Reasons for the failure to undertake special review for assessing the firm requirement of spares before the final conclusion of the contract.

Committee's Views:

The arrangements regarding the timely fixation and revision of scales and wastage rates were unsatisfactory. It appears that there was some lack of coordination between the Director of Electrical and Mechanical Engineering and the Director of Ordnance Services in regard to the provisioning of spares. We recognise that settlement of scales, and rates of wastage is not an easy task particularly in respect of obsolete vehicles. Difficulty also arises from the changes in policy regarding maintenance and repair of equipment and change-over to new equipment. Major policy decisions based on world events and overall Defence considerations may affect the details of provisioning from time to time. The techniques of repair and maintenance adopted from time to time will inevitably have a bearing on scales and where adequate experience in fixing scales is lacking, allowance has to be made for divergences between the scaled quantities and actual quantities utilised. These features of provisioning in the Army should be gone into carefully and, as a first step, action should be taken to ensure adequate coordination between the Director of Electrical and Mechanical Engineering and

the Director of Ordnance Services. We recommend that the Ministry of Defence may arrange for a detailed study on provisioning in the Army with particular reference to the provisioning of spares for 'A' and 'B' vehicles.

Defence Ministry's Comments:

It is proposed to have all aspects of provisioning, with particular reference to provisioning of 'A' and 'B' vehicles spares, investigated by a committee.

(iv) *The reasons that led to the cancellation of sale of surplus spares to the firm.*

Committee's Views:

In September 1957, the firm, as a result of discussions with the Ministry of Defence, wrote saying that, in order to expedite the contract to supply spares, the proposal to purchase surplus spares might be dropped with the exception of a negligible quantity of approximately 100 tons or so of a selected item to which they were committed. It was then decided with the approval of the Deputy Minister that the surpluses should be declared to the Director General of Supplies and Disposals. This decision marked a reversal of the policy to dispose of the surpluses at a price negotiated with a single firm. It does not appear to us that the later decision was necessarily a bad one. The case is not comparable with that of purchase of spares. Those spares were urgently needed. The disposal of surpluses could wait. The justification for the decision to sell by open tender rests on the claim that better prices could have been obtained by this method and that the deal would have been more defensible in the public eye. There is no indication that any of these changes adversely affected the main transaction for the purchase of urgently needed spares. Eventually, a decision was taken not to dispose of the surplus spares at all as a result of re-appraisal of the finances and of the likelihood of certain types of equipment being available for procurement from abroad. It was decided that the correct policy would be to repair a larger number of vehicles and it was considered unwise to dispose of surplus spares which might possibly cease to be surplus. The Defence Ministry has furnished figures to show that a portion of the spares originally sought to be sold has, in fact, been utilised and more are likely to be utilised in the near future. Defence requirements change and so does the ability of Government to provide the necessary foreign exchange. At one time, foreign governments may be willing to sell us equipment of the kind needed and, at another, the problem of procurement

becomes more acute. In these circumstances, it is quite understandable that, if one could not hope to get brand new equipment, one would be compelled to revise earlier ideas of requirements and make do with repairing what one has.

Defence Ministry's Views:

About 4,250 tons (approximate book value Rs. 526 lakhs) of surplus 'A' & 'B' vehicle spares were under consideration for sale to M/s Levys at \$110 per ton. According to the latest information available, it is estimated that out of the above tentative surpluses, spares weighing about 1,382 tons have already been consumed and 374 tons are likely to be consumed by March 1964. The book value of these 1,756 tons of spares is estimated at \$35.98 lakhs (approximately Rs. 173 lakhs). The sale of 1,756 tons of spares to Levy would have fetched \$1.93 lakhs (or Rs. 9 lakhs approximately). The net gain to Government may, therefore, be assessed as Rs. 164 lakhs. The present procurement cost of the 1,756 tons of spares may be higher and even be assessed as about double their book value, viz., Rs. 346 lakhs. The gain to Government may on this basis be assessed as Rs. 337 lakhs approximately. In addition, large quantities of these spares are likely to be useful during later years (i.e. beyond 31-3-1964).

(v) *Performance of the contract with reference to its terms and conditions.*

(a) *Discrepancies*

Committee's Views:

The Army Headquarters have stated that the stores accepted were new and unused and, when in-lieu items were accepted, these were fully interchangeable with those originally scheduled. Supplies have been made in full except for a few items and some items in regard to which discrepancies had been raised. The Director of Ordnance Services has informed that nearly all these have either been settled or an agreement has been made as to how they would be settled. The position on 1st December, 1960 was that the total value of the discrepancies where mode of settlement had been agreed to and yet to be settled was \$49,985.45. From his experience of other transactions, the D.O.S. considered this a satisfactory performance. Considering that this deal related to about 3,000 items of spare parts of the total gross value of over 1,260,000 dollars, this assessment is not unreasonable.

Defence Ministry's Comments:

According to the latest information available from the Army Headquarters, all the discrepancies which were raised by the Army Authorities have been practically settled.

*(b) Balanced shipments of spares**Committee's Views:*

With a view to ensuring the procurement of the full range of spares within a reasonable time, a provision was included in the contract that each shipment should contain balanced quantities of spares. In case the firm was unable to comply with this requirement in individual shipments, 80 per cent. payment was to be deferred till such time as they met this requirement in subsequent shipments. The idea underlying the insertion of such a clause was to avoid a contingency whereby the firm would leave the contract uncompleted by leaving out difficult or unprofitable items. The balanced shipment clause, with the final payment provision, was a financial safeguard to ensure that payment was not made before balancing and also acted as a deterrent against haphazard supplies. It also provided a substantial financial incentive to the firm to supply the full range of spares. The Defence Ministry has furnished the results of some detailed analysis made by them regarding the operation of the balanced shipment clause and, from the analysis, it would appear that the supplies were, by and large, balanced, if not in each shipment, in the course of shipments covering two or three months. Where they were not balanced, payment was held back as provided for in the contract. It seems to us that the balanced shipment clause was reasonably effective in achieving its object, that is under the pressure of financial consequences, the spares should reach us in a balanced manner within a reasonable time.

*(c) Inclusion of identical spares in more than one place in the contract with different prices**Committee's Views:*

While the India Supply Mission Washington claims that it was the duty of the D.O.S. to have ensured that there was no duplication, the Ministry of Defence feel that it was for the India Supply Mission to ensure that correct prices were paid. Although it is true that, in a normal indent for purchase of stores from abroad, the responsibility for ensuring correct pricing would rest on the India Supply Mission, in this case, the schedules were prepared by the Depots under the Master General of Ordnance and there were two lists of items which were sent to the I.S.M. at the same time. A careful

revision at either end and would have eliminated the duplication. We think it should be the responsibility both of the authorities negotiating the indent and of the India Supply Mission to scrutinise the lists with a view to avoiding such duplication.

Defence Ministry's Comments:

The duplication of the same set of items in different lists is not likely to occur in future, as, normally, all the items required at one time are indented for in one list. In the special circumstances of the contract with Messrs. Levy Auto Parts, in view of the time-lag between the preparation of the first list of requirements and the conclusion of the contract, a supplementary list of the same items had to be prepared and sent to I.S.M. before the contract was concluded. In normal cases of indenting on I.S.M. Washington, this is not likely to occur. In the case of contract with Levy Auto Parts, the firm had agreed to refund the overpayment of about \$10,000 made on account of different prices for the same items in the contract and this amount will be deducted from the dues payable by Government before the final settlement.

(d) *Acceptance of wrong parts*

Committee's Views:

This matter was investigated by a technical team which was required to examine certain items of spare parts and to report whether the stores received were the stores indented, and, if not, whether the items, which were accepted, fully conformed to the required specifications and, in case, substitutes were accepted, whether they were fully interchangeable. The team was also to carry out a similar sample test for other items selected at random. From the report submitted by the team, it appears that the parts accepted were good and proper and, where substitutes were accepted, they were fully interchangeable and met the requirements of the Services. The team has also stated that the spares were new and unused and were generally satisfactory.

(e) *Acceptance of Rzeppa Joints in lieu of Bendix Joints*

Committee's Views:

The Committee has observed that two points had to be looked into in this respect, viz., whether provision in the contract regarding supply of 'in-lieu' parts was proper and secondly, whether it was not possible for the technical authorities to anticipate that Rzeppa Joints

could be used in place of Bendix Joints. On the question of advisability of a provision for substitution in contracts, this is a normal feature of contracts placed by the India Supply Mission Washington particularly those for supply of spares relating to obsolete equipments. The 'in-lieu' part is accepted on the guarantee of the supplier that it can be used in place of the item demanded and if it does not prove suitable, it will be replaced or modified at the supplier's expense. Past experience has shown that cases of in-lieu supplies not proving suitable were few and far between and it was felt that if in-lieu items were not permitted to be tendered, the supplier would usually ask for relaxation and the only result will be delay. The Committee, therefore, felt that provision for supplying interchangeable parts in-lieu appeared reasonable.

Defence Ministry's Comments:

The question of acceptance of in-lieu items has been re-examined and it has been decided to ask the Ministry of W.H. & S. to delete the relevant provision in the contract and make it obligatory on the part of the supplier to obtain the indenter's prior approval before supplying in-lieu items.

The Committee has also added that the real failure was on the part of the technical authorities in not establishing the interchangeability of these two joints before the indent was placed and has suggested that arrangements in regard to collection of such technical information should be strengthened. This point will be considered further and suitable action taken in due course.

(f) Liquidated damages for delayed supplies

Committee's Views:

No penalty for delayed deliveries was imposed on the firm nor were efforts made to purchase undelivered items elsewhere at the risk and expense of the supplier. The firm in America do not generally agree to the implementation of the 'Liquidated Damages' clause, and the usual practice is not to enforce the same. The firm under reference was the main source of supply for our requirements of obsolete spares and there was not much scope for attempting risk purchases from other sources.

(g) 'Refer India Items'

Committee's Views:

There was a complaint that in respect of certain items called 'Refer India Items' where the firm wanted revision of prices origi-

nally negotiated and which had to be referred back to India for further consideration, I.S.M. Washington arranged for their procurement on separate contracts at higher prices. The Committee has desired that further enquiry should be made to ascertain which items were referred to India and whether any of the items were subsequently procured at higher prices.

Defence Ministry's Comments:

The Ministry of Defence has taken up this matter with the Ministry of W.H. & S. and the I.S.M. Washington and the position in regard to these 'refer India items' will be intimated later on.

(h) *Intimation about sources of supply, i.e., from stock or from fresh manufacture*

Committee's Views:

Under the contract, within 90 days from the placement of the contract, the firm was to supply a statement indicating which of the items would be supplied from stocks and which by way of new manufacture. The provisions of this clause were technically fulfilled by the firm only in respect of 20 items. The failure of the firm to comply with this in respect of all the items covered by the contract should have been taken up by the I.S.M. Washington and pursued vigorously. In any case, the failure of the firm to comply with this clause did not affect the final performance of the contract. All the spares indented for were received in good condition and the discrepancies raised were duly settled to the satisfaction of the depot authorities.

(vi) *Fixation of responsibility on individuals for lapses, if any, and introduction of remedial measures for future.*

The Committee has observed that the whole transaction has to be judged against the background of Government's need. One cannot take much risk with the needs of Defence. The firm was known to be a well-established one which had been the best supplier of these scarce spares in the past. It undertook to make a complete supply and in a responsible time. Adequate precaution was taken to ensure this and the supplies contracted for were in point of fact made in full and in time. There were inherent difficulties in determining market prices but the spares represented only a small proportion of the cost of a whole vehicle. In the light of this, the Committee did not think that any further action was necessary to fix responsibility in respect of this part of the case, viz., of negotiating with the firm and settlement of prices.

The other aspect referred to by the P.A.C. related to the reasons of failure to undertake a special review for assessing the firm requirements before conclusion of the contract. The Special Committee had observed that the necessity for cancellation of a large number of items soon after the conclusion of the contract arose mainly due to unsatisfactory arrangements for timely fixation and revision of scales and wastage rates. There is also lack of coordination between the D.E.M.E. & D.O.S. in regard to provisioning. As such, the Special Committee has recommended that a detailed study of provisioning in the Army with particular reference to the provisioning of spares for 'A' & 'B' Vehicles should be arranged. As indicated earlier, it is proposed to set up a Committee to investigate into this matter. No individuals could be held responsible for the lapses, if any, and as such the question of disciplinary action does not arise. Necessary remedial measures will be taken on the basis of the report of the proposed Committee.

In regard to the cancellation of the sale of surplus spares to the firm, the Special Committee did not find the decision to stop the sale of surplus spares as having resulted in any loss or disadvantage to the State. On the other hand, it has resulted in considerable gain to the Government on account of the utilisation of a portion of surplus spares which were originally proposed to be sold to the firm [vide details of values furnished at the end of sub-para (iv) above].

4. In page 11 of its report the Special Committee has referred to a complaint that certain articles which could have been indigenously produced had been contracted for at exorbitant prices. The Committee itself has pointed out that there were no certain means of deciding which of such articles could be indigenously produced. It is one thing to identify articles which are in regular production in the country but another to try to eliminate those which are not in regular production and to procure which one would have to make contracts with small jobber firms. As there were some 3,000 items to be purchased, it is possible that given time and effort, some more items could have been deleted from the final list. The Committee therefore, suggested that a technical group should make an independent scrutiny of the final list to examine which of the items included in the indent could have been produced indigenously without heavy cost. A Sub-Committee of two technical experts was set up and this Sub-Committee submitted its report on the 20th May, 1961. The Sub-Committee was able to select only 7 items relating to 'B' vehicle spares and 19 items relating to 'A' vehicle spares in respect of which indigenous sources could have been definitely tried. The total value of these 26 items according to contract prices comes to \$16,283.45 which is only a little more than

1 per cent. of the total value of the contract. The Sub-Committee has not been able to indicate whether these items could have been manufactured indigenously without excessive cost. In the context of the large number of items and the total cost of the contract, the number of items, which in the opinion of the Sub-Committee could have been deleted or tried for indigenous procurement, forms only a negligible fraction.

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Sd./- R. P. SARATHY,
Additional Secy.,
Ministry of Defence.
7-12-1961.

APPENDIX II

Report of the Committee of Secretaries on the contract for Supply of Mechanical Transport Spares dealt with in the 28th Report (2nd Lok Sabha) of the Public Accounts Committee

CHAPTER I

In the 28th Report on the case referred to in paragraph 13 of the Audit Report (Defence Services) of 1959 regarding a contract entered into by the Ministry of Defence for the supply of mechanical transport spares, the Public Accounts Committee approved the report of its Sub-Committee dated April 14, 1960. Paragraph 46 of this report reads as follows:—

“In conclusion, the Sub-Committee would like to observe that they are far from happy at the manner in which the contract had been concluded and executed. They, therefore, consider that the case required an impartial investigation with reference to the following aspects:—

- (i) The justification for negotiating with the firm without inviting open tenders;
- (ii) The safeguards taken to protect the interests of Government against the risk of high prices inherent in a single negotiated contract;
- (iii) The reasons for the failure to undertake special review for assessing the firm requirement of spares before the final conclusion of the contract;
- (iv) The reasons that led to the cancellation of the sale of surplus spares to the firm;
- (v) The performance of the contract with reference to its terms and conditions;
- (vi) Fixation of responsibility on individuals for lapses, if any, and introduction of remedial measures for future.”

In accordance with this recommendation, a committee of enquiry was appointed with the Cabinet Secretary, Shri Vishnu Sahay, as Chairman and the following Secretaries to Government as Members:—

- (i) Shri S. S. Khera, Secretary, Department of Mines and Fuel.

(ii) Shri T. Sivasankar, Secretary, Ministry of Works, Housing and Supply.

(iii) Shri P. M. Menon, Secretary, Ministry of Labour.

Shri T. R. S. Murthy, Deputy Financial Adviser in the Ministry of Finance (Defence) was appointed as Secretary of the Committee.

The Committee held its first meeting under the Chairmanship of Shri Vishnu Sahay on May 27, 1960. During Shri Vishnu Sahay's absence from November 11, 1960 to March 8, 1961, Shri B. N. Jha was Chairman of the Committee as Cabinet Secretary.

We called for detailed information on the various aspects of the case referred to in paragraph 46 of the Sub-Committee's report from the Ministries of Defence and Works, Housing and Supply, and have also studied the relevant files made available to us by the Ministry of Defence and Master General of Ordnance and examined the following officers, who dealt with the case at various stages:—

- (i) Lt. Gen. M. S. Wadalia, Deputy Chief of Army Staff.
- (ii) Lt. Gen. L. P. Sen, Chief of General Staff.
- (iii) Lt. Gen. S. D. Verma, G.O.C., XV Corps.
- (iv) Maj. Gen. W. T. Wilson, Director of Ordnance Services.
- (v) Maj. Gen. Harkirat Singh, Engineer-in-Chief.
- (vi) Maj. Gen. R. N. Nehra, Deputy Quartermaster General.
- (vii) Brig. P. V. Subramanyam, Director of Vehicles and Engineering.
- (viii) Shri S. Jayasankar, Financial Adviser, Defence Services.
- (ix) Shri P. K. Basu, Director of Audit, Defence Services.
- (x) Shri R. P. Sarathy, Additional Secretary, Ministry of Defence.
- (xi) Shri N. N. Wanchoo, Secretary (Expenditure), Ministry of Finance (formerly Joint Secretary Ministry of Defence).
- (xii) Shri M. R. Sachdev, Secretary, Ministry of Irrigation & Power (formerly Secretary, Ministry of WH&S).

Of these, Shri Basu, Brig Subramanyam, Lt. Gen. Wadalia, Lt. Gen. Verma and Lt. Gen. Sen do not appear to have given evidence before the Sub-Committee of the Public Accounts Committee. Lt. Gen. Wadalia was Chief of General Staff, when the deal was initiated and

Lt. Gen. Verma and Lt. Gen. Sen were Master General of Ordnance at various relevant periods. Brig. Subramanyam was Director of Vehicles & Engineering and in that capacity was responsible to the Ministry of Defence (as distinguished from Army Headquarters) for technical advice relating to vehicles.

Apart from the points at issue arising from the comments contained in the Report of the Sub-Committee of the Public Accounts Committee, both as regards the negotiation and execution of the contract, we have taken account of the allegations contained in the letter from an informant to the Comptroller and Auditor General, which is referred to in paragraph 41 of that Report. One of the points for decision was whether the spare parts received from the supplying firm were the right ones. We asked a technical team to go into this. The team consisted of Brig. M. K. Rao of the EME's Branch of Master General of Ordnance, Brig. Subramanyam of the Ministry of Defence and Shri N. T. Gopala Iyengar of the Development Wing of the Ministry of Commerce and Industry and their report has helped in providing an independent check on this point.

We thought that the evidence given before the Sub-Committee of the Public Accounts Committee would be of assistance in our enquiry and asked the Ministry of Defence to enquire whether it could be made available to us. We were informed that "according to a communication received from the Lok Sabha Secretariat, the Speaker regretted that in consonance with well established parliamentary practice, a copy of the evidence could not be supplied." Our observations and conclusions are, therefore, based on evidence which was available to us and not on that given before the Sub-Committee of the Public Accounts Committee.

We wish to place on record here our appreciation of the assistance given to us by the witnesses and the members of the technical team mentioned above and by the Ministries of Defence and Works, Housing and Supply.

We also wish to place on record our appreciation of the work done by the Secretary of the Committee, Shri T. R. S. Murthy. He has devoted himself unstintingly to the work involved in the assembling of the records and examining of the evidence and in the drafting of our report.

CHAPTER II

The broad history of the case, which it is unnecessary for us to recapitulate in full, is stated in paragraphs 1 to 19 of the report of the Sub-Committee of the Public Accounts Committee.

The first point requiring investigation, as stated in paragraph 46 of this report, is the justification for negotiating with a single firm without inviting open tenders.

The Defence Ministry claim that, in order to understand the background of the decision to carry on negotiations with a single firm without inviting tenders, it is necessary to take note of the position regarding spares which prevailed at the time. There were large numbers of vehicles of American origin of World War II vintage which it was urgently necessary to put in order and to supply with the appropriate spares for maintenance. The past history of tenders put out by the normal purchasing organisations of Government was such that, apart from delay, the full range of the spares needed was not obtained in a balanced way. It was not possible to keep these vehicles in order or to put them into order unless all the spares were available to the repairing authorities. The production of these vehicles in the originating countries had stopped and that was a handicap to spares being purchased as part of normal market operations. Many of the spares were not available in the market and it would have been necessary for the supplying firm to manufacture them. Procurement of articles, which have to be specially manufactured in response to a comparatively small order, is very different from procurement of articles in the market. Past experience had shown that a certain firm had been the most considerable supplier of spares of this type and when it came forward with the offer to undertake a balanced supply, whether from ready stock or from fresh manufacture, the Ministry felt that considering their urgent need it was desirable to undertake negotiations with this firm, with suitable precautions regarding price fixation, rather than repeat the previous practice of going out for tenders, which past experience had shown to be infructuous. The firm undertook to complete the supplies within twelve months of the signing of the contract.

There is no doubt that the firm in question had been by far the biggest supplier of these spares in the past. It was known to be well-organised for supply of such spares. We have been supplied a statement showing the results of the procurement procedure previously followed and that information justifies the Defence Ministry's claim that the usual procedure would not have enabled these vehicles to be put in order in a reasonable time. In the words of the Ministry of Works, Housing and Supply "since spare parts related to pre-48 models of both types of vehicles, which were no longer in production in USA or Canada and which had been declared obsolete, the India Supply Mission had to rely for supply of spare parts on firms holding war-time surplus stocks. As and when the indents were received, tender enquiries were issued, and items for which offers were re-

ceived from stockists were covered and supplies arranged. It was, however, found that in certain cases the quantities required were not large enough to enable the Director, India Supply Mission, to persuade the firms in USA to have those items specially manufactured. . . . It is no doubt correct that the full range of spares were not being supplied to the Defence Ministry against indents placed on the Director, India Supply Mission, Washington prior to May, 1956. The Ministry of Defence have complained to the Ministry of Works, Housing and Supply in February, 1954 about non-supply of full range of spare parts of both 'A' & 'B' types of motor vehicles." Notes by the Master General of Ordnance recorded in 1954 and 1956 also confirm this position. When supplies were difficult and involved fresh manufacture, one would naturally negotiate with the firm most likely to be able to supply the whole range of spares needed. In the circumstances, the choice of this particular firm to negotiate with was not unreasonable. It was, however, known that this firm had a tendency to quote high prices. Indeed, considering that these spares were not ordinary commodities in the market, it would have been surprising if high prices were not quoted by anyone who possessed extensive supplies of them or had hopes of acquiring them. It was, therefore, important to ensure that the precautions taken regarding prices were adequate. A Negotiating Committee was set up under the orders of the Minister of Defence Organisation with the concurrence of the Minister of Works, Housing and Supply and subsequently of the Minister of Finance. We have gone into this question of prices with the Joint Secy. in the Ministry of Defence who was in charge of this subject and who was the Chairman of the Negotiating Committee. The procedure followed by the Negotiating Committee was as follows:—

The whole purchase was treated as a package purchase but the total price to be paid was built up from estimates in regard to individual items. There were approximately 3,000 items to be dealt with. The prices of these were derived from those quoted in priced vocabularies dating from the War years and were checked against prices paid in the immediate past for such of the items as had been procured through the tender system. There were some items the prices of which could not be estimated from quotations in the priced vocabularies or from previous purchases, and in respect of these an estimate "on visual examination" was obtained from the Depot authorities. On the basis of these estimates, the Negotiating Committee built up an overall estimate of their own. This was compared with the overall quotation given by the firm and comparison was also made of the prices of individual items as estimated by the Negotiating Committee and as quoted by the firm. The firm was pressed to bring its quotations down. After prolonged bargaining, figures were arrived

at, the difference between which and the Negotiating Committee's figures was as follows:—

(Figures in dollars)

Category of Vehicles	Quotations from the firm		Negotiating Committee's figures	Prices Settled after negotiations
	Original	Revised		
'A' Vehicles (Armoured Vehicles)	900,000	700,000	370,000	560,000
'B' Vehicles (Unarmoured Vehicles, like trucks & Jeeps)	1,407,000	1,180,000	915,000	952,000

The reduction from the original quotation made by the firm amounted to about 38% in the case of 'A' vehicles and 32% in the case of 'B' vehicles.* The Ministry of Defence have produced before us information about some competing offers which were received during the period of negotiations and these show that the prices quoted were by and large higher than these agreed to with this firm. There was, of course, in addition the important point that these quotations referred only to a limited number of spares and not for the full supply needed. The Ministry of Defence point out also that at a later stage, when negotiations with this firm had been completed, another American firm entered the field and its final quotation was only 6½% less than that negotiated with the firm chosen.

One need not, however, attach much importance to this quotation as an indicator of proper prices. A subsequent quotation from a rival would tend to be anchored to the earlier quotation. It is not impossible that the 6½% reduction was offered merely to cut out the rival, with possibly some knowledge of what he had quoted, and does not bear any relation to what would have been quoted if tenders had been put out. It is not possible to establish what the market price of these spares was which Government should have paid, for there was no market price for the bulk purchase of balanced spares. As we have stated before, these spares referred to obsolete vehicles and were not in regular current production. As the figures quoted above show, the price finally settled for non-armoured vehicles was not markedly higher than that estimated by the Negotiating Committee. There is a large difference in the case of spares for armoured vehicles. If one assumes that the Negotiating Committee's estimate represented a fair estimate of the prices of these spares, the difference was of the order

*These percentages are different from those quoted in para 8 of the Report of the Sub-Committee of the public Accounts Committee. The explanation is that some items were deleted during the negotiations. For comparison the figures should be those applicable to the items ultimately settled.

of \$1,90,000. It is possible to argue that at the worst, this would be the limit of the extra price paid for ensuring supplies in time. It is not logical, of course, to judge in retrospect, but a subsequent deal for the purchase of these spare parts can afford a test of the prices settled by the Negotiating Committee. In the middle of 1958, following further examination of requirements, indents were placed for further purchases of certain spares for these vehicles. The estimated price for the spares wanted, according to the figures agreed to by the Negotiating Committee for the contract which has been referred to us, was 100,000 dollars for 'A' spares and 137,000 dollars for 'B' spares, total 237,000 dollars. Quotations were invited by the India Supply Mission, Washington, on open tender and taking the lowest quotations of various tenders, the total came to 235,000 dollars. This would appear to be an indication that the prices settled by the Negotiating Committee were not unreasonable, if judged by the open tender test. There is another indication to be obtained from this later transaction. The firm with which the contract under examination was made quoted for this later deal also and though its quotations were high to begin with, after negotiations it reduced them to 200,000 dollars. This may be compared with the figure of 237,000 dollars quoted above. The quantities now being negotiated for were much smaller, both in range and quantity, than those negotiated for earlier and the figures are naturally only partially comparable, but they would appear to be some indication of the margins of reduction possible in a deal of this kind, if the buyer could afford to wait.

The justifiability of negotiating with a single party depends on the merits of the argument which the Negotiating Committee put up when submitting the case to the Minister. In the words of the Negotiating Committee "it would be worthwhile paying this higher cost (higher than that estimated by the Committee) due to the following factors:—

- (a) In many cases we have no realistic prices and our estimates were only rough guesses admittedly on the low side. Even our catalogue prices were as old as 1942 since when there has been a considerable appreciation in prices;
- (b) Non-availability of these items of spares from any other sources;
- (c) The firm's guarantee to supply 100% range of our requirements within a period of one year;
- (d) If we get these spares, it will help us to repair and put on the road a very considerable number of tanks and armoured cars/carriers which would otherwise have to be

- scrapped. It may be pointed out here that if we have to purchase new tanks it will cost us £50,000 each; and
- (e) Certain other spares which can only be used if these spares are procured will become surplus, the disposal value of which will not be more than 10% of book value".

The Negotiating Committee also pointed out in the note referred to above that (this is about 'B' vehicles only) "the total value of spares according to the firm's latest quotation is about Rs. 85,70,000 after adding charges on account of freight, customs duty etc., to the f.o.b. rates quoted by him. This in turn works out to about Rs. 775 per vehicles. The estimated cost of spares required for overhauling one standard vehicle unit as per 'Strip and Rebuild' standards is Rs. 4,480 and the life of an overhauled vehicle is estimated to be between 3 to 4 years. Taking the cost of a new 3-ton 4 x 4 truck as Rs. 35,000 roughly (including the cost of the body), the cost of spares we propose to acquire from this firm amounts to about 2.2% of the cost of a new vehicle. If we do not get these spares from this firm, we will not be able to bring our vehicles to a fit condition and they will have to be scrapped and new vehicles purchased. We will also have to discard the spares which we hold in our Depots and which are unbalanced and cannot be utilised unless the other spares are obtained. The expenditure involved in the purchase of new vehicles to replace all these old war-time vehicles will be colossal. The Committee, therefore, feel that it would be advisable to purchase the 'B' vehicles spares required by us from this firm on the basis of the terms now negotiated".

As already stated, wherever possible the Negotiating Committee used the quotations already available with the India Supply Mission, Washington, for the purpose of settling the price of individual items. They also took the precaution of putting in a clause whereby (in case some previous quotation had not been considered by the Delhi Committee or there had been a mistake) prices could be revised down by the India Supply Mission even after settlement by the Delhi Negotiating Committee. There was a clause in the letter of intent "that in respect of difference in prices quoted by the firm, to India Supply Mission, Washington, and those quoted to or negotiated with the Government of India in Delhi, the lesser of the two prices, less the discount will apply both in respect of items for which orders were to be placed in terms of the letter of intent and also in respect of items already contracted with the firm by India Supply Mission, Washington. Furthermore, the prices of 147 items were reduced when, after the issue of the letter of intent, a competing firm also made quotations.

The effect of these reductions was, of course, only marginal. The point remains: granted that in order to secure the full range of spares in time, negotiation with a single firm was the best course,

were there any other precautions which the Negotiating Committee should have taken in regard to prices? A suggestion was made that the India supply Mission, Washington, should advertise or address firms for quotations for all these spares. The Ministry of Defence claim that "the list priced by the Master General of Ordnance could be taken as a fair guide for negotiating a deal with the firm and it seems very doubtful whether any attempt to obtain quotations for all the items needed by the Army would have proved successful, particularly when indents for most of the items had already been outstanding with the India Supply Mission, Washington". The practicability of obtaining quotations for the whole list has to be judged against the background of the previous results of procurement through the India Supply Mission.

In the context of prices, we have looked into the point made in an informant's letter, which is referred to in paragraph 41 of the Report of the Sub-Committee of the Public Accounts Committee, that certain articles which could have been indigenously produced had been contracted for at exorbitant prices and example was that of canvas bags. We have attempted to find out what the procedure was regarding checking of requirements with the object of eliminating those which could be indigenously produced or procured. The Director of Vehicles and Engineering, who is the technical adviser of the Ministry of Defence in these matters, stated before us that his responsibility was for giving 'technical advice' and questions such as whether canvas bags could be indigenously produced were hardly technical matters needing reference to him. This is supported by a letter dated April 4, 1957, from the Deputy Director of Ordnance Services to a Deputy Secretary in the Ministry of Defence explicitly stating that all items which could be indigenously manufactured or procured had been excluded from the indents and that these had been compiled after thorough scrutiny by the Director of Mechanical Engineering and the Controller General of Defence Production. The responsibility for eliminating indigenously producible or procurable articles of this nature was, therefore, that of the relevant organisations of the Master General of Ordnance. On the material before us, it is not possible to say how many of such articles slipped into the indents. The evidence of the Director of Vehicles and Engineering did not answer the point in full. The informant, who, from his letter appears to be in the know of the whole deal, has quoted only six items, the price of which comes to \$8,000. In mitigation, it is pointed out that there was no certain means of deciding which of such articles could be indigenously produced. It is one thing to identify articles which are in regular production in the country. It is another to try to eliminate from the list those which are not in regular production and to procure which one would have to make contracts with a large num-

ber of small jobber firms. There were some three thousand items to be purchased and it is possible that given time and effort, some more items could have been deleted from the final list, but a firm judgment is not possible in the absence of an independent scrutiny of the list. We have asked a technical group to make another Scrutiny.

When the question of negotiating with this firm was under consideration, a point was made that the status of this firm should be enquired into so that there may be assurance that the contract would in fact be fulfilled and that Government would not run into financial difficulties with the firm. We have already stated that the status of this firm was known. In any case the payment terms negotiated were such that financial risk to Government was guarded against. At the time of the issue of the letter of intent, the arrangement was that 95 per cent of the payment would be made at the time of shipment, the balance would be payable only on the completion of the entire supplies. There was also a bank guarantee for one hundred thousand Canadian dollars. Government reserved to itself the liberty to enforce the guarantee in case of non-performance or breach of conditions of the contract and the decision of Government in this regard would have been final and conclusive. These terms were improved upon at the time of the signing of the contract. The final terms were that only 80 per cent would be paid on each shipment of balanced spares, and the rest would be payable after two years. We think that on this point, the precautions were adequate.

The deal, as originally conceived, consisted of two operations:—

- (i) The purchase of spares needed by the Army; and
- (ii) The disposal of surplus spares of various kinds held by the Army.

We shall deal later with the history of the second operation but mention should be made of the proposal at this stage in the context of the justifiability of the decision to procure spares and sell surpluses through a negotiated deal with a single firm rather than through tenders. The Secretary of the Ministry of Works, Housing and Supply has stated before us that his Ministry's agreement to a negotiated deal was based on the assumption that the transaction was in essence a barter deal. As events turned out, the proposal to sell surpluses was dropped. Whatever the merits of the subsequent action may be, we have to examine what effect the linking of sales of surpluses with procurement of spares had on the merits of the proposal to purchase through negotiations. In the earlier stages, the Defence Ministry themselves put out the second operation as an added argument for purchasing spares through negotiations. In the letter of Intent issued to the firm after the conclusion of nego-

tiations, it was clearly stipulated that the spares would be purchased on the basis of the lists of prices as negotiated subject to an overall discount of 20 per cent and that the sale of surpluses would be at \$110 per ton. The delinking of the sale of surpluses to the firm could not have had any effect on the price to be paid for purchases as purchase prices had been finalised before the decision was taken to drop the sale of surpluses to the firm. Although the word "barter" occurs in the notings of the Defence Ministry, it appears from the context that the word was used not in its literal sense but rather as indicating that the negotiations covered both purchase and sale. In their evidence before us, the representatives of the Ministry of Defence, the Master General of Ordnance and the Financial Adviser stated that, while agreeing to the negotiations, they did not regard the sale of surpluses as a necessary concomitant of the purchase transaction. It was only an additional consideration for negotiating with the firm. We agree with this view. The effect of a deal for the sale of unwanted surpluses could have been that additional foreign exchange would have become available or that burdensome surpluses would have been got rid of. In our view, the case for the concurrent disposal of unwanted surpluses was of only marginal importance in the context of prices to be paid for purchase of spares. The real test was whether by doing a negotiated deal, Government would be able to obtain the full range of supplies and obtain them in time and at reasonable prices.

Mention has been made above of the precautions adopted by the Negotiating Committee to settle reasonable prices. A suggestion was made in this connection by the Financial Adviser that a combined list of spares both to be purchased and to be sold should be supplied to the firm with which negotiations were proposed to be carried on in order to prevent the firm "from taking undue advantage by quoting low prices for surpluses and high prices for requirements". This point is mentioned in paragraph 24 of the Report of the Sub-Committee of the Public Accounts Committee. The argument behind this suggestion apparently was that if the firm did not know what was to be purchased and what was to be sold, it would be careful to avoid quoting unreasonable prices. As a matter of fact, this suggestion, even if desirable, could not have been given effect to, because the firm had already been given a tentative list of requirements. It is a matter for speculation whether this unusual device would have been fruitful. Governments do not normally put out dummy requirements and if a combined list had been put out, Government would have had to make it clear that it was a combined list both of requirements and surpluses to be sold. The firm might well have asked that Government should divide their

proposals to enable them to quote, particularly when it could have used the argument that the requirements covered many articles which had to be specially manufactured.

Two incidental points may be disposed of at this stage. One is whether it was right for the procurement to be handled by a specially set up Negotiating Committee in Delhi rather than by the usual purchasing agencies abroad. We have no doubt that once it was decided that these purchases should be settled through negotiations rather than through tenders it was prudent to handle them through the Negotiating Committee, which included representatives of the Ministry of Defence, the Master General of Ordnance, the Ministry of Works, Housing and Supply, and the Ministry of Finance. As we shall see later, there was a great deal of uncertainty over items to be purchased. To negotiate in Delhi for a fluid demand like this was the wiser course. It would not have been possible to strengthen the India Supply Mission Organisation at Washington with all the officers needed to argue about estimates of prices "on visual examination" of the large numbers of spares needed.

The other point is that made in paragraphs 20 and 21 of the Report of the Sub-Committee of the Public Accounts Committee, in which reference is made to certain recommendations of the Public Accounts Committee which were accepted by Government. The first of these recommendations [para 34 of the Public Accounts Committee (Ninth) Report, 1953-54] referred to the action of an Air Adviser in London, who had suggested the name of a particular firm from whom purchases might be made. The Committee expressed "their disapproval of the action of the Air Adviser in having gone out of his way to suggest the name of a particular firm which was not even on the list of the approved contractors". The suggestion was made to the Director General, India Store Department, London. In the second case [para 50 of the Public Accounts Committee (Fifteenth) Report, 1954-55] an officer deputed by Government for negotiating certain purchases in the USA made independent negotiations with a firm without consulting the India Supply Mission, Washington. The Public Accounts Committee desired that "whenever an officer was sent abroad for procuring supplies, he should follow the normal procedure of associating with the Head of the Supply Mission in that country before starting any direct negotiations with the manufacturers or suppliers, there". The Defence Ministry have pointed out that the recommendations in these two cases are not on all fours with the present case. In the present case, there was no question of the Master General of Ordnance carrying on any direct negotiations himself. He did indeed suggest that negotiations should be carried on with a particular firm, but the recommendation was made not the indenting authority but to Gov-

ernment itself. The principle behind the point made in the Report of the Sub-Committee of the Public Accounts Committee is that dealings between indenting officials and potential suppliers should be avoided. The Defence Ministry have pointed out that when one has to secure difficult supplies, contact between the users and the potential suppliers is often helpful. Such contact assists on the one hand in the location of possible sources of supply and on the other enables such sources to have information about requirements. Care has of course to be exercised as to the levels at which this collecting and giving of information should take place. For subordinate officials to make tendentious suggestion about individual dealers is undesirable. In this case, however, the Master General of Ordnance himself discussed the possibilities of procuring difficult items of equipment with a potential supplier and made a report to Government and not to the purchasing authority.

On the point of substance, we feel that in the circumstances of this case, it would be difficult to arrive at precise figures of prices for the purchase of these difficult spares. Figures showing reductions from the original quotations of the supplying firm are not of any real importance, as the original quotations were known to be high. Conversion of war-time prices into current prices also could have been only an indication and no more for these items had ceased to be in current production. On the other hand, they must have acquired an artificial scarcity value. The price paid for items already procured was a good indication, but that helped only in a comparatively small percentage of the total items. Estimates of price on "visual examination" were no more than rough guesses. In these circumstances, the Negotiating Committee could only have bargained to get the firm's prices down as much as they could. They were not in a position (except in regard to recently purchased articles) to check the prices against figures which would have stood the test of the "market rate". But they did succeed in obtaining substantial reductions and the final prices were not on an overall view, out of line with their own estimates. The whole transaction has to be judged against the background of Government's need. One cannot take much risk with the needs of defence. The firm was known to be a well-established one, which had been the best supplier of these scarce spares in the past. It undertook to make a complete supply and in a reasonable time. Adequate precaution was taken to ensure this and the supplies contracted for were, in point of fact, made in full and in time. There was inherent difficulty in determining "market prices" but spares represented only a small proportion of the cost of a whole vehicle. In the light of this we do not think that any further action is necessary to fix responsibility in respect of this part of the case.

CHAPTER III

On the conclusion of the negotiations, which covered items and quantities, prices, the delivery schedule and guarantee for performance, a Letter of Intent was issued by the Ministry of Defence to the firm. It was intended that while the consequent contract for purchase of spares would be executed by the India Supply Mission at Washington the contract for the sale of surpluses to the firm would be executed in Delhi. We shall deal with the latter part of the transaction in the next chapter. This chapter will deal with the performance of the contract.

Lists of the prices as negotiated were appended to the Letter of Intent. It was agreed that there would be an over-all discount of 20 per cent on these prices. The India Supply Mission, Washington, was to specify, when placing the contract, the final items and quantities, prices and part numbers and other particulars. There was also the following provision for amending the lists:—

“The Government of India further reserves the right to delete, reduce or increase quantities demanded against any item/items or reinstate any of the item(s) now deleted within three months from the date of placing of the formal contract by the India Supply Mission. Washington provided that the Government shall furnish along with the formal contract, a list of items that may be deleted or reduced in quantity pursuant to the liberty reserved as aforesaid”.

There was a further provision in the Letter of Intent that all the requirements ordered were to be supplied within a year of the formal contract. There was a bank guarantee of 1,00,000 dollars. The clause regarding payment has been quoted in the previous chapter. As regards inspection, it was stipulated that in case Government decided not to arrange inspection at the premises of the firm before shipment, payment would be made on the firm furnishing a certificate that the stores shipped tallied with what the invoices and packing lists said. In case of “discrepancy”, shortage or defective stores, the firm was to arrange free replacement, provided the claim was notified to it within six months, (this was later raised

to twelve months). Pending such replacement, the firm was to credit the cost of such "discrepancies", shortages or defective stores to Government.

In June 1957, the Master General of Ordnance sent the lists of requirements for both 'A' and 'B' vehicles to the India Supply Mission, Washington. From June to December 1957, additions and reductions and cancellations were notified to the India Supply Mission, Washington. The contract was finalised on December 18, 1957. The terms and conditions envisaged were generally those contained in the Letter of Intent, supplemented and modified by certain Special Conditions details of the more important of which are given below. Lists of spares parts for 'A' and 'B' vehicles to be purchased from the firm brought uptodate giving the agreed prices to be charged were attached as schedules to the contract.

One of these special conditions was that all deliveries were to be completed within 12 months (this was later extended to 15 months). It was further stipulated that "each partial shipment will constitute balanced supply so as to provide a complete range of spares proportionately balanced in quantity in respect of each item for the applicable vehicle section e.g. Ford Section, Chevrolet Section and so on". The payment provisions contained in the Letter of Intent were also further modified as follows:—

"80 per cent of the relevant invoices shall be paid by us as soon as you have completed the shipment of each balanced supply of spares, the respective balance of 20 per cent shall be paid to you immediately after the expiration of two years from each such initial payment. . . . In the case of quantity of items shipped in excess of balanced supply as defined in para 2 above, even 80 per cent payment for these excess quantities will be deferred until the supply of such items is balanced".

The firm was also required to supply within 90 days from the date of the contract a statement indicating which of the spare parts could be supplied from stock and which from new manufacture. They were also to give particulars of the manufacturers and to furnish written warranties from them. It was warranted by the firm that all stores supplied under this contract would be new, unused and in first class operating condition and free of any deterioration as a result of storage or otherwise.

All invoices, packing lists and other documents were to bear the same part numbers and nomenclature as in the schedules. In case any part was substituted by an equivalent interchangeable part, both the original part numbers and the substitute part numbers as well as the original nomenclature and the substitute nomenclature were to be included in all the connected documents. Proof of interchangeability was also to be furnished in such cases.

The responsibility for ensuring compliance with those terms and conditions rested on the India Supply Mission, Washington, and the Depot authorities. The latter were required to inspect the stores on receipt and to raise, within the stipulated period, "discrepancies" when the stores supplied were incorrect, damaged or unsuitable. The arrangement for inspection was that all the packages were checked for quantities and condition by the Depot authorities and the technical staff of the Director of Vehicles and Engineering checked them for technical correctness, suitability and serviceability.

Army Headquarters have stated that the stores accepted were new and unused and when 'in lieu' items were accepted, these were fully interchangeable with those originally scheduled. Supplies have been made in full except for a few items which had been invoiced but not yet received and some items in regard to which "discrepancies" had been raised. During inspection, a number of "discrepancies" had been raised. The Director of Ordnance Services has informed us that nearly all these have either been settled or an agreement has been made as to how they would be settled. According to him, the position on the 15th December 1960, was that the number of items indented for but not received was 6 and there were only 14 items relating to 'B' vehicles and 3 relating to 'A' vehicles, in the case of which "discrepancy" had been raised but the mode of settlement was not settled. An analysis furnished by the Director of Ordnance Services of the outstanding "discrepancies" showing the position on 1st December, 1960 is given below:—

Discrepancies where mode of settlement has been agreed to.	\$ 32,122.94
Amount to be recovered on account of samples, freightage departmental charges and disparities between prices of the contract and invoices.	\$ 5,721.89
Discrepancies yet to be settled.	<u>\$12,140.62</u>
Total	<u>\$ 49,985.45</u>

From his experience of other transactions, the Director of Ordnance Services considered this a satisfactory performance. Considering that the deal related to about 3,000 items of spare parts of a total gross value of over \$1,260,000, this assessment is not unreasonable.

While one may accept that from the point of view of supplies, the contract was satisfactorily complied with, there remain several questions of procedure, which *prima facie* need an answer. These are dealt with in the succeeding paragraphs, which will also cover the allegations of substance relating to this contract contained in the letter of the informant referred to in paragraph 41 of the P.A.C. Sub-Committee's report.

In the second paragraph of this chapter, we have quoted a provision in the letter of Intent which gave Government the right (within a period of three months) to add to or delete from the list of requirements given to the firm at that time, provided the items in regard to which the option to delete was exerciseable were specified at the time of the signing of the contract. In fact no such items were specified at the time of the signing of the contract and this gives rise to the criticism that the Government were deprived of the option which was reserved to them under the Letter of Intent. The explanation given for the omission to notify such a list is that there was a specific provision included in the contract [item clause (c) of the Special Conditions] which enabled Government to reinstate any items included in the original list. This took care of additions which might become necessary. Regarding possible deletions, the explanation is that the India Supply Mission achieved the object by deleting all the items about the need for which the Master General of Ordnance had expressed doubt. This deletion when taken with the condition regarding reinstatement referred to above achieved the same object as the supply of a list of possible deletions or reductions. This argument is valid provided one accepts that the list of doubtful items supplied to the Indian Supply Mission was as comprehensive as it should have been. We have been informed that this list included only those items whose procurement through indigenous sources was under consideration. Considering that within a few months of the signing of the contract the list of requirements was sought to be drastically reduced, we hesitate to accept the argument that the list of doubtful items was sufficiently comprehensive. It would appear that on the basis of past experience, it should have been possible to pick out items the demand for which was likely to change. On behalf of the Master General of Ordnance it is stated that apart from eliminating the comparatively few items about which it was not certain that

they were unprocurable within the country, his staff had no means of judging what items to label as doubtful. Preparation of requirements was mainly a large exercise in arithmetic. Requirements were calculated after taking a tally of what was in stock and of rates of wastage and scales for repair as applied to specified target numbers of vehicles. There were specific "provisioning criteria" to be applied in preparing the indents. Apart from these criteria, it was not possible it is argued, to determine at any particular stage what was a firm requirement and what was doubtful. Judgment on this point therefore, depends on the merits of the prevailing provisioning procedure. We shall deal with the provisioning arrangements in a subsequent chapter.

The next issue is regarding the supply of "balanced spares". In the previous chapter we have referred to the importance rightly attached by the Ministry of Defence to the procurement of the full range of spares within a reasonable time. Before the contract was finalised, this provision was further refined so as to lay down that each shipment should contain "balanced quantities" of spares. Payment of 20% was to be held back for two years to ensure compliance with "balanced shipments" and even 80% could be held back in respect of quantities shipped in excess of "balanced supplies" till the whole supply became "balanced". The procedure followed by the India Supply Mission to enforce this clause was to require a certificate from the firm as to whether a particular shipment was "balanced" or not. The India Supply Mission did not itself verify whether the firm's certificates were correct. According to them it was not possible to make the required check in detail. They were advised by the Ministry of Defence that even "unbalanced" shipments offered by the firm should be accepted. The exact instructions of the Ministry of Defence on this point were "there is apparently some confusion about our insistence on balanced shipments. We still want balanced shipments but in case the firm is unable to comply with this requirement in individual shipments, 80% payment will be deferred till such time as they met this requirement in subsequent shipments. No inspection need be carried out before shipment and stores will be accepted for shipment on a certificate rendered by the firm that they are in compliance with particulars contained in invoices and packing lists." The explanation of the Ministry of Defence for these instructions is that while they did need "balanced supplies", it was not necessary to reject spares offered for a particular shipment merely because they were not completely "balanced". The "balanced shipment" clause taken with the final payment provision was on the one hand a financial safeguard to ensure that payment was not made before

“balancing” and, on the other, a deterrent against haphazard supplies. It was also a safeguard against the possibility that the firm would level the contract uncompleted by leaving out difficult or unprofitable items. It provided a substantial financial incentive to the firm to supply the full range of spares.

The Defence Ministry has furnished us with the results of some detailed analyses made by them regarding the balanced shipment clause. As regards ‘B’ vehicles, the spares for Ford vehicles were delivered by the firm under 16 invoices. Eight of these related to items which were required urgently and hence under the terms of the contract were not required to be balanced before making 80% payment. The total of these eight invoices amounts to \$17,286.16. The bulk of the stores were delivered under the remaining eight invoices and the relevant particulars are given below:—

Invoice No.	Date	Value	Date on which 80% payment was made	Date of shipment
E 5148	28.1.59	29,459.98	16.4.59	10.3.59
E 5149	28.1.59	11,751.17	16.4.59	10.3.59
E 5152	29.1.59	3,602.76	16.4.59	10.3.59
E 5153	29.1.59	506.52	16.4.59	10.3.59
E 5171	2.2.59	54,250.69	30.3.59	24.2.59
E 5172	2.2.59	22,443.61	30.3.59	24.2.59
E 5261	5.3.59	38,358.11	30.3.59	26.2.59
E 5365	5.3.59	99,322.17	30.3.59	26.2.59
		2,59,695.01		

Payment for the above-mentioned eight invoices of the total value of \$2,59,695.01 was made by the India Supply Mission only after all the spares applicable to Ford vehicles had been shipped. Similarly regarding ‘A’ vehicle spares (namely Sherman Mk.3) after allowing for urgent items which were shippable on an “unbalanced basis” as provided for in the contract the other items were delivered by the firm simultaneously in December 1958 excepting three items valued at \$7,400 approximately. The total value of items in respect of Sherman Mk. 3 was \$46,357.

From this analysis it would appear that the supplies were by and large “balanced”, if not in each shipment, in the course of shipments covering two or three months. Where they were not “balanced”, payment was held back as provided for in the Special

Conditions of the contract. It seems to us that the "balanced shipment" clause was reasonably effective in achieving its object, viz., that under the pressure of financial consequences, the spares should reach us in a "balanced" manner within a reasonable time.

Mention may be made at this stage of the evidence given by the Director of Ordnance Services before the PAC Sub-Committee (para 37 of their report) that in fact no shipment was "balanced". In examination before us this officer stated that when he said before the Sub-Committee of the Public Accounts Committee that not a single shipment conformed to the condition of "balanced shipment" he thought that a shipment was "unbalanced" if it included any incorrect stores, damaged stores below specification and the like—that is to say, stores subject to the "discrepancy" raising procedure. "Discrepancies" were raised with reference to invoices and what he meant to convey was that no shipment contained stores regarding which "discrepancies" were not raised. It need hardly be pointed out that from the angle of obtaining supplies in a "balanced" way to enable maintenance and repairs to be carried on properly, the fact that such "discrepancies" were being raised regarding a small proportion of the supplies is not of significance. Evidence has been given before us that the bulk of the "discrepancies" have been put right. It is possible (as alleged by the informant mentioned earlier) that the firm gained time by deliberately shipping incorrect or deficient spares when it had difficulty in supplying the proper ones. We have no means of testing this for individual items. But as has been shown above, the total "discrepancies" were not large when compared with the size of the contract and in any case, it is not easy to see what better course could have been adopted to ensure timely supplies. A financial deterrent was a good safeguard.

The next point is regarding certain identical spares which appeared in two places in the contract and were priced differently. We have attempted to determine whose responsibility it was to see that these items were not duplicated and quoted at different prices. The Director of the Indian Supply Mission claims that it was the duty of the Army's technical officers who compiled the list to have ensured that there was no duplication. In the opinion of the Ministry of Defence it was the responsibility of the India Supply Mission to ensure that correct prices were paid, as the contract and the payment for it was handled by that organisation. It is true that in a normal indent for the purchase of stores from abroad the responsibility for ensuring correct pricing would rest on the India Supply Mission, but in this case these elaborate schedules were prepared by the Depots under the authority of the Master General of Ordnance. There was a first list and then an additional list. Both contained some common items with different price tags. Both lists

were sent at the same time to the India Supply Mission. A careful revision at either end could have eliminated the duplication. We think it should be the responsibility both of the authorities initiating the indent and of the India Supply Mission to scrutinise the lists with a view to avoid such duplication. The Ministry of Defence have calculated that overpayment of about \$10,000 was made on account of this. This amount is proposed to be deducted from what is still due to the firm.

The next question is about the allegation made by the informant referred to above that wrong parts were accepted. We thought that this matter should be gone into by appropriate technical experts and arranged for the constitution of a Technical Team consisting of representative of the Directorate of Electrical & Mechanical Engineering and the Directorate of Vehicles & Engineering and an officer of the Development Wing of the Ministry of Commerce & Industry. The terms of reference to this Technical Team and its report are enclosed at Appendix 'A'. Briefly, the Team was required to examine the spare parts referred to in some of the allegations regarding this contract contained in the informant's letter and to report whether the stores received were the stores indented and if not, whether the items which were accepted fully conformed to the required specifications and in case where substitutes were accepted, whether they were fully interchangeable. The Team was also to carry out a similar sample test for other items selected at random. From the report of the Team it appears that the parts accepted were good and proper and where substitutes were accepted, they were fully interchangeable and met the requirements of the Services. The team has also stated that the spares examined were new and un-used and were generally satisfactory. We have nothing to add to the report of the Technical Team on this aspect of the performance of the contract.

The order placed on the firm included an item known as "Bendix joints". The firm supplied "Rzeppa joints" as an 'in-lieu' item. The Ordnance Depots carried a large surplus of the latter and though at first objection was raised to the supply of "Rzeppa joints" as not being properly substitutable for "Bendix joints", on fuller investigation their substitutability was accepted. The Technical Team also has confirmed that the two joints are properly substitutable. In the result, Government have received "Rzeppa joints" of which they already had a surplus.

Two points have to be looked into in this context, *viz.* whether the provision in the contract regarding supply of 'in-lieu' parts was proper and whether it was not possible for the technical authorities to anticipate that "Bendix joints" which they were ordering were substitutable by "Rzeppa joints" of which they had a stock.

On the first question, viz. the advisability of a provision for substitution, the Ministry of Works, Housing & Supply claim that such a provision is a normal feature of contracts placed by the India Supply Mission, particularly those for supply of spares relating to obsolete equipment. Past experience had shown that if 'in-lieu' items were not permitted to be tendered, the supplier would usually ask for relaxation which would have to be given in the interests of procurement, and the only result would be delay. Considering the past difficulty in securing these spares, the provision for supplying interchangeable parts 'in-lieu' appears to be reasonable. The real failure lies on the part of the technical authorities in not establishing the interchangeability of these two joints before the indent was placed and we suggest that the arrangements in regard to the collection of such technical information should be strengthened.

We have also examined an allegation contained in the letter from the informant on the subject of Government not claiming liquidated damages for delay in supplies. The allegation is that no penalty for delayed delivery was imposed on the firm, nor were efforts made to purchase undelivered items elsewhere at the risk and expense of the supplier. There was a provision in the contract to enable this to be done. The allegation refers to various contracts with this firm and not only the one we are investigating. In the case of this contract, it does not appear that the India Supply Mission found it necessary to take action regarding delay in supply. They have stated that firms in America do not generally agree to the 'liquidated damages' clause and the usual practice is not to enforce 'liquidated damages'. Also as the firm in question was the main source of supply for these requirements, there was not much scope for attempting 'risk' purchases from other sources. On these facts, it is not possible for us to say that the India Supply Mission's judgment in not claiming damages for delay or in not attempting 'risk' purchases was necessarily to the prejudice of Government's interests.

Another allegation was in regard to what may be called "refer India" items. The firm represented to the India Supply Mission that in the case of some of the items the quotations given by them to the Negotiating Committee had been given in error and should be revised upwards. Such items were called "refer India" items and the India Supply Mission agreed to convey the firm's representation to the Ministry of Defence for consideration. The firm agreed to abide by the decision of the Ministry. The informant has alleged that instead of insisting on the original quotation and enforcing their supply at the agreed rates, some of them were deleted from the contract and the India Supply Mission arranged for their procurement on separate contracts at higher rates. The Director of the

India Supply Mission refutes the allegation that these items were later procured at higher prices. We have not so far been able to obtain a clear picture regarding these "refer India" items and do not wish to delay this report for investigation of this particular point. We are arranging for further enquiries to establish which items were 'referred' and the price paid for them and, in case of cancellation, whether any purchases were made subsequently and if so at what prices.

Clause 7 of the Special Conditions attached to the contract reads as follows:—

"Within 90 days from the date hereof you shall supply us with a statement, in writing, indicating which of the scheduled items will be supplied by you from stock and which, by way of new manufacture. Such statement shall be accompanied by a list identifying the name and address of the manufacturer of each of the items which are to be manufactured. In respect of all items that are to be newly manufactured, you shall provide us with a written warranty from each manufacturer, addressed to India Supply Mission, that the material will be delivered in sufficient time to meet the delivery provisions of this contract".

We have been informed by the Ministry of Works, Housing & Supply that the provisions of this clause can be said to have been technically fulfilled as the firm had furnished warranties from 8 firms covering 20 items. But this was not full compliance with the contract as about half of the total items were claimed to be supplied from fresh manufacture. The responsibility for supplying the particulars and warranties for these was that of the firm. The failure of the firm to supply these particulars should, however, have been taken up by the India Supply Mission. We have been informed by the Works, Housing & Supply Ministry that they have already brought to the notice of the Director, India Supply Mission, that he should have seen to it that the particulars in question were supplied by the firm. The main provision to ensure the proper performance of the contract was the arrangement for 100% check and inspection at the Receiving Depots. Any discrepancies raised within twelve months of the date of supply were to be made good by the firm free of cost. In view of this, the failure to supply the paper particulars and the warranties did not affect the final performance of the contract. As stated elsewhere, spares were in fact received in good condition and the discrepancies raised were duly settled to the satisfaction of the Depots.

CHAPTER IV

In chapter II, we mentioned that as originally conceived, the deal consisted of two transactions. The first of these regarding purchase of spares has been dealt with. We shall now discuss the proposal for the disposal of surplus spares held by the Army. When this deal started, it was assumed that there were large stocks of useless spares, which it would be desirable to clear quickly. Early riddance of such stocks was one of the arguments for the proposed deal, but within a few months the proposal for the sale of spares was completely dropped. In order to understand how this came about, it is necessary to go through the recorded views on the files.

On April 24, 1956, the Master General of Ordnance sent a note to the Ministry of Defence informing them of the offer made by the firm to supply spares and to purchase surplus spares. While the proposal was being considered in the Ministry of Defence and in the Ministry of Works, Housing and Supply and by the Financial Advisers, a suggestion was made that a list of surplus spares should be prepared. On this the Master General of Ordnance noted on August 30, 1956 that it was not possible for him to work out the surpluses in detail at that stage. Government had not come to a policy decision regarding what war-time vehicles were to be kept in service. If a decision could be taken on this point, the lists of surpluses could be prepared in four or five months. He suggested meanwhile that a start could be made on certain assumptions (which need not be quoted here) and by adding a margin of safety. In the case of certain stores, a test suggested was that items of which there had been no movement in the previous ten years might be considered as surplus. On September 13, 1956, the Deputy Financial Adviser suggested certain modifications in the procedure for estimating surpluses. These were accepted by the Master General of Ordnance and certain tentative lists intended to be only a guide for commencing negotiations were sent to the firm. The whole case was again put up to the Minister of Defence Organisation, who fully approved of the action taken. On February 24, 1957 a note was submitted to the Minister indicating the prices which had been fetched for these spares by disposal through the Director General of Supplies and Disposals. On March 21, 1957, the Negotiating Committee submitted to the Minister recommendations regarding the sale of surpluses. The surpluses were to be disposed

of at certain prices per ton and it was stated that the sale would not only bring in foreign exchange but also relieve the depots which were required for storing other valuable and more important stores. It was pointed out that there was no market for 'A' vehicle spares in the country. After approval had been obtained from the Minister and the Ministry of Finance, a Letter of Intent was issued on May 4, 1957. It will be observed that up to this stage there were no doubts in anybody's mind about the desirability of disposing of these stores.

In June 1957, the Ministry of Defence started having second thoughts about two points. The first was about obtaining "balanced shipment" so that Government may not be saddled with spares which would be useless in the absence of other "balancing spares". This aspect of the matter has been examined in the previous chapter. The second point was regarding surpluses. The two points were frequently dealt with together, as they were both included in the same Letter of Intent. On the 24th June 1957, Additional Secretary, Ministry of Defence minuted that the sale of spares to the firm should not be finalised without further examination. Legal advice was sought on two points, viz. whether the Letter of Intent was binding and whether in the event of the firm refusing to accept the proposed "balanced shipment" clause, Government would still be bound by the Letter of Intent in as far as the sale of surpluses to the firm was concerned. The legal advice given was that the agreement for the sale of stores had not ripened into a contract at that stage, and that the two transactions were separate and distinct contracts.

About this time a representative of a Delhi firm acting on behalf of a U.K. firm made enquiries about these disposals. Also, a specific offer at higher prices was received from a firm in India. Before coming to a final decision as to whether these surpluses should be disposed of by Public offers, the Minister wanted to make sure that no contractual obligations would be violated if the deal with the firm regarding sale of surpluses was called off. The legal advice was that though a suit for performance could be resisted, Government should treat the agreement with the firm as a completed contract. Meanwhile, a representative of the firm had come to India and had been pressing for early completion of the contract. The firm also opened a letter of credit. But on September 4, 1957, apparently as the result of discussions with the Ministry, the firm wrote to them saying that "in order to expedite the contract to supply spares, the proposal to purchase surplus spares may be dropped with the exception of negligible quantity of approximately 100

tons or so of a selected item to which we are committed. We will be prepared to negotiate the purchase of surpluses at a future date". This left Government liberty of action regarding the disposal of surpluses. In September 1957, it was decided with the approval of the Deputy Minister, that the surpluses should be declared to the Director General of Supplies and Disposals. This decision marked a reversal of the policy to dispose of these surpluses at a price negotiated with a single firm. It does not appear to us that the later decision was necessarily a bad one. The case is not comparable with that of purchase of spares. These spares were urgently needed. The disposal of surpluses could wait. The Additional Secretary, Ministry of Defence has stated that at the back of his mind there was all along the feeling that these surplus spares might be needed by us. The references he made to the Ministry of Law, however, do not give indication of this feeling. Whatever his unrecorded thoughts might have been, it is not necessary to go behind the recorded notes. The justification for the decision to sell by open tender rests on the claim that better prices could have been obtained by this method and that the deal would have been more defensible in the public eye. Whether better prices would really have been obtained, it is difficult to judge now, for in the event there was a still later decision that these surpluses (and indeed any other surpluses with the Army) should not be disposed of at all. We shall examine how this change in policy came about, but there is no indication that any of these changes adversely affected the main transaction for the purchase of urgently needed spares.

As stated above, in September 1957 a decision was taken that the surpluses should be disposed of through the Director General, Supplies and Disposals. The Sub-Committee of the Public Accounts Committee has commented that "it was strange that even between September and November 1957, no action was taken to follow up the decision to dispose of surpluses through the Director General, Supplies and Disposals". We have examined the relevant papers and the significant dates are as below:—

17-9-1957.—Meeting in the Defence Ministry decides to dispose of the surplus to Director General, Supplies and Disposals.

26-9-1957.—Minutes of the meeting issued.

22-10-1957.—Ordnance Service Directorate put up draft letter to the Ministry.

7-11-1957.—Case referred to General Staff Branch by Ministry of Defence for advice regarding disposal of 'A' vehicle spares.

- 22-11-1957.—Reply from General Staff Branch that 'A' vehicle spares should not be disposed of.
- 4-12-1957.—MGO's Branch states that 'B' vehicle spares might be disposed of.
- 24-12-1957.—Paper received from Army Headquarters indicating deficiency of 'B' vehicles and Paper on Reorganisation and Expansion of Army Workshops.
- 17-3-1958.—MGO's Branch stated that further check on utilisation of spares for 'B' vehicles repair programme being examined.
- 4-5-1958.—Note by Additional Secretary, Ministry of Defence conveying the remarks of the Defence Minister that "we should review the basis of declaring Defence equipment as surplus to our requirements. In view of the limited foreign exchange available to us, we should try to keep our old equipment longer by repairing or reconditioning, if necessary".
- 3-6-1958.—Issue of letter by Ministry of Defence laying down the revised policy for disposal of surplus stores.
- 29-7-1958.—Orders by Ministry of Defence suspending disposal of all surplus stores.

It will be seen that about a month was taken between the decision to offer these surpluses for disposal to the Director General, Supplies and Disposals, and the putting up of a draft letter to the Ministry for a decision. This was too long but whatever one may think of this from the point of view of office methods, it does not appear that the time taken in putting up this letter had any particular significance. It might have been a case of routine delay; it is also possible that there was a lack of a sense of urgency on account of a likely change in policy regarding disposal. Only a month later, viz., on 22nd November 1957 the General Staff Branch informed the Ministry that 'A' vehicle spares should not be disposed of.

This change in attitude *prima facie* needs explanation. This was not a case of demand changing on account of errors of calculation or a change in the provisioning criteria. The change came about because of a change in the policy regarding how the Indian Army was to be provided with vehicles of this type. It is not necessary

for us to quote details, but a re-appraisal was made of the finances, particularly of the foreign exchange available, and of the likelihood of certain types of equipment being available for procurement from abroad. After this re-appraisal it was decided that the correct policy would be to repair a much larger number of these vehicles than had been planned for earlier. Workshop capacity for this purpose was to be increased substantially. In the light of the decision it was considered unwise to dispose of "surplus" spares which might possibly cease to be surplus. These would in any case have fetched only a fraction of even the book value, much less of the price Government would have had to pay if they had to be bought again.

In justification of this decision, the Ministry of Defence have given us details about the utilisation of these surpluses in their revised programme of maintenance and overhaul. They assert that "spares of the book value of \$ 2,99,240.00 have already been utilised and further quantities of the book value of \$ 1,71,570.00 are likely to be consumed by March 1964. The current price of these spares would be approximately twice the book value, namely, \$ 9.40 lakhs (approximately Rs. 47 lakhs). The weight of these spares is 105 tons approximately (approximately 68 tons of those already consumed and 37 tons of those likely to be consumed). The amount that would have been realised if these spares had been sold to the firm in 1957 would have been \$ 11,550.00. If these spares had been disposed of in 1957 for an amount of \$ 11,550.00 (approximately Rs. 55,500) Government would have to spend approximately \$ 9,40,000.00 (Rs. 47 lakhs approximately) in procuring these spares. The State has thus gained to the extent of Rs. 46.45 lakhs in respect of spares, of only one type of vehicle, viz., Sherman spares, which have been consumed or will be consumed by March 1964".

We have not attempted to check these figures nor is an exact assessment of the financial results obtained from the retention of these spares necessary for the purpose of this enquiry. We may assume that a portion of the spares originally sought to be sold have in fact been utilised and more are likely to be utilised in the near future. Wide fluctuations in estimates of requirements have been a feature of the Army's system of provisioning and as altered circumstances had produced a very substantial change in policy regarding the future programme of renovation of old vehicles, it was not imprudent for Government to hold on to these spares. It has to be remembered that these pertained to obsolete vehicles and could not be purchased as if they were in current production. The strain on godown space and the

possible loss of foreign exchange earnings were disadvantages to be balanced against the advantage of ensuring that Government would not have to buy at high prices the same kind of spares as had been sold at low prices. It is difficult to say which of the factors leading to the decision to repair on a much larger scale could have been anticipated and which not, but defence requirements change and so does the ability of Government to provide the necessary foreign exchange. At one time foreign governments may be willing to sell us equipment of the kind needed, at another the problem of procurement becomes more acute. In these circumstances, it is quite understandable that if one cannot hope to get brand new equipment, one would be compelled to revise earlier ideas of requirements and make do with repairing what one has.

In paragraph 29 of the report of the Sub-Committee of the Public Accounts Committee attention has been drawn to the fact that while on the one hand disposal action was suspended in November-December 1957, on the other, in March 1958, a cancellation to the extent of 45% of the order originally placed on the firm in December 1957 had been communicated to it. We put this anomaly to the Additional Secretary, Ministry of Defence. He informed us that the contradiction was only apparent and not real as the spares whose sale was stopped and the spares whose purchase was attempted to be cancelled were not related. In fact, they related to different types of vehicles and equipment. The cancellation, therefore, is not significant in this context. It is important, of course, in the context of the provisioning procedure, which we shall deal with in the next chapter.

CHAPTER V

In chapter III, while dealing with the performance of the contract we briefly examined the reasons for the inability of the Master General of Ordnance to give a comprehensive list of possible deletions at the time of the signing of the contract. Before expressing an opinion on this aspect of the transaction, it would be necessary to examine the procedure governing provisioning with special reference to the various provisioning calculation relating to this contract. By 'provisioning' is meant the process of estimating the requirements of stores for a given period. This is usually done well in advance of the date by which the stores are required. Normally, in regard to equipment which continues in service, provisioning takes into account three periods—the pre-operative period, the operative period and the post-operative period. The requirements for each of these periods are assessed after taking into account all assets and liabilities upto the end of the period. This process is technically called the Provision Review. The starting point for a Provision Review is a directive issued by Government indicating the numbers and types of

equipment (in this case vehicles) to be maintained and overhauled and the period to be covered by the provision. On receipt of such a directive, the Ordnance Depots carry out the prescribed calculations, for arriving at the requirements of the various items relating to the vehicles concerned. The liabilities consist of the requirements for maintenance, reserve and overhaul. The requirements for maintenance and reserve are calculated on the basis of MMF (Monthly Maintenance Figure), which is a figure derived by averaging from previous issue experience over a specified period. The requirements for overhaul, however, are calculated on the basis of scales worked out by the DEME as applied to the number and types of vehicles included in the overhaul programme. The assets taken into consideration in the Provision Review include "stock-in-hand", i.e. stocks in the Depot on the date of review and "dues-in", i.e. undelivered portion of the demands placed upto the date of Review and also anticipated receipts from other sources. If the liabilities exceed the assets, a "demand" would arise for which an actual requisition is placed on the supply agency. If the assets exceed liabilities, a reduction or rephasing of outstanding orders would be asked for. This may result in cancellation of orders which have already been placed or in setting off the surpluses thus revealed against requirements during a subsequent provision period.

It would thus be seen that various factors enter into the final determination of the quantity of an item that has to be provisioned as a result of a particular Provision Review carried out on a specific date for the purpose of maintenance of the equipment during a specified period and for the overhaul of a specified number of equipment.

For the provisioning of spares with which the present contract is concerned, we have been told by the Master General of Ordnance and the Ministry of Defence that the procedure for annual provisioning did not apply as the number of pre-48 'B' vehicles to be retained in service had not been finalised and it had been ruled in July 1955 that no further provisioning of spares was to be made for repair of pre-48 'B' vehicles. *Ad hoc* Provision Reviews were, however, ordered from time to time for the Provision of MT spares for the repair of such number of vehicles as was considered necessary. The spares requirements included in the lists appended to this contract in June 1957 were based on the following Provision Reviews:—

'B' Vehicle spares:

- (1) Review covering maintenance requirements for one year (January to December 1956) ordered on 24th March, 1956.

- (ii) Review containing 3-Year Repair Programme (1956—59) in respect of pre-48 'B' vehicles ordered on 15th May, 1956.
- (iii) Review covering maintenance requirements for one year (January—December 1957) and upgradation requirements in respect of 2358 vehicles scheduled for repair by Station Workshops ordered on 24th November, 1956.

'A' Vehicle spares.

Review to cover maintenance requirements for the period 1956—59 depending on the type of vehicles and overhaul requirements for the vehicles included in 'OP Rebuild' programme (1954—58) ordered in May, 1956.

All these reviews were completed by September 1956 and tentative lists of requirements sent to the firm between 8th September to 23rd October, 1956. The firm list was given on 6th June, 1957. From June to December, 1957, additions/reduction/cancellation were notified of some 800 items, necessitated by the changed requirements due to supersession issues in lieu, changed wastage data, local purchase, retrieval to meet urgent requirements, cancellation of dues-out to units and return of stores by Workshops on conclusion of repair programme.

After sending the list of spare to the ISM in June 1957, Army Headquarters proposed a further review in August 1957 to cover maintenance requirements for pre-48 'B' vehicles for another 15 months from January, 1958 to March, 1959 and overhaul requirements for a certain number of additional 'A' vehicles. Government sanctioned this proposal in January, 1958 and a review directive relating to this sanction was issued. Soon after the issue of this directive, a copy of the contract (signed on December 18, 1957) was received by the MGO's Branch. As a fresh provision review was already in progress, the Ordnance Depots were instructed on February 1, 1958 to pay immediate attention to the items included in the contract and to forward revised proposals in respect of these items within four weeks. This special review was part of the comprehensive provision review ordered a month earlier. As a result of it substantial amendments, involving on the one hand cancellations of items already indented for and on the other additional requirements for various items, were communicated to the India Supply Mission by the Master General of Ordnance on March, 4, 1958. Financial sanction for the additional requirements had not been taken at that stage and so the India Supply Mission was informed that no actual procurement action should be taken in.

regard to these. The request for cancellations was, however, immediately operative. We found it difficult to understand how a special review could establish the need for such large scale cancellations. The request for cancellations was, however, cancellations. The period to be covered by it, as has been stated above, was longer and additional requirements were therefore, to be expected but not large scale cancellations to the extent of 45% in value and 41% in terms of items. We, therefore, sought an answer to the following question:—

Certain items which were included in the firm requirements in the lists given by the India Supply Mission to the firm in December, 1957 were not required by the Master General of Ordnance in March, 1958 and cancellation was sought in respect of them. How did it happen that what were firm requirements in December, 1957 were not required at all in March, 1958?

According to the Director of Ordnance Services, the calculations made as a result of Provision Reviews authorised by Government are to be treated as firm requirements. This view has been confirmed by the Ministry of Defence. It is claimed that while minor amendments to demands arising out of factors such as cancellation of dues-out, to units, local purchases or improvisation in the workshops, could be carried out and reduction sought in the order placed on the procuring agencies, wholesale revision of requirements has, of necessity, to be ruled out in the absence of a firm basis for such revision which only a fresh Provision Review directive by Government could provide. As there was no such basis at the time of the conclusion of the contract, the compilation of a comprehensive list of items for which reductions or cancellations might be sought was not possible. However, a list of which could be procured from indigenous sources was prepared and given to ISM after an examination of all the items on demand. It was also pointed out by a former DOS that, as provision calculations were at best an intelligent anticipation of requirements for a specified period, variations in the requirement of spares as revealed by successive Provision Reviews were a normal feature of provisioning in the Army and that but for the delay in the conclusion of the contract, the stores ordered would have been received and treated as assets at the time of the next Provision Review (in this case the January/February 1958 Review) and the surpluses revealed would have been set off against possible requirements of a succeeding Provision period.

An important feature of the Provision Review carried out in January/February, 1958 was the adoption of the revised scales for overhaul of 'A' vehicles made available by the DEME. The Defence Ministry have supplied us with the following analysis of the reasons for the reduction in requirements:—

'A' Vehicles spares	Approx. Value in dollars
(i) Value of items where quantities have been reduced/cancelled due to the fact that items previously scaled are not included in revised scale.	35,000
(ii) Value of items reduced to the fact that quantities scaled in revised scales are lower than those included in original scales.	1,02,000
(iii) Value of items scales where reductions are due to change in MMF.	18,000
(iv) Value of items reduced for the reasons that items have been included in previous contracts or for other miscellaneous reasons.	7,000
Total	1,62,000
'B' Vehicle spares	Approx. value in dollars
(i) Requirements obtained through retrieval.	3,000
(ii) Reduction in overhaul liabilities due to low or nil wastage as opposed to scaled quantities.	2,02,000
(iii) Ford Scout Car Lynex having been declared obsolete.	2,000
(iv) Items procured through indigenous sources.	44,000
(v) Reduction in maintenance liabilities.	50,000
(vi) Parts Change Instruction Action (Utilisation of 'In lieu' items).	3,000
(vii) Return of stocks by workshops.	18,000
(viii) Items contracted with other firms.	9,000
(ix) Due to cancellation of dues out.	8,000
Total	3,39,000

This analysis confirms the explanation given by the Director of Ordnance Services that—(a) for 'A' vehicle spares 96 per cent of the reductions and cancellations were due to the revision of scales by the Director of Electrical and Mechanical Engineering; and (b) for 'B' vehicles, for which there were no new scales, the bulk of the reduction was due to the calculation being made by the Director of Ordnance Services on the basis of wastage experience. For many of these items, the wastage was low or nil. Other reasons for the reduction were availability of certain spares through retrieval and indigenous purchase, utilization of 'in lieu' items and return of stocks by the workshops and units.

The Director of Electrical and Mechanical Engineering, in this evidence before us, stated that, as the changes in the scales for 'A' vehicles had been notified by and large before the contract was finalised, the Director of Ordnance Services could have carried out the necessary corrections in the indent. The Director of Ordnance Services, on the other hand, claimed that the revision could not have been made in time as the revised scales which mainly affected the reduction were received only in December, 1957. Also, an intermediate Provision Review could not be undertaken before the Government sanction for the review was issued, which, in this case, was only in January, 1958, i.e., after the contract had been concluded. This explanation appears to be valid, but it does not affect the main issue, which is: how did the scales and rates of wastage on which the whole scheme of provisioning depended, fluctuate so violently? On the question of the fluctuations in the scales (for 'A' vehicles) the answer of the Director of Electrical and Mechanical Engineering is that prior to 1955 his organisation had no reliable scales and no scaling cells had been sanctioned. It was only 1957, when such cells had been sanctioned, that revised scales could be compiled on the basis of actual wastage rates. The review of scales was a continuous process, the scales themselves depended on the age and condition of the vehicles sought to be overhauled. As his organisation had no previous experience of scaling, they fixed the scales initially by stripping only a few vehicles of each type. There was, therefore, bound to be disparity between the scales fixed from time to time.

Even though the Director of Electrical and Mechanical Engineering had not notified any revised scales for 'B' vehicles before this Provision Review, the Director of Ordnance Services took into account the actual utilisation of spares which was far lower than the scaled quantities and adjusted the requirement accordingly. The Director of Electrical and Mechanical Engineering stated that it was not correct for the Director of Ordnance Services to have reduced the requirements on the basis of only the utilisation as for

as overhaul requirement was concerned. Explaining the apparent disparity between the scaled quantities and the actual off-take of spares for the repairs, the EME pointed out that when the required spares were not received from the Ordnance, the workshops had to resort to other means of providing the spares for the completion of the overhaul. These were local purchase by the workshop, manufacture, retrieval and reclamation of old parts in the workshops. As recourse to these alternative sources for spares by the workshops would not be reflected in the wastage figures, it was, according to him, not correct to say that the scaled quantities would not be required in future overhauls. We are not convinced that this fully explains the wide divergence between scales and utilisation in the case of 'B' vehicles. In any case, if there was a difference of opinion between the Director of Ordnance Services regarding the basis for provisioning of overhaul spares for 'B' vehicles, when the scaled quantities were far in excess of actual utilisation, the proper method of estimation should have been discussed and settled at that stage and not left unconsidered. As it happened, the cancellations sought for were not accepted by the firm. At a meeting held in the Ministry of Defence, in April, 1958 to consider what further action should be taken, both the Master General of Ordnance and the Director of Ordnance Services gave a categorical assurance that "in view of the position explained by the DEME (that items which were proposed to be deleted altogether for 'A' vehicles would be required for repair of 'A' vehicles) and the fact that, according to the Defence Minister's latest orders, about 10,000 more vehicles will be repaired during the next 3 years, the spare parts, which proposed to be cancelled] reduced, will be utilised partly during the current programme and partly during the further programme of repairs in the EME workshops". This shows that the items ordered, which were considered inflated soon after the signing of the contract, i.e., in March, 1958 would, in the course of an extended programme, be utilised. But this also shows that the original estimate was not based on sufficiently accurate scales or wastage rates.

The conclusion from these facts is that the arrangements regarding the timely fixation and revision of scales and wastage rates were unsatisfactory. Also it appears that there was some lack of coordination between the Director of Electrical and Mechanical Engineering and the Director of Ordnance Services in regard to the provisioning of spares.

We recognise, however, that settlement of scales and rates of wastage is not an easy task, particularly in respect of obsolete

vehicles. Difficulty also arises from the changes in policy regarding maintenance, repair of equipment and change-over to new equipment.

As stated in an earlier chapter, major policy decisions, based on world events and overall defence considerations may affect the details of provisioning from time to time and in criticising this phenomenon of surpluses and deficiencies, these factors have also to be borne in mind.

The techniques of repair and maintenance adopted from time to time, as for instance the "Strip and Rebuild" method of repair or the 'OP Rebuild' programme, will inevitably have a bearing on scales and where adequate experience in fixing scales is lacking as in this case, allowance has to be made for divergences between the scaled quantities and the actual quantities utilised. It is important that these features of provisioning in the Army should be gone into carefully and that a first step action should be taken to ensure adequate coordination between the Director of Electrical and Mechanical Engineering and the Director of Ordnance Services. He recommend that the Ministry of Defence may arrange for a detailed study of provisioning in the Army, with particular reference to the provisioning of spares for 'A' and 'B' vehicles.

Sd.—VISHNU SAHAY,

Cabinet Secretary.

Sd—S. S. KHERA,

Secy. Deptt. of Mines and Fuel.

Sd—T. SIVASANKAR,

Secy., Ministry of W. H. and S.

Sd—P. M. MENON,

Secy., Ministry of Labour.

Dated, the 19th May, 1961

Sd—T. R. S. MURTHY,

Secretary.

Terms of Reference

Copy of the Ministry of Defence Memorandum No. 29(2)/60/Vol. 11/SO1/D(O), dated 31st December, 1960.

The undersigned is directed to state that at the instance of the Enquiry Committee, it has been decided to appoint a Sub-Committee of Experts as shown below to advise on certain technical aspects of the deal:—

Convenor

- (1) Brig. M. K. Rao, Commander, Technical Services Group, E.M.E.

Members

- (2) Brig. P. V. Subramanyan, Director (V. and E.)—
- (3) Shri N. T. Gopala Iyengar, Development Officer in the Development Wing of the Ministry of C. and I.

2. The terms of the reference of the Committee will be as follows:—

- (i) To examine the spare-parts referred to in the Appendix* and to report whether they were the stores indented and if not whether the items which were accepted fully conform to the required specifications and in cases where substitutes have been accepted whether they are fully interchangeable; and
- (ii) to carry out a similar examination of a few other items to be selected by the Sub-Committee at random, and to report on the correctness of the parts supplied.

3. The MGO is requested to render such assistance to the Sub-Committee as they may need in connection with the investigation.

4. The Sub-Committee is requested to render its report to this Ministry within 10 days.

Sd/- K. C. JAIN,
Dy. Secy. to the Government of India.

*Not Attached.

REPORT OF THE SUB-COMMITTEE

Vide Ministry of Defence Memorandum No. 29(2)/60/Vol. 11/S01/D(O) dated 31st December 1960, the following constituted the sub-committee:—

Convenor

- (1) Brig. M. K. Rao, Commander, Technical Services Group, E.M.E.

Members

- (2) Brig. P. V. Subramanyan, Director (V. and E.)
- (3) Shri N. T. Gopala Iyengar, Development Officer in the Development Wing of the Ministry of C. and I.

The terms of reference to the Sub-Committee were:—

- (1) to examine the spare-parts referred to in the Appendix and to report whether they were the stores indented and if not whether the items which were accepted fully conform to the required specifications and in cases where substitutes have been accepted whether they are fully interchangeable;
- (2) to carry out a similar examination of a few other items to be selected by the Sub-Committee at random, and to report on the correctness of the parts supplied.

2. The sub-Committee visited Central Ordnance Depot DEHU ROAD and Central Armoured Fighting Vehicle Depot, KIRKEE on 5th January, 1961 and 6th January 1961 and examined the various stores referred to in the appendix to the Ministry of Defence memorandum cited above. The Committee's views are as under:—

ITEMS REFERRED TO IN THE APPENDIX TO THE MEMORANDUM

3. *Parts Nos. 1810198 Universal Joints RH and 1810199 Universal Joints LH.*

Against the above part numbers demanded, which were of Bendix type, supplies were made of part Nos. LV7/FD/C118Q-3350-A, RH and LH. The committee examined the two types and also referred to the GMC and Ford Catalogues pertaining to the two types. The committee found that the parts were interchangeable and could be used on the vehicles for which they were indented.

4. *Part No. G104-03-07059 Stud M4A4*

Against the above part numbers demanded, part No. G104-03-00603 Bolt Volute suspension cap was supplied. The supplied bolts were applicable to earlier production serial numbers of the vehicles, but had been superseded by the demand Studs. The Committee examined both the parts and found that the Bolts accepted are as good as the Studs functionally and in their opinion the Bolt is better than the Stud for the application.

5. *Part No. LV7/FD/C490-10999A Switch Assy Toggle single Throw. Part No. LV7/FD-390-10999-B Switch Assy Toggle Single Pole Double Throw and Part No. LV7/FD-C490-13746 Switch Toggle "No off position Single Pole Double Throw"*

Against the above part numbers demanded, supplies made were of different patterns. The committee examined several of these switches and found them in un-used condition. They are functionally alright and are also interchangeable with demanded types for fitment on the vehicles for which they are indented.

6. *Part No. LV7/NEU/AE-30536 Starting Motor Switch Assy.*

The stores demanded have been correctly supplied. The committee examined the switches and found them to be in new condition.

7. *Part No. G103-17-33824 Panel Assy Instrument and Part No. G103-05-02665 Panel Assy.*

It is not clear from the appendix to the memorandum as to which of the above two part numbers were alleged to be "take outs". However, the committee examined both the part numbers and found them to be in good condition and that they could not be said to be "take outs".

8. *Part No. G103-08-02025 Mechanism Elevating Assy.*

The bulk of this part number was examined by the committee and in their opinion these are in un-used condition.

9. *Part No. G116-06-0240 Shaft Power Take-off.*

This item was examined by the committee and found them to be in un-used condition.

10. *Part No. G103-15-96321 Generator Assy Auxiliary.*

This item could not be examined by the committee as the whole of the supplied quantity was issued to user units.

11. G-197-55-97210 *Bag Assy, 30 Empty Cartridges.*

The bag supplied is smaller in size and does not have a zip at the bottom for emptying. The function of this bag is to collect the empty cases of ammunition. The committee understands that the army has accepted this for the purpose intended and obtained reduction on the price.

12. With reference to the second part of the terms of reference the list of items selected for random inspection and the relevant remarks against each are given in annex A.

Convenor: Sd/-
 (Brig. M. K. Rao)
 Member: 1 Sd/-
 (Brig. P. V. Subramanyan)
 2. Sd/-
 (Shri N. T. Gopala Iyengar)

Item physically examined by the Committee in terms of reference No. 2

Serial No.	Part No.	Nomenclature	Correct/ Incorrect as per samples	Remarks
1	G 104-17-40338	Plate assembly battery box.	Correct	Item identical with part No. demanded.
2	G 104-17-82976	Seal assembly side left radiator.	Correct	Considered to be a better seal as compressed felt in place of jute has been used.
3	G 104-23-96331	Reservoir oil dilution tank welded assembly.	Correct	Correct as per demand.
4	G 104-18-19412	Unit assembly sending oil pressure gauge.	Incorrect	(a) Slight alteration required for fitting. (b) Being used at present by users.
5	G 103-17-84666	Shaft driven assembly.	Correct	Items correct as per demand.
6	G 103-17-38782	Pipe muffler outlet right and left.	Incorrect	Length short by two inches can be compensated by adjustment. Acceptable.
7	G 103-15-27765	Bearing engine main rear upper hold.	Correct	Item correct.
8	G-103-15-27771	Bearing main centre under and lower half.	Correct	Item correct.
9	G-103-15-27759	Bear main lower half.	Correct	Do.
10	G 103-15-27770	Bearing engine main front upper and lower half.	Correct	Do.
11	G 103-17-38783	Pipe out let aux motor muffler.	Incorrect	Minor difference with sample, can be used as it is.
12	G 104-22-70856	Lockers driver door	Incorrect	The trigger yoke does not incorporate adjusting screw for damping rattle. Can be used screw considered not essential.

Serial No.	Part No.	Nomenclature	Correct/ Incorrect as per samples	Remarks
13	G 104-17-88852	Socket assembly	Correct	Item correct.
14	G 130-02-09299	Handle, hull drain valve.	Correct	Do.]
15	G 104-24-06185	Trigger door lock	Incorrect	See remarks at Sl. 12.
16	NCN-B-206370	Yoke supporting propeller shaft.	Correct	Item correct.
17	G 104-15-69148	Element engine oil tank. breather.	Incorrect	Item correct, difference is in the material supplied which is specially treated jute in place of copper meshings. Acceptable.
18	G 104-15-40202	Cover assembly gear case.	Correct	Correct items as per demanded.
19	M1-02-14602	Lamp dash	Incorrect	Length of the cable required 76" as per sample received 12". Rejected by depot.
20	G 103-17-38780	Pipe muffler outlet	Incorrect	Identified as G 103-17-38763 pipe muffler outlet left engine. Not acceptable.
21	G 103-17-44104	Protector rack amm.	Incorrect	Identified as G 103-17-44103 Ammunition rack right rear assembly. Rejected by the depot.
22	G 103-16-63900	Knob control valves outer lever.	Incorrect	Transmission selection knob is smaller inner dia. Not suitable for the item demanded. Rejected by the depot.
23	G 103-17-82827	Seal door driver's	Correct	Quality of the upholstery is poor. Rejected by the depot.
24	G 103-17-82826	Seal aux driver's door.	Correct	Do.
25	G 130-01-25520	Bracket clutch contact lever assembly.	Incorrect	Different pattern received. Rejected by the depot.

Serial No.	Part No.	Nomenclature	Correct/ Incorrect as per samples	Remarks
26	G 104-03-07185	Tank assembly gas-soline.	Incorrect	Differs from the sample. Rejected by the depot.
27	G 104-2407868	Tube assembly rod, flange and inlets left.	Incorrect	Different from the item required. Rejected by the depot.
28	G 103-1783136	Gunner seat	Incorrect	Different pattern received. Rejected by the depot.
29	G 103-1733682	Pad aux driver's door	Correct	Inferior quality. Rejected by the depot.
30	G 103-1733681	Do.	Correct	Do.
31	G 103-18-39700	Kit assembly insulation ventilator fan.	Incorrect	Ventilator fan is required complete assembly issued. Discrepancy raised by the depot.
32	G H12-13-02075	Bearing bal annular	Correct	Correct as per demand.
33	G 104-05-02655	Panel assembly	Correct	Do.
34	G 402-70-35065	Motor assembly	Correct	Do.
35	NCN-70681	Lock travelling 75 mm gun lock assembly.	Incorrect	Not suitable differs in size and length. Rejected by the depot.
36	G 104-70-61934	Hook towing pintle	Incorrect	Item supplied incorrect. Rejected by the depot.
37	G 186-65-94721	Pintle towing front assembly.	Incorrect	Do.
38	G 103-17-33824	Panel assembly instrument.	Correct	Can be used with separate provision of warning light.
39	G 103-08-02025	Gear elevating	Correct	Deficiency raised initially supplied by the firm. DR settled items found serviceable. Wooden knobs are provided instead of brass knobs.
40	G 103-16-99200 (D 58343).	Muffler assembly	Correct	Serviceable (unused)

Serial No.	Part No.	Nomenclature	Correct/Incorrect as per sample	Remarks
41	G 104-77-00928	Rotor aux generator (Magnet and pole pieces).	Correct	Serviceable (unused)
42	G 104-17-93698	Switch assembly	Do.	Do.
43	LV7-NEU AC111-602.	Hose	Do.	Do.
44	LV7-NEU-AG-1720	Speedometer	Do.	Do.
45	LV7-NEU-BB2257	Oil seal main drive gear.	Do.	Do.
46	LV7-NEU-BR1910-05.	Camshaft	Do.	Do.
47	LV7-NEU-8C4750	Starter motor assembly.	Do.	Do.
48	LV6-GMC-15-66784	Cluster assembly instrument panel.	Do.	Except one all panels are fitted with mechanical (Thermometer) gauge. Accepted Serviceable unused).
49	LV7-GMC-5814101	Tube battery box vent.	Do.	Serviceable (unused).
50	LV7-GMC-5266544	Joint and drive shaft assembly front axle universal right.	Do.	Do.
51	G 103-17-4613	Pump assembly turret traverse.	Do.	Do.
52	MISC-G-127-03-92763.	Support compass	Do.	Do.
53	MISC M1-01-13039	Switch sensitive	Do.	Do.
54	G103-15-96046	Sector elevating	Do.	Do.
55	NCN'A 293604	Carrier planet and internal gear transmission.	Do.	Do.
56	NCN B227167	Pinion transmission reverse unit.	Do.	Do.

APPENDIX III

Summary of main Conclusions/Recommendations

Sl. No.	Para No.	Ministry/ Department concerned	Conclusions Recommendations
1	2	3	4
1	2	Defence	<p>(i) While the Committee were assured by the Secretaries of the Ministries of Defence and Works, Housing and Rehabilitation that the difficulties experienced in the use of Komatsu tractors in the Dandakaranya Project were of the nature of teething troubles, they feel that these could have been largely avoided with better planning and forethought. They also feel that these 'teething troubles' have lasted a little too long. The Controller General Defence Production admitted that the operating conditions in Dandakaranya were not foreseen at the time of placing the order for tractors. The Committee are therefore of the view that the tests of tractors conducted at Kirkee in December 1958 were not quite adequate. As these types of tractors were not used in this country before, it would have been advisable to put them to intensive tests in the various parts of the country having different soil conditions, where these were actually required to be operated, before entering into this contract. The Ministry of Defence could have also benefited themselves from the experience of the operations of tractors of various makes and types used on land reclamation work by other organisations like the Central Tractor Organisation, Hirakud Dam Project, etc.</p>
		Defence	<p>(ii) The Committee are surprised that even the type of lubrication oil recommended for the tractor engine in the conditions in Dandakaranya was unsuitable and that no preventive maintenance system was worked out by the D.G.O.P. and the Project Authorities.</p>

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| | | Defence | (iii) The Committee are glad that controversy over the alleged mishandling of Komatsu tractors in the Dandakaranya Project is now a closed chapter. The experts who investigated into this, came to a definite conclusion that there was 'no evidence of deliberate abuse or mishandling of these machines'. The Committee hope that with the effecting of the modifications in the tractors and preventive maintenance scheme, as suggested by the experts, initial difficulties which occurred in the Dandakaranya Project would be overcome. |
| 2 | 3 | Defence
Works, Housing & Rehabilitation
(Deptt. of Rehabilitation) | The Committee feel concerned over the failure of the overhauled engines. They desire that early steps should be taken to repair these engines and the reasons for their failure should be investigated into. The Committee note with satisfaction that the D.G.O.F. has switched over to the use of Komatsu engines. |
| 3 | 4 | Defence
W. H. & R.
(Deptt. of Rehabilitation) | The Committee view with concern loss of considerable tractor hours on the first lot of tractors during the year 1960-61. They however note that there was a remarkable decrease in the loss of working hours on these tractors during the year 1961-62. They hope that the position would further improve in the future years. |
| 4 | 5 | Defence
W. H. & R.
(Deptt. of Rehabilitation) | (i) The Committee are unhappy over the delays in supply of spare parts, for want of which considerable tractor hours were lost in the Dandakaranya Project. The Committee hope that with the setting up of a Bank of spare parts, difficulties in the supply position of spares would be overcome. The Dandakaranya Project authorities should also, on their part, intimate their full requirements of spares reasonably in advance. |
| | | Defence | (ii) The Committee understand that indigenous production of 40% (according to Audit the figure is about 34%) of parts had been |
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achieved. In a year's time further increase of 15% of the components is expected to be secured from trade. The Committee desire that priority should be given to the manufacture of fast moving parts in order to obviate difficulties in meeting the requirements of users and to save more foreign exchange.

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| 5 | 6 | <p><u>Defence</u></p> <p>W. H. & R.
(Deptt. of Rehabilitation)</p> | <p>The Committee note the sub-normal availability of the first lot of Komatsu tractors during the working seasons 1960-61 and 1961-62 due to frequent breakdowns. During evidence, the Secretary, Ministry of W. H. & R. (Deptt. of Rehabilitation) stated that on the present performance, the Komatsu tractors were somewhat inferior to other makes and types used in the Dandakaranya Project.</p> |
| 6 | 7 | <p><u>Defence</u></p> | <p>The Committee would like to know in due course the total extra expenditure incurred by the D.G.O.F. on repairs, modifications, overhaul etc. and whether these were within the margin provided in the cost of tractors.</p> |
| 7 | 8 | <p><u>Defence</u></p> <p>W. H. & R.
(Deptt. of Rehabilitation)</p> | <p>The Committee feel concerned at the high operational cost of Komatsu tractors as compared with other makes and types in use in the Dandakaranya Project. They desire that the investigation of the various factors affecting the operational cost of the Komatsu tractors should be completed as early as possible and necessary steps taken to reduce it. The Committee hope that the Director General, Ordnance Factories and Dandakaranya Development Authorities will address themselves to this problem as the price of tractors should correlate to their operational cost.</p> |

1	2	3	4
8	9	Defence	From the table given in para 9 of the report, it will be seen that the percentage of indigenous content in Komatsu tractors actually achieved has been lagging behind the anticipated targets. The Committee would like the Ministry to make special efforts to improve the position in this regard.
9	10	Defence	<p>To sum up, the unsatisfactory features brought out in the Komatsu tractor project are :</p> <p>(1) the rather prolonged "teething troubles" leading to heavy loss of tractor hours which may, to some extent, be attributed to the initial decision to enter into a contract with the Japanese firm merely after a study of the technical specifications but without adequate trials in this country.</p> <p>A team was sent subsequently to Japan to satisfy themselves about the production capacity of the firm, quality control and other related matters.</p> <p>(2) the inability to achieve a saving in foreign exchange to the extent envisaged, one of the major factors being the slow progress achieved in improving the indigenous content of the tractors.</p> <p>(3) the discovery of serious mechanical defects in the tractors, particularly the failure of the Mitsubishi Engines and the premature breakdown of 12 of them even after overhaul.</p> <p>(4) the non-establishment of an adequate servicing and maintenance organisation for a period of some years;</p> <p>(5) the prolonged controversy between the Ministry of Works, Housing and Rehabilitation and Defence which has taken an unduly long time to settle regarding the causes of the defects in the tractors used in Dandakaranya ; and</p>
		Do	
		<u>Defence</u>	
		W. H. & R. (Deptt. of Rehabilitation)	
		Defence	
		<u>Defence</u>	
		W. H. & R. (Deptt. of Rehabilitation)	

1	2	3	4
		<p>Defence <hr/> W. H. R. (Deptt. of Re- habilitation)</p>	<p>(6) the high operational cost of the Komatsu tractors which still await investigation and remedial action.</p>
10	11	Defence:	<p>The Committee understand that the DGOF has in hand outstanding orders for more than 350 tractors and attachments for the various civil indentors, besides the requirements of the Army and that Government are contemplating the augmentation of the existing capacities to cater for production of 500 tractors and attachments. The Committee hop. that every effort will be made by the Ministry of Defence to achieve the contemplated targets of production without impairing in any way the production of defence stores which is the foremost function of the Ordnance Factories in the present national emergency. In this matter the Committee trust that the lessons already learnt in this case regarding the need for adequate precautionary measures at every stage to obviate dislocation and loss will be fully kept in view.</p>
11	13	Defence	<p>The Committee are not satisfied with the explanation for non-revision of requirements before placing the final order in view of the fact that changes in the scales of 'A' vehicles had been notified by the Director of Electrical and Mechanical Engineering by December, 1957. Considering that a bulk order for spares had been placed on the basis of the review conducted in 1956, the revision of requirements on the basis of revised scales should have been undertaken in December, 1957 and the final contract on the firm should have been deferred till the revised firm requirements had been worked out. The sanction of Government for an intermediate review (which was given in Jan. 1958) could also have been expedited. The very fact that after placing the contract, the D.O.S. was able to complete a special review within four</p>

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weeks, indicates that such a review was necessary and could have been conveniently undertaken before placing the final order. The Committee understand from Audit that in pursuance of the recommendation of the Special Committee, a committee was set up in April, 1962 to examine all aspects of provisioning with particular reference to provisioning of spares for 'A' and 'B' vehicles. The Committee would like to know the remedial measure suggested by this departmental committee and action taken to streamline the existing provisioning procedure.

- 12 14 Defence . The Committee feel that on the basis of the revised scales for 'A' vehicles given by the Director of Electrical and Mechanical Engineering and the Director of Ordnance Services' own experience about the utilisation of 'B' vehicles spares, it should have been possible in this case to furnish a list of doubtful items to the firm at the time of signing the contract. Such an action could have largely avoided gross over-provisioning (45% of the value i.e. \$ 5,73,000) that actually occurred in this case
- 13 15 Defence . As pointed out in the concluding portion of para 30 of the report of the Sub-Committee of the P.A.C. the Defence Ministry was laying stress as late as June 1957 on the need for an early disposal of the surplus stock and it was only after receipt of a letter from the firm in September 1957 that the question of the utilisation of surplus stores appears to have been taken up; even then the appraisalment of the quantity which could really be used up seems to have been defective as evidenced by the large quantity still lying unutilised, more than five years after the decision was taken to retain them. The Committee suggest that a review might be undertaken to see as to which of the spares are such as have not been issued for the last several years and are not likely to be used within a reasonable

1	2	3	4
14	16 Defence <u>E. & D. C.</u>	The Committee consider it unfortunate that such patent mistakes in the contract as duplication of certain items with different price tags should have crept in. They suggest that responsibility should be fixed for these mistakes which resulted in an overpayment of about \$10,000. The Committee would like to be informed whether this overpayment has been recovered from the firm.	
15	17 Defence	The Committee feel gravely concerned at the lack of technical information with the Master General of Ordnance Organisation in not establishing the inter-Changeability of 'Rzappa joints' and 'Bendix joints'. The Committee hope that this failure would be suitably taken notice of and necessary action taken to strengthen the arrangements for such technical information, as suggested by the Special Committee.	
		The Committee are glad to be informed by Audit that the Ministry have issued instructions that prior concurrence of the indenter should be obtained before supply of 'in lieu' items.	
16	18 Defence <u>E. & D. C.</u>	The Committee consider the deletion of 'Refer India' items from the contract as unjustifiable in view of the fact that the whole transaction was a package deal. The Committee would like to be informed of the outcome of the inquiry into the matter as suggested by the Special Committee.	

1	2	3	4
17	19	Defence	. The Committee feel concerned at the slow utilisation of the spares. This is a further confirmation of the fact that there has been considerable over-provisioning of spares as a result of this Agreement. They would like to have a further report about the progress in the utilisation of these spares.
18	20	Defence	. According to the information supplied to Audit by the Ministry of Defence, supply of 'B' vehicles spares was completed on 29-7-59 and of 'A' vehicle spares on 17-2-60, the latter nearly a year after the extended date of supply. Moreover out of the 3255 items to be supplied, discrepancies were reported by depots in 878 cases and the total value of these discrepancies was \$ 1,68,412. The value of these discrepancies was reduced to \$ 49,985 and \$ 974 on 1-12-60 and 31-12-1962, respectively. The Committee are, therefore, surprised to note a categorical statement in Chapter II of the Special Committee's Report that "the supplies contracted for were, in point of fact, made in full and in time. "The Committee would like to be furnished with a note explaining this anomaly.
19	21	D. fence	. The Committee consider it unfortunate that the suggestion to obtain prices through the India Supply Mission, Washington made earlier by both the Financial Advisers, Defence Services and Ministry of Works, Housing and Supply was not implemented.
20	22	Do.	. From some of the unsatisfactory features as brought to light by the investigation of the Special Committee, the Committee have come to the conclusion that the letter of intent sent to the firm was based on incorrect assessment of the requirements necessitating substantial modifications later. This resulted in

44. Jayana Book Depot,
Chapparwala Kuan,
Karol Bagh, New Delhi.

45. Oxford Book & Sta-
tionery Company, Scin-
dia House, Connaught
Place, New Delhi-1.

46. People's Publishing
House, Rani Jhansi
Road, New Delhi-1.

47. Mehra Brothers, 50-G,
Kalkaji, New Delhi-19.

48. Dhanwantra Medical
& Law Book House,
1522, Lajpat Raj Mar-
ket, Delhi-6.

49. The United Book Agency,
48, Amrit Kaur Mar-
ket, Paharganj, New
Delhi.

50. Hind Book House, 82,
Jan Path, New Delhi.

51. Bookwell, 4, Sant
Narankari Colony,
Kingway Camp, Delhi-9.

MANIPUR

52. Shri N. Chaoba Singh,
Newspaper Agent,
Ramalal Paul High
School, Annere, Imphal,
Manipur.

AGENTS IN FOREIGN COUNTRIES

U.K.

53. The Secretary, Establish-
ment Department, The
High Commission
of India, India House,
Aldwych LONDON.
W.C.-2.



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