

# AVOIDABLE UNNECESSARY IMPORTS

MINISTRY OF DEFENCE  
(DEPARTMENT OF DEFENCE  
PRODUCTION & SUPPLIES)

## HUNDRED AND SEVENTY-SEVENTH REPORT



LOK SABHA SECRETARIAT  
NEW DELHI

**HUNDRED AND SEVENTY-SEVENTH  
REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(1989-90)**

**(EIGHTH LOK SABHA)**

**AVOIDABLE/UNNECESSARY IMPORTS**

**MINISTRY OF DEFENCE  
(DEPARTMENT OF DEFENCE PRODUCTION AND  
SUPPLIES)**

[Action Taken on 47th Report, 8th Lok Sabha]



*Presented in Lok Sabha on 8th August, 1989*

*Laid in Rajya Sabha on 8 August, 1989*

**LOK SABHA SECRETARIAT  
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**PUBLIC ACCOUNTS COMMITTEE**

**(1989-90)**

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*Rajya Sabha*

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17. Shri Jagesh Desai
18. Shri Surender Singh

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\*Elected w.e.f. 3-8-89 vice Sarvashri Bh. Vijay Kumar Raju, S. Jaipal Reddy, Saifuddin Chowdhary resigned from the Committee w.e.f. 10-5-89, 12-5-89, 5-6-89 respectively.

(iv)

19. Shri P. N. Sukul
- \*20. Vacant
- £21. Vacant
- £22. Vacant

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
2. Shri K. K. Sharma—*Director*
3. Shri A. Subramanian—*Senior Financial Committee Officer*
4. Shri N. M. Jain—*Under Secretary*

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\*Due to resignation by Shri Parvathaneni Upendra from membership of the Committee w.e.f. 12-5-89.

£Due to resignation by Sarvashri Jaswant Singh and Virendra Verma from membership of the Committee w.e.f. 15-5-1989.

## INTRODUCTION

1. The Chairman of Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Seventy-Seventh Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 47th Report (8th Lok Sabha) on "Avoidable/unnecessary imports".

2. In this Report, the Committee have brought out variation in statements made by the Ministry of Defence at two different times about fixation of target for production of Nissan Petrol Vehicles and desired that the upward revision and subsequent scaling down of this target may be fully inquired into and a report furnished to the Committee. The Committee are also critical of the failure of the Ministry of Defence to make a timely overall assessment of the need to import 401 Drivers' Cabins resulting in extra expenditure of Rs. 60.96 lakhs. The Committee have also exhorted the Ministry of Defence to take more realistic look at their arrangements for procuring their supply of components/stores etc from the private sector in order that alternative sources of supply can be developed even if the item required to be manufactured is of a "difficult nature".

3. The Committee considered and adopted this Report at their sitting held on 1 August, 1989. Minutes of the sitting form Part II of the Report.

4. For facility of reference and convenience, the recommendations/observations have been reproduced in the Appendix to the Report.

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

NEW DELHI;  
1 August, 1989  
10 *Shravana*, 1911 (*Saka*).

P. KOLANDAIVELU  
*Chairman.*  
*Public Accounts Committee.*

## CHAPTER I

### REPORT

This Report of the Committee deals with action taken by Government on the Committee's recommendations/observations contained in their Report\* on Avoidable/unnecessary Imports.

2. The Committee's Report contained 11 recommendations/observations. Action taken notes have been furnished by Government in respect of all the recommendations. These have been broadly divided in four categories as shown in Appendix.

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

#### *Target for production of Nissan Petrol Vehicles*

(S. No. 1, Para 54)

4. In a note furnished to the Committee the Department of Defence Production and Supplies had intimated that in July 1979 the target for production of Nissan Petrol Vehicles was revised and kept at a particular level, as could be seen from the extract of the note re-produced in paragraph 22 of the 47th Report. Notwithstanding this position, the Committee are now informed in the Ministry's Action Taken Note that no revision of target took place in July 1979 and that the reference made by the PAC was only to an internal noting which was purely exploratory in nature in order to assess and maximise the potential in the factory. **The Committee are shocked about the conflicting replies given in regard to the revision of targets. If however, the information given to the Committee as re-produced in paragraph 22 of the Report was not based on facts, the Committee desire to know on what basis the reply was given at that time to the Committee. The Committee recommend that the issue relating to the upward revision of targets and subsequent scaling down of the same should be fully inquired into and a report furnished to the Committee.**

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\*Forty-seventh Report (8th L S) on para 16 of the Report of the C & A G of India for the year 1983-84, Union Govt. (Def Services)



*Unnecessary import of Drivers' Cabines worth Rs. 61.68 lakhs*

(S. No. 3 Para No. 56)

5. In their earlier report the Committee had observed that 401 Drivers' Cabins were imported at a cost of Rs. 79.53 lakhs in July 1981 to February, 1982. However, out of the 401 cabins imported 311 numbers costing Rs. 61.68 lakhs were lying in factory's stock at the end of August 1984. The Committee had concluded that unnecessary import of cabins had resulted in an extra expenditure of Rs. 60.96 lakhs. In their action taken notes the Ministry have sought to justify their position and stated *inter-alia* that the importation was based on target fixed in July 1978 which was achievable as far as in-house capacity for Nissan vehicles was concerned.

6. The Committee are not convinced by the clarifications given to justify the decision of Government for import of 401 cabins, resulting in extra expenditure of Rs. 60.96 lakhs. On the other hand, the Committee note that failure to make an overall assessment of needs in time contributed to the extra expenditure. The Committee deeply regret the failure of the Ministry to assess the needs properly and consider it unfortunate that the Ministry have attempted to defend a wrong decision instead of owning the same. The Committee recommend that the planning processes need to be duly revitalised so as to obviate such blatant errors and consequent avoidable extra expenditure.

*Unnecessary import of Fly Wheel Housing*

(S. No. 6, Para No. 59)

7. In their earlier Report the Committee had noted that the imported stock of 934 fly wheel housing costing Rs. 6.98 lakhs which were received during January to March 1982 alongwith another stock of 703 numbers already imported remained unutilised for a long period. The Committee were distressed to find that import was resorted to in this case just to utilise the foreign exchange which was stated to be 'surplus'. This attitude, the Committee observed, was reprehensible and not conducive to indigenisation of components required by the Defence.

8. In their action taken note furnished to the Committee, the Ministry have stated that since the requirement on the basis of revised target was more than the indigenous capacity, imports were resorted to. Scaling down of the target in October 1980 reduced the need for immediate utilisation of imported items which served

the purpose of buffer stock; and also importation was necessary as an insurance against stoppages in indigenous production and to provide a cushion.

**9. The observations of PAC are based on the fact that the Ministry failed to take an overall view of the requirements with due foresight. Viewed in this context, the explanation is not acceptable and the Committee desire to reiterate their earlier recommendation.**

*Inability to develop additional source of supply for certain components (S. No. 9. Para 71)*

10. In their earlier Report the Committee had expressed concern that the Technical Committee set up in May 1971 to establish indigenous source of manufacture and supply of components for a heavy vehicle failed to develop more than one source for Pannier bag tanks. The solitary source developed in 1974 closed down in March 1982 when orders for the supply of Pannier bag tank parts placed in January 1981 were pending for supplies. In their action taken note furnished to the Committee the Department of Defence Production and Supplies have stated *inter alia* that "several efforts were made by the Technical Committee with all reputed manufacturing firms for establishing additional sources.....the technical Committee had been making efforts right from April 1972 to develop more than one source. But due to the difficult nature of the items, they were not successful."

**11. The Committee feel concerned that the Government with all the resources at their command, were unable to establish an additional source for manufacture and supply of components for a heavy vehicle for Pannier bag tanks, even though a period of 7 years elapsed between 1974 and 1981. Efforts made by the Technical Committee during all these years reveal that the additional sources which were sought to be developed ultimately failed to meet the requirements of the Ministry of Defence. It is a matter which needs careful analysis and examination.**

**12. The Committee would like to point out that during the past about four decades a strong industrial base has been built up and the infrastructural facilities created at huge costs are also available for further expansion. There is also no dearth of talent in the country. In the opinion of the Committee, the plea of the Ministry that "due to difficult nature of the item" the alternative source**

could not be developed does not seem to be convincing. It should be possible to develop the required component from an alternative source, either in the private sector or in the public sector. In case the private sector is not able to cater to the needs of the Government, either on account of the extra developmental effort required or that the production of the component is not economical to them, one of the concerned public sector units could be motivated to develop the component so that the country is not entirely dependent either on the private sector or some outside agencies. The Committee would therefore, urge upon the Government to take a more realistic look at their arrangements for procuring their supply of components/stores etc. from the private sector as also their own resources and take corrective/remedial steps wherever necessary.

## CHAPTER II

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

#### Recommendations

*Para 57.* The Committee note that the Department of Defence Production and Supplies have constituted a number of Committees for various disciplines of stores to identify development of sources for items for indigenisation of these committees constituted at factory level are headed by the General Managers of two Ordnance Factories. It is surprising to note that the procedure followed for import of items in these two committees is entirely different. While in the case of Heavy Vehicles Factory, Avadi, it is a practice to get clearance of the Technical Committee (Veijayanta Parts) before processing cases for import, at Vehicle Factory Jabalpur where the other Technical Committee headed by a General Manager exists, the import proposals are made by a team of Technical Production Officers and processed further with Ordnance Factory Board/Department of Defence Production for issue of sanction and release of foreign exchange. Obviously the Technical Committee which is responsible for indigenisation of vehicle parts was not consulted in the instant case. The Committee are unable to comprehend why an altogether different procedure is followed at Vehicles Factory, Jabalpur for import of components and why Technical Committee was not consulted there.

[S.L. No. 4, Appendix II Para 57 47th Report of the PAC  
(1985-86) 8th Lok Sabha].

#### Action Taken

The Technical Committee for vehicle parts at Jabalpur functioned under Department of Defence Production & Supplies. This Committee, of which GM/VFJ is the ex-officio Chairman, works directly under the Superintendence and control of Deptt. of Defence Production & Supplies.

2. Efforts are already on to streamline the procedure.

*Vetting Comments received from Audit on ATN—Para 57*

We have no comments.

(N. Sivasubramanian)  
Joint Secretary (OF)

[M of D, Deptt. of Defence Production & Supplies  
OM No. 9(9) 84 | D (Proj. I | Proj. II) dated  
3 August, 1987]

### Recommendations

*Para 60.* Similarly the Committee find that 50 numbers each of the equipment 'X' and 'Y' imported to act as buffer stock proved unnecessary involving extra cost of Rs. 8.58 lakhs in foreign currency even though sufficient installed capacity was already in existence at Factory 'A'. Import of these equipments has been justified on the ground that production of Tanks with which equipment X and Y were fitted at Factory B was expected to be stepped up and a part of the capacity of the Factory A was utilised to produce other sighting equipments required urgently by Defence Services. The Committee find this explanation hardly convincing as they find that production of tanks at Factory B has all through since 1977-78 to 1984-85 been lagging behind the production of X and Y equipment at factory A.

[Sl. No. 7, Appendix II, Para 60, 47th Report of the  
PAC (1985-86) 8th Lok Sabha]

*Para 61.* It is shocking to note that the factory A wanted import of equipment X and Y in 1977 but the same was ordered after more than 2 years in May, 1979 while the deliveries were made in 1982. More distressing is the fact that equipment Y received in 2 sets of 40 and 10 numbers in September 1982 and February 1983 was returned to manufacturers in May 1984 after inspection in April, 1984 for rectification of defects. The Committee strongly feel that with better buffer stock of 50 number of equipment X and Y could have been built by raising the level of production at Factory A suitably over a period of time. Thus, unnecessary imports of these equipment could have been avoided and as admitted by the Secretary (DP&S) during evidence, much foreign exchange would have been saved had there been no imports.

[Sl. No. 8, Appendix II, Para 61, 47th Report of the  
PAC (1985-86) 8th Lok Sabha]

### Action Taken

The following actions have been taken for implementation of the recommendations of the PAC:—

- (i) 45 nos. equipment 'X' (Collimator AFV 8) returned by the firm after rectification but found defective again are under rectification at OFB since the firm has agreed to reimburse the cost of repairs. Out of this quantity 16 Nos. have already been repaired and despatched. Balance are likely to be repaired by 86-87.
- (ii) DGSW has been approached (31-3-86) to confirm reimbursement of the cost of repair of 45 Collimators to the Factory.
- (iii) Balance 5 Nos. of equipments 'X' which were also again found defective on receipt from the firm after rectification are at OFD. DGSW has been approached (31.3.86) to take up with the firm the proposal made by OFD to repair these 5 nos. also at OFD on reimbursement of the cost of repairs.
- (iv) DGSW has been expedited (31.3.86) to return 50 nos. equipment 'Y' (Periscope AFV 25) after repairs.
- (v) The claim for refund of Rs. 1.66 lakhs of customs duty aid erroneously on one of the consignment has been preferred by EHQ Bombay on 7.5.86. It is being pursued.

Following Vetting Comments was received from Audit on ATN Sl. No. 7, Appendix II Para 60 & 61.

“The comments of the PAC deal with unnecessary import of the components. Ministry in their ATN has not answered this aspect. The Ministry may kindly modify suitably their ATN indicating therein the action taken/proposed to be taken to avoid such imports in future”.

### Comments on Vetting Comments

In future also proposals for imports will be critically examined (even more so) in order to keep the imports to the minimum.

The position on the two instruments is as under:—

- (i) 45 Nos. of the equipment 'X' (Collimator AFV 8) received at OF Dun are expected to be repaired and supplied be-

fore 31.3.87. The repair of the remaining 5 Nos. will also be taken up and completed as soon as the firm confirms rectification at their cost.

(ii) 50 Nos. of equipment 'Y' (Periscope AFV 25) are yet to be received by the factory for further repairs. The equipments have been shipped by the firm.

(iii) The case of refund of Rs. 166 lakhs of Customs Duty paid erroneously has already been preferred by EHQ, Bombay on 7.5.86. The claim is still to be settled.

(N. SIVASUBRAMANIAN)  
Joint Secretary (OF)

[M. of D. Deptt. of Defence Production & Supplies OM No. 9(9)/84/D (Proj-I/Proj-II) dated 3 August, 1987]

### **Recommendations**

The Committee are concerned to note that Technical Committee set up in May 1971 to establish indigenous source of manufacture and supply of components for a heavy vehicle failed to develop more than one source for Pannier bag tanks. The solitary source developed in 1974 closed down in March 1982 when orders for the supply of Pannier bag tanks parts placed in January 1981 were pending for supplies. It is perturbing to note that though more than one source of supply was expected to be established, no order developmental or otherwise was placed for the tanks during the 7 years ending 1982 on any other suppliers. Though another firm 'Y' had responded to an enquiry in July 1978, no orders were placed on this firm as the quantity earmarked for placement of orders on this firm was reduced by Director General Ordnance Services. The Committee would like to know why developmental or regular orders were not placed on this firm during 1978 to 1981, when supplies were obtained from firm 'X', to develop a second source of supply as had been decided earlier when Technical Committee was set up.

[Sl. No. 9, Appendix II Para 71, 47th Report of PAC (8th Lok Sabha)]

### **Action Taken**

Several efforts were made by the Technical Committee with all reputed manufacturing firms for establishing additional sources.

The details given in chronological order in the Annexure enclosed shows that the Technical Committee had been making efforts right from April, '72 to develop more than one source. But due to the difficult nature of the items, they were not successful.

In 1978 the quantity earmarked for firm 'Y' could not be placed on them as DGOS had reduced their requirement. But when further requirements were received for procurement an enquiry was sent to firm 'Y' in June, '80 and quotations were received. The firm in its offer had asked for payment of a huge advance and also price escalation. Therefore, repeated negotiations had to be undertaken with them. In the meanwhile, another firm M/s. Nirlon, Pune also showed interest in development of this item. So it was decided to await a proposal from M/s. Nirlon before taking a final decision on placement of order on firm 'Y', their terms being unfavourable. In May, '81 M/s. Nirlon informed that it would take time to develop it. It was therefore, decided to follow up with the firm 'Y'. As the lock out of the firm 'X' was not expected, the competent authorities were not in favour of paying huge advances to the firm 'Y' particularly when no such advance was paid to firm 'X'. Therefore, the order was placed only on firm 'X' in 1981. However, as a special case in June '82 an order was placed on firm 'Y' with payment of advance and price escalation. But the firm was ultimately unsuccessful in developing the item inspite of payment of advance.

Thus it will be borne out from the facts that if developmental order was placed on firm 'Y' in the first instance the supplies would not have materialised as the firm 'Y' failed to develop the item later when they were given an order. Thus non placement of order on firm 'Y' from 1978-1981 did not materially affect the situation.

*Vetting comments received from Audit on ATN—Para 71*

We have no comments.

Sd/-

(M. K. ABDUL HAMID)

*Joint Secretary(s)*

[M. of D., Department of Defence Production and Supplies OM  
No. 9(9)/84/D (Proj. I|Proj. II) dated 3 Aug. 1987.]



*ANNEXURE*

*Efforts made for the development of second source in chronological order*

- April 1972** . . . Two firms were approached for development of **Pannier Bag Tanks**. These are :
- (a) **M/s. Madras Industrial Lining Ltd.**
  - (b) **M/s. Swastik Rubber Products (SRP), Pune.**
- Only **M/s. SRP, Pune** evinced interest.
- Jan. 73** . . . Enquiries were floated on four additional firms for the development of the fuel tanks. The firms are:—
- (a) **M/s. National Rubber Mfrs. Ltd., Calcutta.**
  - (b) **M/s. Karula Rubber Co. Pvt. Ltd., Bombay.**
  - (c) **M/s. Vasant Engg. Ltd., Baroda.**
  - (d) **M/s. Bengal Water Proof Works Ltd., Calcutta.**
- April 74** . . . Out of these **M/s. National Rubber Mfrs. Ltd.**, showed interest only in the development of fabric and not the complete bag. **M/s Bengal Waterproof** also responded. Other two firms regretted. **M/s SRP, Pune** developed a small size sample of the bag tank.
- Aug. 74** . . . **M/s Bengal Waterproof Works Ltd., Calcutta** intimated that they had capacity to supply fabric and adhesive only and not for fabrication of metal components in the bag tanks. Firm's proposal was not accepted.
- March 75** . . . A developmental S.O. placed on **M/s SRP Pune** for 200 sets vide S.O. No. CPO(VG) 620.
- July 75** . . . **M/s SRP, Pune** submitted full size sample.
- Oct. 76** . . . **NBPC** accorded to **M/s SRP**.
- Aug. 77** . . . T.E. floated on 6 other items.
- (a) **M/s Sundaram Industries, Madurai.**
  - (b) **M/s Fenner India Ltd., Madurai.**
  - (c) **M/s Aero Marine Industries, Madras.**
  - (d) **Bengal Water Proof Ltd., Calcutta.**
  - (e) **M/s T. Manek Lal Mfg. Co., Bombay.**
  - (f) **M/s MRF, Madras.**
- Out of these **M/s Aeromarine Industries Madras** only responded.

- Oct. 77 . . . . Considering lead time of 4 years a repeat supply order was placed on M/s SRP for 500 sets.
- Aug. 78 . . . . M/s SRP completed supplies of 500 sets, S.O. a quantity on M/s SRP, Pune was increased from 500 sets to 1000 sets on 16-8-78. However, 157 sets were kept for development of the second source.
- July 78 . . . . M/s Aeromarine Industries, Madras quoted against HVF enquiry.
- 26 Aug. 78 . . . . A letter of indent issued on the firm for 100 sets.
- Sep. 78 . . . . DGOS reduced the requirement for spares for the pannier bag tanks.
- Jun. 79 . . . . (a) Letter of intent on M/s Aero Marine Industries, Madras cancelled.  
(b) M/s SRP Pune completed the increased order of 1000 sets.
- June. 80 . . . . On receipt of fresh requirements enquiry floated on M/s Aero Marine Industries, Madras.
- July. 80 . . . . Quotation received from M/s Aeromarine Industries, the firm asked for an advance of Rs. 1,20,000/- at 12% interest.
- Sep. 80 . . . . The above firm received the offer by reducing the price by Rs. 455/- per set and asked for interest free advance of Rs. 2,20,000/-.
- Nov. 80 . . . . The above firm further revised their offer reducing the advance to Rs.1,50,000/- Technical Committee recommended placement of order on M/s Aeromarine after negotiations.
- Jan. 81 . . . . (a) M/s Aero Marine reps called for negotiations. The firm rep. insisted for incorporating price escalation clause in the S.O.  
(b) M/s Nirlon, Pune expressed keenness to develop the fuel tanks.
- Feb. 81 . . . . Decided to await proposal from M/s Nirlon, Pune before placement of order on M/s Aero Marine, Madras.
- Jan. 81 . . . . Repeat S.O. LP/4141/80-81 placed on M/s SRP, Pune, Pilot sample clause included in the S.O.
- May 81 . . . . M/s Nirlon intimated that they won't be able to develop the item before end Dec' 81.
- July 81 . . . . (a) Matter discussed in 76th TC(VP) on 9-7-81 decided to follow up the development with M/s Aero Marine, Madras.  
(b) M/s Aero Marine rep. visited HVF on 20-7-81 and sent their revised offer asking for an increase of 1.1% in the quoted prices of their offer, per 1 % increase in petrol price.  
(c) Bulk production clearance accorded to M/s SRP, Pune.
- Oct. 81 to Feb. 82 . . . . Case sent to DDS thro' C of A for placement of order on M/s Aero Marine Madras after negotiations with the firm.
- Mar. 82 . . . . Lock out declared in M/s SRP, Pune.
- Apr. 82 . . . . Discussions held by DDS with reps. of M/s Aero Marine.

- July 82 . . . . Supply Order No. LP/4022/82-83/ID3/HVF/09936/DD/A/Aero dated 27-7-82 placed on the firm for 200 sets.
- Aug. 82 to Jan. 83 . Pannier bag tanks back load from DOS.
- Oct. 82 . . . . Indent IND/9229 placed on ISW, London for fuel tanks for quantities 75, 66, 63 & 35 respectively.
- Feb. 83 . . . . M/s Aero Marines commitment to submit the pilot sample.
- May 83 . . . . Pilot samples from M/s Aero Marine not received. Indent IND/9402 dated 17-5-83 placed on ISW for fuel tanks for quantities of 193, 265, 194 & 206 Nos. respectively.
- Mar. 84 . . . . M/s SRP, Pune reopened after lifting of lock out.
- May 84 . . . . S.O. on M/s Aero Marine Madras cancelled.
- June 84 . . . . S.O. placed on M/s SRP, Pune vide No. LP/4013 dated 19-6-84 for quantities 280, 174, 280 and 194 Nos. respectively. for

### Recommendations

The failure firm 'X' to supply Pannier bag tanks against the order of January, 1981 and failure to develop indigenous source of supply resulted in import during the period October 1982 to July 1983 at a total cost of Rs. 94.69 lakhs involving extra expenditure of Rs. 57.52 lakhs. The Committee take a serious note of the costly lapse. They would like the matter to be examined in depth to find out why more than one source for supply of Pannier bag tanks was not developed. The Committee would like to be assured that failure to establish a second source of supply was not a deliberate attempt with some ulterior motives on the part of those entrusted to develop indigenous sources of supply.

[Sl. No. 10, Appendix II Para 72 of 47th Report of PAC (8th Lok Sabha)]

### Action Taken

Kindly refer to the detailed chronological order of developmental efforts made for developing sources for this items as given in the Annexure enclosed with paragraph No. 71. It clearly shows that the Technical Committee had been making sincere efforts right from April, 1972 to develop more than two sources. There was no lapse on the part of the Technical Committee in their effort to establish

a second source. At that point of time there was only one established indigenous source. Since the indigenous source was closed due to lock out, to maintain continuity in the production of Vijayanta Tank, import became necessary. Thus expenditure incurred cannot be considered as extra expenditure. The efforts to develop a second source had been continuing throughout and as on date two established sources are there now.

It is therefore assured that failure to establish a second source in the earlier stages was not through negligence or with any ulterior motives, of the concerned authorities.

*Vetting Comments received from Audit on ATN—Para 72.*

We have no comments.

Sd/-

(M. K. ABDUL HAMID)  
JOINT SECRETARY (S).

[M of D, Deptt. Defence Prodn. & Supplies O.M. No.  
9(9)/84/D (Proj-I|Proj.II) dated 3 August, 1987.]

## **CHAPTER III**

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

#### **Recommendations**

Para 55: The Committee find that there had been lack of proper planning and coordination between Departments of Defence and Defence Production and Supplies in demand projections. While on the one hand it was decided to produce the vehicles through ordnance factories, on the other, it was decided to procure them from private sector resulting in wasteful and infructuous expenditure, lack of efforts to raise indigenous production of imported items, too frequent resort to imports and delay and foreign exchange expenditure. The Department of Defence Production and Supplies ordered import 1200 drivers cabins which is stated to be a simple item from a foreign collaborator to meet the higher production targets fixed in July, 1979. Later on when targets were reduced in October, 1980, the factory requested the Ordnance Factories Board to drop the import as the indigenous supplies were adequate. The collaborator refused to cancel the order but agree to reduce the quantity to 400 cabins.

[Sl. No. 2. Appendix II. Para 55. 47th Report of the PAC (1985-86) (8th Lok Sabha)].

#### **Action Taken**

There is a continual dialogue between Ministry of Defence, Ordnance Factory Board and Users in the various forums including VPRM, where the capacities available in OFs are taken into account before any decision is taken by M of D to place orders for requirement of the user on trade sources.

Continual and relentless efforts are on to maximise indigenous content. The comments in respect of the specific reference to import of 1200 cabins are given below:

In May, 79 there was only one known reliable source of supply viz. M/s Ideal Structurals, Baroda.

*Actual Supplies of NP Cabin*

	76-77	77-78	78-79
	<hr/>	<hr/>	<hr/>
Ideal Structural	640	441	600

Ideal Structural had categorically stated in a meeting held on 20.4.79 under the Chairmanship of the then JS(s) that their capacity can at best be only 50 sets p.m. Two more firms had also been identified and the development process was already on for establishment of manufacture in their works. The firms were M/s. Autopins, Delhi and M/s Punj & Sons, Delhi. Based on the progress made by them till then, the anticipated requirements upto 1983-84 based on the targets fixed in the July 78 was duly evaluated against the anticipated supplies from the above firms to arrive at the minimum imports necessary.

2. The targets for NP Vehicles were revised in October 1980 and the reduced requirements of cabins were taken due note of. The foreign supplier was prevailed upon to cancel or shortclose the order. He eventually agreed to reduce the quantity to 400.

### **Recommendations**

Para 58. Another glaring case of faulty planning and lack of coordination with regard to import projection *vis-a-vis* indigenous availability of components of vehicles at various levels in the Department of Defence Production and Supplies has come to the notice of the Committee in the course of their examination. The target of production for Shaktiman Vehicles at Factory 'M' was enhanced on 21 July 1978 to 4200 numbers but no corresponding action was taken to increase the machining capacity of the factory for fly

wheel housing. The factory had demanded a milling machine as early as July 1977 to raise its milling capacity but the same was sanctioned in January 1982 only i.e. after four and a half years. Meanwhile, the factory requested for import of 1700 sets of finished fly wheel housing. After 3 months of placing the orders in March 1980 the Factory requested to defer/drop the import as scaling down of targets for production of vehicles was under consideration of a high power team in view of considerable foreign exchange involved in the procurement of components to meet the target. However, the Ordnance Factory Board preferred to import 1000 sets of finished fly wheel housing to build up a buffer stock and orders were placed in March 1980. The Committee are distressed to find that failure to instal a milling machine and decline in the production of the Ordnance Factory during the years 1978-79 and 1979-80 resulted in import of 1000 sets of fly wheel housings. They are not convinced with the plea taken by the Department that import order was placed in view of the fact that for this item, the only indigenous source was Vehicle Factory Jabalpur whose capacity was limited and import was necessary as an insurance against stoppages in indigenous production and to provide a cushion. The Committee strongly disapprove of this approach of building buffer stock of inventories by resorting to imports at higher costs and spending precious foreign exchange when indigenous capacity is already available in the country and could be augmented easily by installing balancing plant and machinery.

[Sl. No. 5, Appendix II, Para 58, 47th Report of the PAC (1985-86) (8th Lok Sabha)].

#### **Action Taken**

(i) Importation was felt inescapable based on the prime consideration that the factory had to achieve higher targets fixed in July 1978 for which in house capacity in country was limited.

(ii) In July, 1977 a master list of additional Plant and Machinery including Milling Machines was prepared by factory. This was not a demand. Firm demand was made in January, 1980 and this was included in the balancing Plant and Machinery requirement sanctioned by Government in January, 1982. Demand of Milling Machine was not dealt in isolation since the Fly Wheel Housing was not the only item to determine the production.

(iii) As mentioned above, the firm demand for machine was made in January 1980. Since the positioning of the said machine would

have definitely needed some lead time, the importation effected in Mach '80 cannot be linked up with the demand for the Machine in January 1980.

*Following Vetting Comment was received from Audit on ATN on Sl. No. 5 Appendix II Para 58*

"The comment of the Public Accounts Committee is that when the target of production of Shaktiman Vehicle Factory 'M' was enhanced on 21st July 1978 to 4200 numbers, no corresponding action was taken to increase the machining capacity of the factory for fly wheel housing. This comment has not been answered properly by the Ministry in their ATN. The Ministry may kindly mention in their ATN as to what was the machining capacity of the factory for fly wheel housing when the production target of Shaktiman Vehicles was enhanced to 4200 numbers and whether the then existing machining capacity was taken into account while fixing the target of 4200 nos., in July 1978. They may also indicate what action was taken to increase the capacity if the same was less than the requirement for matching production target of 4200 S' man Vehicles. Ministry may also kindly mention the action taken/proposed to be taken by them to avoid building up of buffer stock by importation."

*Comment on Vetting Comment*

It is submitted that the machining capacity of the factory for fly wheel housing was 3200 Nos. p.m. Target was raised to 4200 Vehicles based on an overall expectation of increased support from indigenous sources and import support, wherever necessary till indigenous sources could be established or in-house capacity for all relevant items increased through a balancing project. For increasing capacity in totality augmentation project has been pursued, to make this item to the extent of 4500 Nos. p.m. Importation for the sake of building buffer stock will be avoided. For the instant case also importation was not made for building buffer stock, but for meeting the raised target as laid down in July, 1978. Scaling down the target in October '80 reduced the need for immediate utilisation of imported stock, and eventually it served the purpose of buffer stock.

(N. SIVASUBRAMANIAN)  
JOINT SECRETARY (OF)

[M. of D., Deptt. of Defence Production & Supplies O.M.  
No. 9(9)/84/D (Proj-I/Proj-II) dated 3 August, 1987.]



### **Recommendations**

It is also strange to note that the Department of Defence Production and Supplies never contemplated any legal action against firm X for its failure to supply the item which resulted in costly imports. The justification for not taking any penal action has been given in terms of supply order but a developmental one, the firm having declared lock out, no other indigenous source of supply for the item being available and the firm on reopening agreeing to supply the order at the old price. This explanation is not convincing at all because of the fact that legal advice on this specific issue was never sought. The committee also understand that the order was not a development one as the same was placed in 1981 when the firm had already supplied 1000 sets ordered earlier in 2 lots of 500 sets each in 1977 and 1978. There was also no ground for the firm to refuse the order or not to fulfill the same on reopening when the Department of Defence Production and Supplies was the sole user of this item. The Committee are, therefore, inclined to believe that it was deliberate lapse. They would like that responsibility for the same may be fixed.

[Sl. No. 11, Appendix II Para 73 of 37th Report of  
PAC (1985-86) (8th Lok Sabha)].

### **Action Taken**

It is true that the firm had made supplies earlier but out of these supplies a number of pannier bags had certain fitment problems, such as leakage due to poor bending of fabric material with metallic components, PCD of holes were found varying from bag to bag, the drilled holes 6.7 mm dia meter had to be enlarged to 7.5 mm dia meter, distance of flange centres from the reference lines were not maintained properly and a variation upto 5 mm was noticed which resulted in stretching and bulging of rubber portion in fitment. Out of the one thousand sets, the firm had to repair 144 nos, 129 nos, 167 nos and 134 nos respectively of the four types of bags. These bags were not conforming to the exact requirements as drawings available for these four types of bags were being a flexible rubber item, the trial could be undertaken only after actual fitment on the tanks and at that stage these defects were

noticed. Due to above reasons, it was considered appropriate to include a pilot sample clause in the supply order of January '81. The supply order was therefore, a developmental one. Against this order the firm's pilot samples were not accepted and they had to modify them. The 2 types of bags submitted in Dec. '81 were not accepted due to certain defects. The firm could supply four fuel tanks only to the extent of 2, 11, 10 and 2 Nos. respectively because the firm had to submit pilot samples and also was having labour problems. Thereafter it was under lock-out which is a force majeure condition.

The Technical Committee took a cautious approach here before importing. It initially short-closed the order to the extent of 50 per cent of the quantity in the hope that the firm would re-open and finally to the extent of the quantity supplied by the firm so as to take alternative action for procurement. Even import action was done in instalments. As the firm was not considered a fully developed source, and therefore, the order had to be cancelled without financial repercussions as procurements from abroad became essential. The firm inspite of the order having been short-closed, agreed to execute the order at the old rates on the lifting of the lock-out.

Since PAC is not convinced with the Department's earlier clarification, legal advice has been sought and further action based on legal advice would be taken accordingly under intimation to Audit.

*Vetting Comments of Audit on Sl. No. 11, Appendix II Para 73 of the ATN.*

Against the order of January 1981 firm 'X' was to complete the supplies by February 1982. The actual supplies against the order during the stipulated delivery period were meagre and thus the firm failed to adhere to the stipulated delivery period. The Ministry may kindly advise whether any legal action was sought for at that point of time. If not reasons therefore and who took the decision of not taking any legal action at that time may be incorporated in the ATN.

It may be mentioned that PAC has not accepted that the order of January 1981 was a developmental order. The Ministry has now stated in their ATN that as a pilot sample clause 'A' was included in the order, the same is considered as a development order. The exact reasons for this, may kindly be elaborated in the ATN. The Ministry may also kindly bring out whether after lifting of the lock out the firm had actually supplied the stores at old rates.

*Comments on Vetting Comments*

It is true that the firm had made supplies earlier but out of these supplies a number of pannier bags had certain fitment problems, such as leakage due to poor bending of fabric material with metallic components, PCD of holes were found varying from bag to bag, the drilled holes 6.7 mm diameter had to be enlarged to 7.5 mm diameter, distance of flange centres from the reference lines were not maintained properly and a variation upto 5 mm was noticed which resulted in stretching and bulging of rubber portion in fitment. Out of the one thousand sets (comprising 4000 nos) the firm had to repair 144 nos. 129 nos, 167 nos and 134 nos, respectively of the 4 types of bags, since they were not conforming to the exact requirements. Although the firm rectified the defects and the stores were consumed in production, occurrence of such defects in such a large percentage was considered serious. Due to the above reason, the source of supply was treated as developmental one and it was considered necessary to include a pilot sample clause in the supply order of January '81. During the course of execution of this contract, the drawings were modified. Against this order of January, '81, the stipulation out of the approved material was to undergo fitment/performance trials.

2. The conditional Bulk Production Clearance was given to the firm on 3-8-81 subject to removal of certain defects. In anticipation that defects will be removed delivery schedule was fixed in August '81 for completing the supplies by Feb., '82. But the two types of bags submitted by the firm in December, '81 were not accepted due to certain defects. As clear bulk production clearance was not accorded to the firm, the firm could supply only 2,11,10 and 2 nos. respectively of each type of pannier bags. Moreover, the firm was having labour problems and consequently was under lock out in March, '82 which is a force majeure condition.

3. In developmental cases, legal action is not called for at the slightest provocation as it will not provide any results. The line of action taken by the department in developmental cases is to allow the firm time enough to perfect the store, specially when it is a single source as in this case.

4. The Technical Committee took a cautious approach here before importing. It initially short-closed the order to the extent of 50 per cent of the quantity in the hope that the firm would re-

open and finally to the extent of the quantity supplied by the firm so as to take alternative action for procurement. Even import action was done in instalments. As the firm was not considered a fully developed source, therefore, the order had to be cancelled without financial repercussions as procurement from abroad became essential. The firm in spite of the order having been short-closed, agreed to execute the order at the old rates on the lifting of the lock-out and have executed the order on those prices.

5. Since PAC is not convinced with the Department's earlier clarifications, legal advice has been sought and further action based on legal advice would be taken accordingly under intimation to Audit.

(M. K. ABDUL HAMID)  
(Proj-I)/D (Proj-II) dated 18-2-1988.]

[M of D., Deptt. of Defence Prodn. & Supplies OM No. 9(9)/84/D  
(Proj-I Proj-II) dated 3, August 1987.]

**Sl. No. 11, Appendix-II, Para 73**

It was stated therein that Legal advice has been sought. The Legal Advisor has stated that "if the supplier is able to discharge his burden of providing that the contract has become impossible to perform, the department may not succeed in the claim for damages". The Legal Advisor has further observed that as the department agreed to short-close the contract without financial repercussions on either side the department's claim for damages may not be sustainable.

2. Not-with-standing this, a show-cause notice was issued on the firm for claiming the difference. The firm has represented that it was unable to perform the contract due to lock-out from 28-3-1982 to 22-3-1984. To substantiate this a copy of the notification issued by the Maharashtra Government as a proof has also been enclosed by the firm (copy enclosed).

3. This case was examined by the Technical Committee in consultation with finance since it was within their powers, and a view has been taken that under the circumstances, we have no claim for damages against the firm.

(M. K. ABDUL HAMID)  
JOINT SECRETARY (SUPPLIES)

[Deptt. of Defence Production & Supplies O.M. No. 9(9)/84/D  
(Proj-I) (Proj-II) dated 18-2-1988.]

(Copy)

OFFICE OF THE DY. COMMISSIONER OF LABOUR  
PUNE DISTT. PUNE.

CERTIFICATE

TO WHOMSOEVER IT MAY CONCERN

This is to certify that there was a lock-out in Swastik Rubber Products Ltd. Khadki, Pune-411003 w.e.f. 28-3-1982 to 22-3.1984.

Sd/-

Dy. Commissioner of Labour, Pune  
Dist. Pune.

\_\_\_\_\_  
No. DCP/IS/11640

Office of the Dy. Commissioner of Labour, Pune Dist. Pune.

Bungalow No. 5, Bombay Pune Road,  
Pune-411005. Dt. the 3-9-86

Copy forwarded with compliments to Swastik Rubber Products Ltd., Khadki, Pune-411003.

(True Copy)

## CHAPTER IV

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

#### Recommendations

*Para 54.* The Committee note that production targets at factory M for production of Nissan Patrol Vehicles was fixed in July 1978 at 2000 numbers per annum from 1979-80. These targets were revised in July 1979 to 2000 vehicles during 1980-81, 2500 during 1981-82 and 3000 vehicles each during the years 1982-83 and 1983-84. The increase in targets, as it is stated to be based on requirements projected by the Army. The higher targets fixed in July, 1979 were later again revised downwards in October 1980 to 1000 vehicles for 1980-81, 1200 vehicles for 1981-82, 1800 for 1982-83 and 2000 for 1983-84 because the balancing plant and machinery to augment production were not in a position and foreign exchange was also not available for the bridging imports to meet the requirements for higher targets and indigenous availability. The Committee are perturbed to note that no balancing plant and machinery to augment production facilities were installed when it was decided to raise production targets. The Committee are surprised to observe that instead of fixing the targets of production on the basis of production capacity available or planned to be augmented, targets were earlier fixed unrealistically on demands only and thereby game of numbers was indulged into. Such unrealistic attitude in the field of Defence Supplies is highly deplorable. Instead, a higher target for Nissan Patrol Vehicles was decided upon with expectation of getting increased indigenous supply and import support during intervening period. Even though exercises in identifying balancing plant and machineries began in 1978 on a piece meal basis, a comprehensive project proposal covering all requirements of balancing plant and machinery to achieve a production level of 9,000 to 10,000 vehicles per annum was proposed in November, 1980. The project was finally sanctioned in January 1982 i.e. after a period of three

and a half years. The Committee regret to note that this has happened inspite of their earlier recommendation contained in their 109th Report (6th Lok Sabha) presented to Lok Sabha on 22 December, 1978 recommending induction of additional items of balancing equipment. This is highly deplorable. The Committee view the delay of three and a half years, in sanctioning balancing plant and equipment at factory 'M' with serious concern. In view of the above mentioned fact the delay cannot be justified in terms of scaling down of target in the Vehicles Production Review Meeting of 1980. The Committee find that because of the anticipated delay in raising the production facilities, the user department i.e. the Department of Defence preferred to meet their requirement from private sector. The Committee fail to understand why all aspects; raising production and time frame of works required to implement it was not discussed in the joint meetings of producers and users. This is a sad commentary on project planning.

[Sl. No. 1, Appendix II, Para 54 47th Report of the PAC  
(1985-86) (8th Lok Sabha)]

#### Original Action Taken

The realisable capacity of the factory for production of NP and NC vehicles is 4,300 p.a. Flexibility exists between numbers of NP and NC vehicles so long as the total quantity to be produced of both NP and NC are 4300 p.a. In the Vehicles Production Review Meeting (VPRM) held on 21.7.78 targets were fixed for 5 years commencing from 1979-80. The production of NP vehicles was pegged at 2,000 p.a.

In the recommendations contained in the 47th Report (8th Lok Sabha) of the PAC a reference has been made to the revision of the target fixation in July, 1979. No meeting was held in July 79 leading to revision of the targets. It is presumed that what is referred to by the PAC is an internal noting of GM/VFJ which was purely exploratory in nature in order to assess and maximise the potential in the factory with the objective of meeting the requirements of the users to the maximum extent, if necessary, even by import of parts in addition to availing indigenous resources where available. This note cannot be construed as a revision of the targets.

While the targets in Oct '80 for NP vehicles were lowered, the targets for NC vehicles were correspondingly increased. Thus in regard to the combined requirements of NP and NC vehicles, there is no difference in the targets fixed in July 78, and in Oct 80, in that

the total number of vehicles targetted for production has been maintained at 4,300 p.a.

Within the overall capacity of 4,300 p.a. for both NP and NC the targets for NP were revised downward to 1000 nos. in Oct 80 as against 2000 p.a. projected in July 78. There was a corresponding increase as far as NC vehicles were concerned. The higher target fixed in July 78 for NP vehicles were based on the expectation of increased support from indigenous sources and import support wherever necessary (till the indigenous sources could be established). In May 79 in the VPRM (16.5.79) this aspect was discussed. The main constraint in stepping up production of NP vehicles was the lack of an assured source of indigenous supply for the cabins. This item was to be a bought out item and no capacity for it was created at VFJ ever.

The time taken for processing of the case leading to the issue of Government sanction from the date of submission of the proposal has to be reviewed with reference to the investment involved. The scrutiny of the case at various levels has been brought out in the chronology statement enclosed.

Efforts will be made to cut out delays at various stages and sanctioning of the projects monitored closely at sufficiently high levels.

#### CHRONOLOGY OF SANCTION FOR AUGMENTATION PROJECT

1. 11.7.78 During PAC oral hearing it was stated that with the induction of additional manpower to be done gradually the factory will be able to raise production to 10,000 vehicles per annum with some additional items of balancing equipment.
2. Dec., 78 PAC recommendation.
3. 12.2.79 M of D asked list for Civil work and P & M.
4. 5.5.79 The essential investment list was forwarded to M of D.
5. 15.5.79 In house meeting held in the room of Secy/DP. OFB was asked to reassess the requirement and submit a project proposal duly vetted by Board.
6. 6/79 to 6/80
  - (i) Re-appraisal and identification of the areas where balancing is inescapable.
  - (ii) Formulation of specifications based on latest technology.
  - (iii) Obtained latest budgetary offers.
  - (iv) Engineering division reviewed this list with reference to machines already under procurement from other grants.
  - (v) Finance division reviewed the proposal from price reasonableness/necessity angle.



7. 8-7-80 Final project proposal submitted to Board.
8. 6-9-80 Board wanted Member/WV&E, Member/P&MM and Member/Finance to scrutinise the list.
9. 11-11-80 Board accepted the project proposal from necessity and reasonableness angle.
10. 14.11.80 Proposal forwarded to M of D.
11. 28.2.81 M of D wanted to know whether civil works are required.
12. 11.3.81 Confirmed by OFB.
13. 2.1.82 Government sanction issued.

Vetting Comment received from Audit on ATN Sl. No. 1 Appendix II Para 54 Sub-para 2 of the ATN.

“Regarding upward revision of production target of N.P. Vehicles in July 1979, it has been stated in the ATN, that no meeting was held in July 1979 leading to the revision of targets. It was only in an internal noting of GM, VFJ which was exploratory in nature the production target was indicated and that the note should not be construed as a revision of target. This contention of the Ministry may not be very correct, inasmuch as the decision to import, 1200 Nos. of drivers cabins was based on the target production fixed in July, 1979. Though the target revised/fixed in July 1979 might be contained in GM, VFJ’s internal note but it is to be construed important as the same formed the basis of the decision to import 1200 drivers cabins.

In view of this the Ministry may delete the sub-para from the ATN or to modify suitably”.

#### **Comment on Vetting Comment of Audit**

It is submitted that the determining factor for the decision to import of 1200 Drivers Cabin was the assessment on best probable availability from the lone active indigenous source for the item. Import action was initiated in July 1979, when there was only one active source (M/s Ideal Structural). The firm’s representative stated at a meeting held on 20.4.79 under the Chairmanship of the then Joint Secretary (F) that their capacity can at best be only 50 sets per month. Development of this item was in progress with two other trade firms. Based on expected supply from M/s Ideal Structural and also considering progress made by the other two new trade firms towards developing this item, the factory proposed importation for a minimum quantity of 1200 Nos. to meet requirement upto 1983-84 as per the target laid down in July '78

only. It is reiterated that the July 1979 note was an internal noting of GM/VFJ and this was purely explanatory in nature. Import proposal was scrutinised at various levels at factory OFB and Ministry of Defence.

#### **Vetting Comment of Audit—Para 54 sub-para 3**

“This sub-para is not much relevant as the audit para as well as the deliberations in the PAC meeting deal with fixation and re-fixation of production targets for want of balancing plant and machines and consequent importation of driver’s cabins in respect of NP Vehicles only. Hence this sub-para may be considered for deletion”.

#### **Comment on Vetting Comment of Audit**

This is relevant to the PAC observations that “no balancing plant and machinery to augment production facilities were created when it was decided to raise production targets for N.P. Vehicles”. Factual position is elaborated below: The realistic capacity of the factory for production of N.P. & N.C. Vehicles combined is 4300 Nos. p.a. Flexibility exists between number of N.P. & N.C. Vehicles (product-mix) so long as the total quantity to be produced of both N.P. & N.C. was 4300 Nos. p.a. While raising target for N.P. vehicles in July '78, the target for N.C. Vehicle was correspondingly pegged down to keep it within the overall capacity of 4300 Nissan vehicles p.a. Hence the said revision in target has no direct link with the project for augmentation of in-house capacity. The higher target fixed in July '78 for N.C. Vehicle was based on the expectations of increased support from indigenous sources and import support wherever necessary, till the indigenous sources could be established. In May '79 at VPRM (16.5.79) this aspect was discussed. The main constraint in stepping up production of N.P. Vehicles was the lack of assured source of indigenous supply for the Cabins, which was a bought out item and no capacity for it was created at VFJ ever.

#### **Vetting Comments of Audit—Para 54 Sub-para 4**

In view of what has been stated under sub-para 3 above the first two sentences of this sub-para are not relevant and may be considered for deletion.

The Public Accounts Committee has commented that because of the anticipated delay in raising the production facilities, the user department preferred to meet their requirement from private sector. The committee desired to know why all aspects regarding raising production and time frame of works required to implement were not discussed in the Joint meeting of producers and users. In other words the PAC wants to know as to why the question of non-availability of balancing plant & machinery to meet the targets fixed in July 1978, July 1979 was not considered while fixing these targets. The Ministry's action taken note does not cover this point. The Ministry, therefore may kindly give a suitable reply in the ATN to this point for committee's satisfaction.

#### **Comment on Vetting Comment of Audit**

In view of the reply to the vetting comment on sub-para 3 the first 2 sentences of this would be seen to be relevant.

At the time of fixing the target there was expectation of getting increased indigenous supply and also import support. Action was taken to optimise production in the factory based on expected increase in supplies of certain components from sister factories and trade and also import support. The need for additional plant and machinery and other facilities was felt to enable VFJ to meet the higher target. The factory initiated proposals for new plant and machinery and comprehensive project proposal covering all requirements for balancing plant and machinery in order to achieve the targets fixed.

Attempts were made to achieve the increased targets. In 5/79, in In-house meeting held in the room of Secy (DP) the additional requirement of plant and machinery was discussed and OFB was directed to submit a project proposal. The processing of the case has been explained in the ATN on para 54 forwarded *vide M* of D.I.D. No. 9(9)84/D (Proj|Proj.II) dt. 10 Nov. 86. Therefore action considered for being taken in regard to balancing plant and machinery was in the knowledge and the matter was also discussed in the meeting in which the representatives of user and producer were present.

Sd/-

(N. Sivasubramanian)  
Joint Secretary (OF)

[M of D. Deptt. of Defence Production & Supplies  
OM No. 9(9)84/D (Proj-I/Proj-II) dated 3 August, 1987]

### Recommendations

Para 56. 400 drivers cabins were imported at the cost of Rs. 79.53 lakhs in July 1981 to February, 1982. The landed cost of imported cabin was Rs. 19832 against the indigenous cost of Rs. 4631 per cabin i.e. more than four times. It has been stated that indigenous availability of cabins from the only source that was available was much less than the total projected requirements. It is perturbing to note that the Department of Defence Production and depended on a single source for supply of vital defence components contrary to the instructions in this regard. The matching components, viz., clamp, cushion rubber, bumper-hook etc. for these cabins ordered on indigenous firms during December 1981 to February 1982 were received during March 1982 to May 1983. As the cabins imported were as per design of the foreign manufacturer, these could not be fitted on the indigenous chassis and as such expenditure of Rs. 584 per cabin had to be incurred on additional fittings to mount the cabins on the chassis. The committee fail to understand why our requirements were not specified to the manufacturers while importing cabins as per our requirements. The cost of indigenous components was Rs. 584/- per cabin. Out of the 400 cabins imported, 311 numbers costing Rs. 61.68 lakhs were lying in factory's stock at the end of August 1984. The Committee are perturbed to note that unnecessary import of cabins resulted in an extra expenditure of Rs. 60.96 lakhs. Not only that the cabins imported at such a high cost remained unutilised during 1981-82 and 1982-83, but also 53 cabins still remained unutilised at the end of March 1986. While sharing Committee's concern over non-utilisation of the cabins for a long time, the Secretary Defence Production and Supplies during evidence stated that "the additional quantity arranged through import was not immediately required for use because the original requirement of more number of vehicles was reduced." The non-utilisation of imported cabins for such a long time raises a doubt in the mind of the Committee, if the requirement of the Department for this equipment was really so urgent as to necessitate its immediate import rather than wait for its development by indigenous sources. The Committee cannot but express their unhappiness at this heavy extra expenditure of Rs. 60.96 lakhs due to

inaccurate conception in the Department's planning and requirements.

[Sl. No. 3, Appendix-II Para 56, 47th Report of the PAC  
(1985-86) (8th Lok Sabha)]

### Action Taken

1. Attempts are always made to establish more than one source for every item. For this item order was also placed on M/s Auto Pins, Faridabad in Sept' 76 and on M/s Punj & Sons, New Delhi in August 79 (in addition to the existing source M/s Ideal Structural, Baroda). Against these two new orders, supplies from M/s Auto Pins commenced in July 79 and from M/s Punj & Sons in June '84.

2. For cabin, order for 5 major sub-assemblies were placed leaving aside the loose accessories which were indigenously available. The collaborators informed that they had updated/improved the design of cabin in their production line and as such offered to supply the improved version only.

3. Imported cabins were not immediately used in production because the increased supplies from indigenous sources were adequate to meet the scaled down production requirement.

4. Present reserve/import stock of 53 nos. will be utilised during 1986-87 and same will be replenished from indigenous supplies.

5. Importation of NP Cabin was initiated in July '79 when prospects of indigenous supplies were not bright as may be seen from following:—

(a) M/s Ideal Structural, Baroda — Supply capacity limited to 50 nos. p.m.

(b) M/s Auto Pins, Faridabad — Against the order of 76 the firm submitted pilot lot of 20 nos. in July /79  
Likely rate of supply could not be assessed at that time.

Viewed against the above supply prospect, importation was necessary at that time.

*Following Vetting Comments was received from Audit on ATN  
Sl. No. 2, Appendix-II Para 55 and 56.*

"55. In sub-para 2 of their ATN the Ministry has stated that the decision to import 1200 nos. of Drivers Cabins was considered in view of the fact that the then only indigenous source of supply (M/s Ideal Structural) was not in a position to meet the production target. It may be stated that the quantity of 1200 drivers cabins decided for importation was based on production target fixed in July, 1979, which the factory was not in a position to achieve for want of balancing plant and machinery. Thus there was a lack of co-ordination in fixing the production target vis-a-vis achievable capacity of the factory. Ministry may kindly suitably modify their ATN keeping the above points in view and mention action taken/proposed to be taken to avoid such a situation in future.

56. In sub-para of 5 of the ATN the Ministry has justified the importation on the ground that the prospects of supply by the ..... indigenous sources were not bright. The fact, however, remains as already stated earlier, that the importation of 1200 drivers cabins was initiated to meet the target fixed in July, 1979 which the factory could not have achieved without the balancing plants and machineries as expressed by them in the last sentence of their recommendation. The Ministry may kindly suitably modify their ATN keeping in view the above comments and indicate the action taken/proposed to be taken to avoid such a situation in future.

#### **Comments on Vetting comment**

Importation was based on target fixed in July, 1978 which was achievable as far as in-house capacity for Nissan vehicles was concerned. The relevant item is a bought out item for which no capacity was created in factory ever. Therefore, balancing project had no effect on importation of this item.

(N. SIVASUBRAMANIAN)  
Joint Secretary (OF)

[M. of D, Deptt. of Defence Production & Supplies OM  
No. 9(9)/84/D (Proj-I/Proj-II) dated 3 August, 1987.]

### **Recommendations**

Para 59. The more distressing fact that the imported stock of 934 fly wheel housing costing Rs. 6.98 lakh which were received during January to March 1982 alongwith another stock of 703 numbers already imported remained unutilised for a long period. The present stock of Machined Fly Wheel Housing as in August, 1985 was stated to be 1317 (537 numbers ex-import and 780 numbers ex-Vehicles Factory Jabalpur). Judged in its entirety, the Committee find that costly import of fly wheel housing was not necessary. They are not happy with the statement made by the Secretary (DP&S) during evidence that "I do not consider imports a wrong thing.... In 1978 we had problem of utilising our surplus foreign exchange position". The Committee are distressed to find that import was resorted to in this case just to utilise the foreign exchange which was stated to be "surplus". This attitude is reprehensible and not conducive to indigenisation of components required by the Defence.

[Sl. No. 6, Appendix II, Para 59, 47th Report of the PAC  
1985-86 (8th Lok Sabha)]

### **Action Taken**

(i) Since the requirement on the basis of the revised target was more than the indigenous capacity, imports were resorted to. Scaling down of the target in October, 1980 reduced the need for immediate utilisation of imported items which served the purpose of buffer stock.

(ii) Imports are resorted to only where necessary.

*Following Vetting Comment was received from Audit on ATN on  
Sl. No. 6, Appendix II Para 59*

"Ministry's contention in their ATN is not convincing since the requirement itself was on the basis of a production target which was not achievable by the factory with their the then capacity. Keeping this in view the Ministry may kindly modify suitably their ATN to satisfy the remarks of the PAC".

**Comments on Vetting Comment**

The details of machining achievements for fly wheel housing is as under:—

	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84
Shaktiman Vehicle target		3060	3060	3000	3300	3600	3700	3800
Shaktiman Vehicle Target revised in 7/78				4200	4200			
Shaktiman Vehicle achievement	3492	3071	2713	2402	3320	3670		
Machining achievement for fly wheel housing.	2926	3775	2975	2600	2483			

From the above figures, it will be seen that machining achievement was lower than the achievement on production of Shaktiman Vehicle during the years 76-77 to 80-81. The operational requirement of Services for Shaktiman Vehicles was discussed in 10/80. The machining capacity for fly wheel housing was not sufficient to meet requirement for production. The requirement of 1700 Nos. of fly wheel housing for import was based on the anticipated short-fall in availability upto 81-82. Since the target for Shaktiman Vehicles was reduced in 10/80 from 4200 to 3300 in 1980-81 and to 3600, 3700 and 3900 in 1981-82, 1982-83 and 1983-84 respectively, the imports served as buffer store. The import proposal was processed and the order was placed by VFJ on 30.3.80 for 1000 Nos. keeping in view the fact that for this item, the only indigenous source was VFJ whose capacity was limited. Importation was necessary as an insurance against stoppages in indigenous production and to provide a cushion.

(N. SIVASUBRAMANIAN)  
JOINT SECRETARY (OF)

[M of D, Deptt. of Defence Production & Supplies OM  
No. 9(9)/84/D (Proj-I/Proj-II) dated 3 August, 1987.]



**CHAPTER V**

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

NIL

NEW DELHI;  
1st August, 1989  

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10 *Sravana*, 1911 (*Saka*)

P. KOLANDAIVELU,  
*Chairman,*  
*Public Accounts Committee.*

## APPENDIX I

- (i) **Recommendations/Observations that have been accepted by Government ;**  
Sl. Nos. 4, 7, 8, 9 and 10
- (ii) **Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government ;**  
Sl. Nos. 2, 5 and 11
- (iii) **Recommendations/Observations replies to which have not been accepted by Committee and which require reiteration ;**  
Sl. Nos. 1, 3 and 6
- (iv) **Recommendations/Observations in respect of which Government have furnished interim replies.**  
Sl. No. NIL

APPENDIX II

*Statement of Recommendations/Observations*

Sl. No.	Para Nos.	Ministry/Deptt. concerned	Recommendations/Conclusions
1	2	3	4
1	4	Defence	<p>In a note furnished to the Committee the Department of Defence Production and Supplies had intimated that in July 1979 the target for production of Nissan Patrol Vehicles was revised and kept at a particular level, as could be seen from the extract of the note reproduced in paragraph 22 of the 47th Report. Notwithstanding this position, the Committee are now informed in the Ministry's Action Taken Note that no revision of target took place in July 1979 and that the reference made by the PAC was only to an internal noting which was purely exploratory in nature in order to assess and maximise the potential in the factory. The Committee are shocked about the conflicting replies given in regard to the revision of targets. If however, the information given to the Committee as re-produced in paragraph 22 of the Report was not based on facts, the Committee desire to know on what basis the reply was given at that time to the Committee. The Committee recommend that the issue relating to the upward revision of targets and subsequent scaling down of the same should be fully inquired into and a report furnished to the Committee.</p>

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In their earlier report the Committee had observed that 401 Drivers Cabins were imported at a cost of Rs. 79.53 lakhs in July 1981 to February 1982. However, out of the 401 cabins imported 311 numbers costing Rs. 61.68 lakhs were lying in factory's stock at the end of August 1984. The Committee had concluded that unnecessary import of cabins had resulted in an extra expenditure of Rs. 60.96 lakhs. In their action taken notes the Ministry have sought to justify their position and stated *inter-alia* that the importation was based on target fixed in July 1978 which was achievable as far as in-house capacity for Nissan vehicles was concerned.

The Committee are not convinced by the clarifications given to justify the decision of Government for import of 401 cabins, resulting in extra expenditure of Rs. 60.96 lakhs. On the other hand, the Committee note that failure to make an overall assessment of needs in time contributed to the extra expenditure. The Committee deeply regret the failure of the Ministry to assess the needs properly and consider it unfortunate that the Ministry have attempted to defend a wrong decision instead of owning the same. The Committee recommend that the planning processes need to be duly revitalised so as to obviate such blatant errors and consequent avoidable extra expenditure.

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In their earlier Report the Committee had noted that the imported stock of 934 fly wheel housing costing Rs. 6.98 lakhs which were received during January to March 1982 alongwith another

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stock of 703 numbers already imported remained unutilised for a long period. The Committee were distressed to find that import was resorted to in this case just to utilise the foreign exchange which was stated to be 'surplus'. This attitude, the Committee observed, was reprehensible and not conducive to indigenisation of components required by the Defence.

In their action taken note furnished to the Committee, the Ministry have stated that since the requirement on the basis of revised target was more than the indigenous capacity, imports were resorted to. Scaling down of the target in October 1980 reduced the need for immediate utilisation of imported items which served the purpose of buffer stock; and also importation was necessary as an insurance against stoppages in indigenous production and to provide a cushion.

The observations of PAC are based on the fact that the Ministry failed to take an overall view of the requirements with due foresight. Viewed in this context, the explanation is not acceptable and the Committee desire to reiterate their earlier recommendation.

In their earlier Report the Committee had expressed concern that the Technical Committee set up in May 1971 to establish indigenous source of manufacture and supply of components for a heavy

vehicle failed to develop more than one source for Pannier bag tanks. The solitary source developed in 1974 closed down in March 1982 when orders for the supply of Pannier bag tank parts placed in January 1981 were pending for supplies. In their action taken note furnished to the Committee the Department of Defence Production and Supplies have stated inter alia that "several efforts were made by the Technical Committee with all reputed manufacturing firms for establishing additional sources..... the technical Committee had been making efforts right from April 1972 to develop more than one source. But due to the difficult nature of the items, they were not successful."

The Committee feel concerned that the Government with all the resources at their command, were unable to establish an additional source for manufacture and supply of components for a heavy vehicle for Pannier bag tanks, even though a period of 7 years elapsed between 1974 and 1981. Efforts made by the Technical Committee during all these years reveal that the additional sources which were sought to be developed ultimately failed to meet the requirements of the Ministry of Defence. It is a matter which needs careful analysis and examination.

The Committee would like to point out that during the past about four decades a strong industrial base has been built up and the infrastructural facilities created at huge costs are also available for further expansion. There is also no dearth of talent in the coun-

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try. In the opinion of the Committee, the plea of the Ministry that "due to difficult nature of the item" the alternative source could not be developed does not seem to be convincing. It should be possible to develop the required component from an alternative source, either in the private sector or in the public sector. In case the private sector is not able to cater to the needs of the Government, either on account of the extra developmental efforts required or that the production of the component is not economical to them, one of the concerned public sector units could be motivated to develop the component so that the country is not entirely dependent either on the private sector or some outside agencies. The Committee would therefore, urge upon the Government to take a more realistic look at their arrangements for procuring their supply of components/stores etc. from the private sector as also their own resources and take corrective/remedial steps wherever necessary.

## PART II

### MINUTES OF THE 6TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON

1 August, 1989

The Committee sat from 1500 to 1600 hrs.

#### PRESENT

Shri P. Kolandaivelu—*Chairman*

#### MEMBERS

2. Shri Abdul Hannan Ansari
3. Shri Chhitubhai Gamit
4. Shri M. Y. Ghorpade
5. Shri Y. S. Mahajan
6. Maj. Gen. R. S. Sparrow
7. Shrimati Usha Rani Tomar
8. Dr. Chandra Shekhar Tripathi
9. Shri Vir Sen
10. Shri Rameshwar Thakur
11. Shri Surender Singh

#### SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
3. Shri K. K. Sharma—*Deputy Secretary*
3. Shri A. Subramanian—*Senior Financial Committee Officer*

#### REPRESENTATIVES OF AUDIT

1. Shri R. Parameswar—*Addl. Dy. CAG*
2. Shri S. B. Krishnan—*Director (Report)*
3. Shri S. Satyamoorthy—*Director of Audit, CW&M-I*
4. Shri T. Sethumadhvan—*Director of Receipt Audit I*
5. Shri K. Krishnan—*Joint Director (DT)*
6. Shri K. Jayaraman—*Jt. Director (Rlys)*



2. The Committee considered the following draft Reports and adopted them:

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Draft Report on action taken on 47th Report (8th Lok Sabha) regarding Avoidable/unnecessary Imports.

3. The Committee authorised the Chairman to finalise the draft Report in the light of verbal changes arising out of factual verification by the Audit and present the same to the House.

The Committee then adjourned.

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA  
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Sl. No.	Name of Agent
<b>ANDHRA PRADESH</b>		<b>UTTAR PRADESH</b>	
1.	M/s. Vijay Book Agency, 11-1-477, Mylargadda, Secunderabad-500361	12.	Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad, U.P.
<b>BIHAR</b>		<b>WEST BENGAL</b>	
2.	M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar)	13.	M/s. Manimala, Buys & Sells, 123, Bow Bazar Street, Calcutta-1.
<b>GUJARAT</b>		<b>DELHI</b>	
3.	The New Order Book Company, Ellis Bridge, Ahmedabad-380006 (T.No. 79065)	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi (T.No. 351663 & 350806).
<b>MADHYA PRADESH</b>		15.	M/s. J.M. Jaina & Brothers, P.Box 1020, Mori Gate, Delhi- 110006. (T.No. 2915064 & 230936).
4.	Modern Book House, Shiv Vilas Palace, Indore City. (T. No. 352283)	16.	M/s. Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi-110001. (T.No. 3515308 & 45896).
<b>MAHARASHTRA</b>		17.	M/s. Bookwell, 2/72, Sant Niran- kari Colony, Kingsway Camp, Delhi-110009. (T.No. 7112309).
5.	M/s. Sunderdas Gian Chand, 601, Girgaum Road, near Princess Street, Bombay-400002.	18.	M/s. Rajendra Book Agency, IV-D/50, Lajpat Nagar, Old Double Storey, New Delhi-110024. (T. No. 6415362 & 6412131).
6.	The International Book Service, Deccan Gymkhana, Poona-4.	19.	M/s. Ashok Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110033.
7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400001.	20.	M/s. Venus Enterprises, B-2/85 Phase-II, Ashok Vihar, Delhi
8.	M/s. Usha Book Depot, 'Law Book Seller and Publishers' Agents, Govt. Publications, 585, Chira Bazar, Khan House, Bom- bay-400002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, Connaught Circus New Delhi-110001. (T.No. 344448, 322705, 344478 & 344508).
9.	M&J Services, Publishers, Re- presentative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuels Road, Nalgaum-Dadar, Bom- bay-400014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay- 400001.	23.	M/s. Books India Corporation Publishers, Importers & Ex- porters, L-27, Shastri Nagar, Delhi-110052. (T.No. 269631 & 714465).
<b>TAMIL NADU</b>		24.	M/s. Sangam Book Depot, 4378/4B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi-110002.
11.	M/s. M.M. Subscription Agencies, 14th Murali Street, (1st Floor), Mahalingapuram, Nungambak kam, Madras-600034. (T.No. 476553).		

