

**PUBLIC ACCOUNTS COMMITTEE
(1968-69)**

(FOURTH LOK SABHA)

FIFTY-FOURTH REPORT

**[Appropriation Accounts (Civil), 1966-67 and Audit
Report (Civil), 1968 relating to the Ministry of
Petroleum & Chemicals and Mines &
Metals (Department of Mines and
Metals)]**



**LOK SABHA SECRETARIAT
NEW DELHI**

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PRESENTED TO LOK SABHA ON
19TH MARCH, 1969.

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(1968-69)

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Shri K. Seshadri—*Under Secretary.*

*Declared elected on 19th August, 1968 vice Shri M. M. Dharia who resigned from the Committee.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf the Fifty-fourth Report on Appropriation Accounts (Civil), 1966-67 and Audit Report (Civil), 1968.

2. The Appropriation Accounts (Civil), 1966-67 and Audit Report (Civil), 1968 were laid on the Table of the House on the 3rd April, 1968. The Committee examined the paragraphs relating to the then Ministry of Steel, Mines & Metals (now redesignated as the Ministry of Petroleum and Chemicals & Mines and Metals)—Department of Mines and Metals, at their sitting held on the 5th July, 1968 (FN). The Minutes of this sitting form part of the Report (Part II)*.

3. The Committee considered and finalised the Report at their sitting held on the 24th January, 1969.

4. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report. For facility of reference these have been printed in thick type in the body of the Report.

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

6. The Committee would also like to express their thanks to the officers of the Department of Mines and Metals for the cooperation extended by them in giving information to the Committee during the course of evidence.

NEW DELHI;

March 1, 1969.

Phalgun 10, 1890 (Saka).

M. R. MASANI,

Chairman,

Public Accounts Committee.

*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

I

MINISTRY OF PETROLEUM AND CHEMICALS & MINES AND METALS

(DEPARTMENT OF MINES AND METALS)

Audit Report (Civil), 1968

GEOLOGICAL SURVEY OF INDIA & INDIAN BUREAU OF MINES

Delay in the recovery of dues

Audit paragraph

The Public Accounts Committee* expressed the hope (April, 1965) that suitable instructions would be issued by the Ministry to the Geological Survey of India and the Indian Bureau of Mines to secure deposits from all parties concerned before taking up work on their behalf and that the Departments would introduce a system to assess at regular intervals the cost of the work done and to indicate the same to the parties concerned. The Committee also hoped that the cases of outstanding recoveries would be pursued vigorously with the parties concerned. It is, however, observed that the amount of dues still (December, 1967) pending recovery continues to be very large, as detailed below:

Name of the Party	Period during which service rendered	Amount due for recovery (In Lakhs of Rs.)
National Coal Development Corporation	September 1955 to June, 1964	164.74
National Mineral Development Corporation	March, 1956 to July, 1964	215.87
State Governments	March, 1960 to January, 1967	20.61
Central Government Departments including Railways	April, 1953 to May, 1966	20.93
Pyrites and Chemicals Development Co. (P) Ltd.	May, 1957 to February, 1962	5.17
Cement Corporation of India Ltd.	December, 1965 to March, 1967	3.62
Assam State Electricity Board	December, 1963 to December, 1964	1.55
	TOTAL	432.40

*Para 50 and 51 of the Public Accounts Committee's 39th Report (Third Lok Sabha).

1.2. The delay in the recovery of amounts from the autonomous bodies in this manner has resulted in unauthorised financial assistance to them without a vote of Parliament.

1.3. The extent to which billing of dues is in arrears is not known as no consolidated account of dues has been maintained by these organisations.

[Paragraph No. 59, Audit Report (Civil), 1968]

1.4. The Committee drew the attention of the representative of the Department to the fact that the amount awaiting realisation by the Geological Survey and Indian Bureau of Mines for services rendered to Public Sector Organisations, other Departments, State Governments etc. was as high as Rs. 4.32 crores. They recalled that the matter had been considered by the Committee on an earlier occasion in their 39th Report (Third Lok Sabha) and enquired what steps had since been taken to improve the position. The witness replied that at one time the arrears were of the order of Rs. 8 crores but by persistent efforts these had been brought down to about Rs. 4 crores. After the Public Accounts Committee considered the matter last, instructions had been issued in July, 1966 for recovery of 50 per cent of the charges in advance. The Geological Survey "has invariably been submitting a bill for 50 per cent and in many cases it has been collected." The difficulty was that the bills were being disputed. For instance, the National Mineral Development Corporation had pointed out that they should not be charged for the investigations carried out by the Geological Survey in 1957—61, before the Corporation came into existence. Some of the investigations by the Geological Survey were taken up at the request of State Governments on a priority basis in drought-affected areas for establishing presence of groundwater. These were pending "mutual discussion and amicable settlement." The real difficulty was that Public Sector Organisations had been disputing the basis of billing and complaining that the rates charged by the Geological Survey were high. Government had recently constituted an informal departmental committee to go into the question and hoped to evolve a satisfactory formula on the basis of its report. In the light of the disputes raised, a substantial portion of the pending bills may not be admissible; on a "guess", "the admissible amount may be 60 per cent or 70 per cent....."

1.5. Taking note of the fact that some of the bills were under dispute the Committee asked for information about the number of parties for whom the work had been done since 1963, the dates on which claims were preferred, the grounds on which the bills had

been disputed and the present position of the cases. The information given by the Department is tabulated below:

S. No.	Party	Date of completion of work	Date on which bill was preferred	Amount of Bill (Rs.)	Date of dispute	Present position
1	2	3	4	5	6	7
1.	National Mineral Dev. Corporation (ore investigation)	12/63	7/65	10.79 lakhs	12/65	NMDC feel charges are high and want to inspect records. Matter under consideration.
2.	Assam Government (Mamih Limestone Investigation)	12/63	4/64 to 6/64	1.84 lakhs	9/64	Claim for the period 8/63 to 12/63 under dispute by Assam Govt. Matter under correspondence.
3.	Assam State Electricity (Board Foundation drilling at Umru Basin)	12/64	12/65	2.55 lakhs	12/65	Claim under dispute and correspondence.
4.	Govt. of Maharashtra (Groundwater investigation at Thana)	4/65	4/66	4,292	1966-67	Service in dispute as not chargeable. Matter under correspondence.
5.	Govt. of Madras (Industrial water supply investigation).	6/65	3/66	6,423	1966-67	Matter under correspondence.
6.	Hylel Project, Palampur.	9/65	5/66	15,030	3/67	Service not chargeable. Matter under correspondence.
7.	Hindustan Steel (Newar Limestone Investigation)	9/66	10/67	14.00 lakhs	..	HSL want confirmation that charges relate to this investigation only. The matter is under correspondence.
8.	Ministry of Defence (Swastik Project—Rope-way Investigation)	12/66	3/67	1,129	4/67	The Project authorities want charges to be waived. Matter under consideration.

1.6. The Committee enquired whether after July, 1966, when orders for recovery of 50 per cent charges in advance were issued, there were any cases of failure to recover the advance. In a note on this point, the Department have stated that the work was under-

taken for 96 parties after July, 1966 and advance deposits were recovered from 2 parties. The remaining 94 parties were either State or Central Government undertakings. In their case, the instructions issued in July, 1966 did not contemplate recovery of advance deposits.

1.7 The Committee wanted to know the terms of reference of the informal departmental committee appointed to go into the question of billing by the Geological Survey and the Indian Bureau of Mines and the date by which this committee was expected to submit its report. In a note on this point, it has been stated by the Department that this committee was constituted in May, 1968 and was asked to submit its report within three months. The report is still awaited. The departmental committee was asked to study the existing rates for investigations carried out by the Indian Bureau of Mines and the Geological Survey of India, as also the proposed schedule of charges at flat rates for various operations on behalf of private/public undertakings, State Government Departments etc. and suggest fair and reasonable rates for each operation.

1.8 The Committee pointed out that the bulk of the outstandings related to two Corporations under the Department of Mines & Metals National Mineral Development Corporation and National Coal Development Corporation. They wanted to know why the Department could not solve a matter that concerned organisations under their own control and enquired whether generally the question of charging interest on overdue payments had been considered. The witness replied that this meant a transfer "from one pocket to another. Public Sector Undertakings are also under our own Government." The witness added: "Our own public sector undertakings are like two children of the same parent. We have to arbitrate between them." The Committee then pointed out that this was not based on a realisation of the correct relationship that should be maintained between Government and a commercial enterprise of Government. There was a distinction between a Government department and a commercial enterprise of Government and it was essential that if a commercial enterprise was to be properly run, there should be correct book-keeping.

1.9 The Committee enquired whether any of the claims were barred by limitation. The representative of the Ministry stated that the question of limitation would not arise between Government organisations. The Committee then wanted to know when the out-standings would be liquidated. The witness replied: "By the end of the year we hope to show substantial improvement." When the Committee pointed out that substantial improvement was

not enough and enquired of the possibility of wiping out the arrears by the end of the year, the representative of the Department stated: "This will be possible."

1.10 The Committee are not impressed with the manner in which Government have tackled the question of recovery of dues from parties for whom work was done by the Geological Survey of India or the Indian Bureau of Mines. From the fact that the dues amounted to as much as Rs. 4.32 crores in December, 1967, the Committee are forced to conclude that effective action was not taken by Government in implementation of the observations made by the Committee in para 47 of their 39th Report (Third Lok Sabha) where they had drawn attention to this situation. What is distressing is the fact that, out of Rs. 4.32 crores, as much as Rs. 3.80 crores relate to two public sector undertakings—National Coal Development Corporation and National Mineral Development Corporation which are administratively under the control of the Department of Mines and Metals. The view of the Department that these "public sector undertakings are also under own Government" and that they are "like two children of the same parent" shows, in the Committee's opinion, an irresponsible attitude for which the Committee can find no justification. The Committee trust that the recovery of dues from these and other undertakings will be pursued by Government in an energetic and business-like manner.

1.11 The Committee note that the basis of billing by the Geological Survey and the Indian Bureau of Mines has been disputed in a number of cases and that Government have constituted a departmental committee to go into the matter and rationalise the billing structure. The Committee feel that if a departmental inquiry was necessary to determine the basis for the charges to be levied by the Geological Survey and the Indian Bureau of Mines for the services rendered, it should have been initiated in 1965, if not earlier, when the Public Accounts Committee had specifically commented on these heavy arrears. The Committee also regret to observe that the departmental committee have not finalised their report yet though it was due in August 1968 as per original schedule. The Committee trust that the report will be finalised soon and action thereon taken by Government expeditiously.

1.12 The Committee would like Government to consider whether, as part of the scheme of rationalisation of charges, it would be possible for the Geological Survey and the Indian Bureau of Mines to recover a suitable proportion of the charges in advance in all cases, instead of from only private parties as hitherto and also

whether penal interest could be charged on overdues. The Committee would also like it to be examined whether an agreement should not be signed in advance about the terms and conditions for the services to be rendered by the Geological Survey of India and the Indian Bureau of Mines so as to avoid any subsequent controversy.

1.13 For the past arrears, the Committee would like Government to examine whether it is not possible to persuade the Public Sector Undertakings to pay straightaway at least the portion of dues which is not in dispute pending settlement of the disputed items.

1.14 The Committee would also like Government to take steps to eliminate delay in billing which apparently still persists.

II

ZINC SMELTER PROJECT

Infructuous Expenditure

Audit Paragraph

In February, 1966, the Ministry of Mines and Metals concluded a contract with a foreign firm for the preparation of a project report for the setting up of a Zinc Smelter Plant (with a capacity of 30,000 tonnes per annum) at Visakhapatnam, with foreign financial and technical assistance. Under the contract, an amount of Rs. 16.89 lakhs (subsequently increased to Rs. 25.67 lakhs owing to devaluation of Indian currency) was payable to the foreign firm for the preparation of the detailed project report. As the project had not been included in the draft outline of the Fourth Five Year Plan, the Ministry informed the foreign firm in September, 1966 (when about 59.3 per cent of the work on the project report had been done) that it would not be possible to proceed with the project and that preparation of the project report should be stopped. Further work on the project report was, consequently, stopped by the firm with effect from 23rd September, 1966.

2.1. With the abandonment of the project, an expenditure of Rs. 11.24 lakhs incurred by the Ministry was rendered infructuous. In addition, a claim of the foreign firm for Rs. 4.59 lakhs is stated (June, 1967) to be under the scrutiny of the Ministry.

2.2. The Ministry have stated (June, 1967):—

- (i) that the project was gone ahead with as it had been accepted in principle by the Planning Commission but that later it did not get “a sufficient high priority” for inclusion in the draft outline of the Fourth Five Year Plan; and
- (ii) that “there is a possibility of the information contained in the project report being utilised at a later stage, if it is decided to revive the project or if a similar project is taken up elsewhere.”

2.3. They have further stated (December 1967) that the question of revival of this project is under active consideration of Government.

[Paragraph No. 60 Audit Report (Civil), 1968].

2.4. In a note submitted to the Committee by Government, it has been stated that the idea of setting up a Zinc Smelter in India based on imported concentrates was first mooted in 1962, when the Polish Economic Mission, which visited India, agreed to give financial and technical assistance for this purpose under the Second Polish Credit. In May, 1963, it was decided to take up this project for implementation, subject to approval by the Planning Commission and the Ministry of Finance. The Planning Commission accepted the scheme in principle as a Fourth Plan Project and advised the Ministry of Finance in June, 1963 to include it on a firm basis under the Second Polish Credit. The matter was further discussed with the Polish Technical Team, which visited India in October, 1964 and thereafter prepared a feasibility report. The feasibility report, according to the information given by Government to the Committee "did not give any data about the capital cost of the project and the economics of its operation." After examination of this report in the Ministry of Mines and Metals and in the Ministry of Finance, the Polish authorities were informed that the report had been accepted. A decision was also taken to have the detailed project report for the project prepared and the work was accordingly entrusted to the Polish agency M/s. CENTROZAP by a contract executed on 26-2-1966. The remuneration payable for the work was Rs. 16.89 lakhs which, following the devaluation, was increased to Rs. 25.67 lakhs, by a supplemental agreement dated 16th December, 1966. The Polish agency started work on the Report from 1st June, 1966 but on 22nd September, 1966, they were asked to suspend work due to the non-inclusion of the project in the draft outline of the Fourth Plan.

2.5. The Committee enquired whether the case did not show lack of coordination between the various Ministries. The Secretary, Department of Mines and Metals stated that there was no lack of coordination. The work on the project Report was taken up with the approval of every one concerned. While the Project Report was under preparation, the outline of the Draft Plan was finalised and the Department then found for the first time that the project had been excluded therefrom. Asked further when the Department received the Draft Plan from the Planning Commission and whether prior to that no intimation of any kind was received from the Planning Commission about the exclusion of the Project, the Department stated in a note that the draft of the Chapter on Industries and Minerals for the Fourth Plan was forwarded to them by the Planning Commission on 25th May, 1966 and in this the project had been included. Following the devaluation, a revised draft of the Chapter

was sent by the Planning Commission on 27th July, 1966. In this revised Chapter, the project was found omitted. The matter was then immediately taken up with the Planning Commission, but it was found that there was little likelihood of the project being put through. The reason given by the Planning Commission was that "the project would not be attractive from the point of view of import saving and secondly, it would be more advantageous for the public sector to take up the expansion of capacity at Zawar based on richer ores available in that area."

2.6. During evidence, the Secretary, Department of Mines and Metals further informed the Committee that, as a result of the re-consideration of the whole case, in consultation with the Finance Ministry and the Planning Commission, it was decided in March, 1968, to go ahead with the work of preparation of the Project Report and that necessary arrangements were being made. The Committee enquired why this decision could not be taken earlier and pointed out that, had the work been resumed within six months of its being broken off, there would have been no extra liability to Government for remuneration payable to the Polish agency, in terms of the contract with them. In a note on this point, it has been explained by Government that the process of reconsideration started in May, 1967. After collecting necessary data, the Department in a note, circulated on 27th November, 1967, to the Planning Commission and the Ministry of Finance, urged high priority to be given for the Smelter Project. The Finance Ministry, after consideration of the note, suggested, in February, 1968, that the matter be considered at an inter-Departmental meeting which was held in March, 1968. It was at this meeting that the decision was taken that the Polish agency should be asked to resume the unfinished work on the Project Report and to complete it.

2.7. From a copy of the minutes of the meeting furnished to the Committee, it is seen that the following decisions were taken at the inter-Departmental meeting held in March, 1968:—

- (i) The existing smelter in the public sector at Zawar should accelerate their scheme for expansion. The scheme should be an integrated one, covering both the mines expansion as well as the smelting capacity.
- (ii) The existing private sector unit at Always should be allowed to expand their smelter from a capacity of 20,000 tonnes to 40,000 tonnes per annum.

- (iii) Having regard to the expenditure already incurred or committed and the comparatively smaller amount required for completion of the work, the Polish agency should be asked to complete their project report for the proposed smelter at Visakhapatnam M/s. Hindustan Zinc Ltd. should be associated with the preparation of the remaining part of the Report and the Polish agency, should also be asked to ensure maximum participation of indigenous equipment and skills in the project. The question of inclusion of the project in the Plan would be finalised during plan discussion, having regard to the economics of the project as worked out in the Report and the resources position. Regular sources of supply of concentrates for the project should also be established as this would have a bearing on the economics of the Project.

2.8. In response to a question, whether, if the project failed to find inclusion in the Fourth Plan, the Project Report would be of any use, the representative of the Department stated: "There is no time limit within which we have to use (the report)..... Suppose it goes to the 5th Plan, some technological changes might be called for and there may be some modifications but how much of it will be obsolescent, I cannot tell you." To another question, whether if the location of the project changed, the Project Report would need to be changed, the witness replied in the affirmative. Asked further how much of the report would, in that event, become useless, it was stated: "At present we have no intention of changing the location."

2.9. The Committee wanted to know whether maximum use was being made of indigenous know-how and equipment. The representative of the Department replied: "At the time of requesting CENTROZAP to resume the work we have told them that maximum use in the project must be made of indigenous equipment and skill and in that context an Indian consultant must be associated in completing the draft Project Report and in that connection they have called for certain clarifications which are being collected and furnished."

2.10. From copies of correspondence on this subject which were furnished subsequently to the Committee, it is seen that the Polish agency have expressed the following views on the subject to Government:

"With regard to your recent wishes to change or to enlarge the inclusion of Indian skills and industrial equipment in

the whole profile of the plant equipment we would.....
 remark.....that it would be connected with the
 necessity of the contract price revision and with changing
 the time of the Project Report elaboration.”

2.11. The Committee asked the representative of the Department what steps had been taken to explore the zinc resources in the country and to draw up a phased and feasible programme for reduction in imports. From the evidence and further information furnished, the following position emerges:

2.12. The only workable deposits of zinc in the country so far known are at Zawar in Rajasthan. The total production from this source, even on the most optimistic estimate, is not likely to exceed 80,000 tonnes to 90,000 tonnes per annum. Intensive explorations have however been undertaken in prospective areas, through the scheme known as 'Operation Hard Rock' *inter alia* to locate new deposits of zinc. It would, however, be “too early to say to what extent commercial deposits would be proved. In any case, metal production from such deposits cannot be expected in the current or next Plan period.”

2.13. The lease over the Zawar area was held by a private company, the Metal Corporation of India, which had undertaken the development of the deposits and the construction of an electrolytic zinc smelter of 18,000 tonnes capacity. As the company ran into difficulties, it was acquired by Government in 1965. A Government company, Hindustan Zinc Ltd. was formed in 1966 to work the ore and run the smelter. The erection of the smelter has since been completed. The company is producing 18,000 tonnes and by stages it may, in due course, be able to produce 50,000 tonnes to 60,000 tonnes. There was also a private smelter at Alwaye, set up by M/s. Cominco Binani, of 20,000 tonnes capacity, based on imported concentrates from Canada.

2.14. During evidence it was also stated that the estimate of demand for zinc metal in the country in 1967-68 was 85,000 tonnes, of which only 10,000 tonnes might be indigenously supplied. The total demand by 1970-71 was estimated at 1,17,000 tonnes per annum. With the production from Zawar and Alwaye smelters amounting to 38,000 tonnes, there would be a gap of 79,000 tonnes between demand and supply. The proposed smelter at Visakhapatnam with 80,000 tonnes capacity, was intended partly to fill the gap. In reply to a question, it was further stated that to produce 30,000 tonnes, 60,000 tonnes to 70,000 tonnes of concentrates would have to be imported.

According to a detailed study conducted by the National Council of Applied Economic Research, import of concentrates for local smelting "would save about 56 per cent of foreign exchange as compared to import of virgin metal."

2.15. The Committee desired to be furnished a statement showing the estimated demand (year-wise) of zinc during the new Fourth Plan period, the likely production and the steps taken to restrict the import of zinc in view of the development of indigenous capacity. The Department of Mines and Metals have furnished the following information:—

Demand estimates

1968-70	93,000	tonnes
1970-71	1,06,500	"
1971-72	1,17,100	"
1972-73	1,28,900	"
1973-74	1,42,000	"

The production by 1973-74 is estimated at 1,06,000 tonnes, leaving a gap of 36,000 tonnes between demand and supply.

2.16. The Department have further stated that during the first four months of the current year (1968-69) 51,000 tonnes of zinc were imported under the liberalised import policy and that these were "substantially large." Since imported zinc was cheaper than indigenous zinc, there was a "reluctance on the part of the consumers" to lift indigenous zinc which led to accumulation of stocks. In September, 1968, Government issued a notification placing its imports under "Actual Users Restricted" Category and devised informal distribution arrangements with a view to ensuring full utilisation of the indigenous capacity for the manufacture of zinc.

2.17. The Committee consider it unfortunate that Government should have committed itself to an expenditure of Rs. 25.67 lakhs for the preparation of a Project Report for setting up a Zinc Smelter Unit, without taking a firm decision on the necessity for the unit. The decision to undertake the preparation of the Project Report was taken after the Planning Commission had accepted the scheme in principle, but within two months of the commencement of the work, the Planning Commission dropped the Project from the Plan on the ground that it was not attractive enough from the point of view of import saving and that, in any case, instead of going in for a new unit based on imported concentrates, it was preferable to expand the capacity of the existing Public Sector smelting unit based on richer

ores at Zawar. The Committee note that, in point of time, it was only after the Audit paragraph on the case was initiated that it was decided by Government that the work on the Project Report should be resumed. However, a firm decision on the inclusion of the project in the Plan has been deferred, pending an examination of the economics of the scheme on the basis of the project Report and the location of regular sources of supply of concentrates for the project.

2.18. The Committee cannot help feeling that the whole scheme was planned in a haphazard manner and that Government allowed events to overtake them. In their opinion, before considering the case for a new smelting unit, Government should have carefully assessed the country's ore potential and the possibility of developing and expanding the two existing smelters at Zawar and Alwaye. A new smelting unit should have been considered only if the expansion of the existing units still left a gap to be covered. The Committee, however, notice that Government have only recently in principle accepted the proposal for expansion of the private smelter at Alwaye and that an integrated scheme for the expansion of the public sector project at Zawar, covering both the expansion of the mines and smelting unit, is still to be drawn up. In the Committee's opinion, it was premature to have embarked on a project for a new unit till plans for developing the existing units had been drawn up and their potentialities for meeting the country's demand for zinc carefully assessed. Even if a new unit was considered necessary, the feasibility of the project should have been adequately established through a prior survey. However, the feasibility report that was prepared in this case "did not give any data regarding the capital cost of the project and the economics of its operation." The Committee hope that Government will draw the necessary lessons from this experience and ensure that planning in respect of non-ferrous metals is done in a more systematic, organised and business-like way in future.

2.19. The Committee would like to know in due course the decision taken by Government about the project in the light of the economics to be worked out in the detailed Project Report. The Committee need hardly stress that, as zinc is one of the important non-ferrous metals finding extensive and varied application in several basic industries, it is essential that its cost of production in any new unit that may be set up should be kept at a competitive level.

2.20. Another disconcerting fact to which the Committee would like to draw attention is the import of 51,000 tonnes of zinc in the first four months of the current year under the liberalised import

policy without taking into account the capacity which had already been developed within the country for the manufacture of zinc. The result was that the consumers became reluctant to lift indigenous zinc and the stocks accumulated particularly with the Hindustan Zinc Ltd., a public undertaking. The Committee note that since September, 1968, Government have taken action to restrict the imports under "Actual Users Restricted" category and have devised informal distribution arrangements in order to ensure full utilisation of the indigenous capacity for the manufacture of zinc. The Committee would like Government to make sure that such a situation does not recur and that not only the capacity developed in the country is fully utilised to obviate imports but that the price of indigenous zinc is made fully competitive with the price of imported zinc.

2.21. Another aspect of the case to which the Committee would like to draw attention is the question of association of Indian personnel with the preparation of the detailed Project Report and the use of indigenous equipment in the Project. The Committee are distressed to observe that the question was raised by Government with the Polish firm responsible for the preparation of the project report belatedly in May, 1968. The Committee feel that the matter should have been thrashed out at the very beginning before the agreement with the firm for the preparation of the Project Report was signed in February, 1966. From copies of correspondence furnished by Government, the Committee note that the Polish firm have hinted at not only a revision in contract price but also extension of time for completion of the report on this account. They would like to be informed of the decision ultimately taken in this regard.

2.22. The Committee would also like to refer to the efforts now being made on an emergency basis under the Scheme 'Operation Hard Rock' to locate deposits of minerals in the country, particularly non-ferrous metals. They hope that close coordination will be maintained between the field agencies responsible for the operation of the Scheme and the Governmental agency responsible for the exploration of ores, so that the objective of developing adequate capacity within the country of these scarce metals is achieved without delay.

III

SCHEME OF SUBSIDY TO COLLIERIES HANDICAPPED BY ADVERSE FACTORS

Audit Paragraph

Pursuant to the recommendations of the Coal Price Revision Committee and in terms of the provisions of Rule 49 (3) of the Coal Mines (Conservation and Safety) Rules, 1954, the late Ministry of Steel, Mines and Fuel introduced with effect from September, 1960, a scheme of subsidy to collieries which are handicapped by the presence of adverse factors (e.g. gassy nature of mines, thinness of seams, high transportation cost etc.) and whose continuance in production is necessary in the larger interests of the country. The financial assistance which is based on different scales for different adverse factors, was intended for all handicapped collieries in India, except those in Assam and Andhra, producing coal of grade I and above. Assistance in respect of high transportation cost was, however, admissible irrespective of the grade of coal produced.

3.1. With a view to meeting the expenditure on such assistance, the Excise Duty on coal and coke levied under Section 8 of the Coal Mines (Conservation and Safety) Act, 1952 was increased by Re. 0.25 per ton with effect from 1st February, 1960.

3.2. Instructions were issued by the Ministry in November, 1960 (as later modified in February, 1964) to the effect that the total expenditure on payment of subsidy by the Coal Board up to the end of a financial year should be limited to that portion of the net proceeds of excise duty on coal and coke as derived up to end of the financial year from cess levied under this section, unless specifically sanctioned by Government. The table below shows that up to end of 1966-67, the Board incurred an expenditure totalling Rs. 1,039.90 lakhs which exceeded the net amount of cess by Rs. 14.90 lakhs, without the approval of Government.

(In Lakhs of Rs.)

Year	Net Amount of cess	Actual expenditure
Upto 1963-64	539	351.30
1964-65	146	209.20
1965-66	172	189.90
1966-67	168	289.50
Total	1025	1039.90

3.3. It has been stated by Government (December, 1967) that the excess occurred due to non-materialisation fully of the increase in receipts anticipated at the time of framing the Revised Estimates for 1966-67.

3.4. A Committee consisting of members, technical officers and Accounts Officers was constituted by the Board in December, 1963 to investigate the extra expenditure incurred by collieries due to various adverse factors in a representative selection of collieries affected by difficult mining conditions, *vis-a-vis* the rate of subsidy fixed by Government. The Committee gave its report in June 1964 but some of its recommendations were considered "somewhat complicated which did not take notice of some vital factors concerning increase in cost and prices." Consequently, another Committee was appointed in September, 1964 which gave its report in April, 1965. While the report of this Committee was under consideration, Government appointed a Study Group on Coal Prices to go, *inter alia*, into the question of subsidies. The report of this Group is awaited (December, 1967). No decision has thus been taken even after four years and the assistance continues to be given on the same scales.

3.5. In view of the increase in production, the control on price of coal and coke was relaxed with effect from 24th July, 1967. The question whether the purpose for which the scheme had been originally introduced still continues to be served deserves consideration. Government have stated (December, 1967) that this question will be considered in the light of the report of the Study Group.

Paragraph No. 62, Audit Report (Civil), 1968].

3.6. In a note submitted to the Committee, it was stated by Government that from the inception of the scheme upto 1965-66, the total expenditure on the grant of subsidy to the collieries amounted to Rs. 750.40 lakhs, against the total collection of cess amounting to Rs. 857 lakhs. In other words, the expenditure was well within the limits imposed by the scheme. It was only in the year 1966-67 that the excess occurred. The expenditure on subsidy as at the end of that year was Rs. 1039.90 lakhs against the figure of collection of Rs. 1025 lakhs. There was thus a net excess of Rs. 14.90 lakhs. The main reason for this was a shortfall in realisation of cess that year. The actual realisation of cess amounted to Rs. 168 lakhs, against the estimated collection of Rs. 180 lakhs. However, the Coal Board was taking steps to eliminate the excess. During 1967-68, the expenditure had been so regulated *vis-a-vis* the realisations that the total expenditure as at the end of the year was expected to be well within the total collection of cess.

3.7. In reply to a question, whether the Coal Board who were making payments of subsidy were required to report the payments and if so, whether they were doing so, it was stated that the Board were required to submit to Government monthly as well as quarterly reports on subsidies sanctioned and the payments actually made. These reports were submitted for the year 1965-66 but only a consolidated report for the year 1966-67 was submitted in May, 1967. However, the actual expenditure was being intimated to Government through monthly statements of expenditure. Government became aware of the excess of expenditure when the figures became available.

3.8. On the question of revision of scales of assistance to collieries, it was stated that the Report of the first Team of Technical and Accounts Officers appointed in 1963 by the Coal Board was in the nature of a preliminary investigation only. It did not and was not expected to go into all aspects of the scheme and confined its investigation only to two of several factors for which subsidy was being given to the collieries i.e., gassiness of mines and inclination of seams. Besides, the report was based on cost analysis in the public sector collieries only. The cost analysis was not, therefore, representative of the whole industry.

3.9. The second study team appointed by the Board in September, 1964 did not go into the cost examination of collieries handicapped by adverse factors and recommended lower scales of assistance only with an eye on the expenditure which was to be limited to the receipts on account of cess.

3.10. For these reasons, Government could not come to a decision on the basis of the reports of these two study teams and decided to constitute a Study Group to go into the entire question of revision of coal prices and grant of subsidies after considering all aspects including cost examination of the component units of the industry in general. The report of this Study Group had been submitted and was under consideration of Government. Asked whether in view of the relaxation of control over the prices of coal and coke with effect from 24th July, 1967 any basic revision in the scales of subsidy was warranted, it was stated that pending a final decision on the Study Group's recommendations, Government have decided to continue the existing scheme, with minor modifications.

3.11. The Committee are distressed to find that two study teams constituted by the Coal Board in 1963 and 1964 went into the question of revision of scales of subsidy to collieries, but failed to conduct a study of the problem in depth. Apparently, the Coal Board

did not clearly spell out the nature and scope of inquiry by these study teams in their terms of reference. The Committee note that a Study Group has since comprehensively examined the whole question and submitted a report to Government. They hope that a speedy decision will be taken in the matter. While taking a decision, Government would do well to consider whether, with the relaxation of control over the prices of coal and coke with effect from 24th July, 1967, the justification for the original scheme of subsidy still continues. The Committee need hardly stress that, in the meantime, Government should ensure that the expenditure on subsidy to collieries does not exceed the net proceeds of the excise duty on coal and coke.

M. R. MASANI,

NEW DELHI;
24th January, 1969
4th Magha, 1890 (Saka).

Chairman,
Public Accounts Committee.

APPENDIX

Summary of main Conclusions/Recommendations

(Referred to in Para 4 of Introduction)

Serial No.	Para No. of Report	Ministry Department concerned	Conclusions Recommendations
1	2	3	4
1	1.10	Deptt. of Mines & Metals	The Committee are not impressed with the manner in which Government have tackled the question of recovery of dues from parties for whom work was done by the Geological Survey of India or the Indian Bureau of Mines. From the fact that the dues amounted to as much as Rs. 4.32 crores in December, 1967, the Committee are forced to conclude that effective action was not taken by Government in implementation of the observations made by the Committee in para 47 of their 39th Report (Third Lok Sabha) where they had drawn attention to this situation. What is distressing is the fact that, out of Rs. 4.32 crores, as much as Rs. 3.80 crores relate to two public sector undertakings—National Coal Development Corporation and National Mineral Development Corporation which are administratively under the control of the Department of Mines and Metals. The view of the Department that these “public sector undertakings are also under own Government” and that they

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are "like two children of the same parent" shows, in the Committee's opinion, an irresponsible attitude for which the Committee can find no justification. The Committee trust that the recovery of dues from these and other undertakings will be pursued by Government in an energetic and business like manner.

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I. 11

Deptt. of Mines
& Metals

The Committee note that the basis of billing by the Geological Survey and the Indian Bureau of Mines has been disputed in a number of cases and that Government have constituted a departmental committee to go into the matter and rationalise the billing structure. The Committee feel that if a departmental inquiry was necessary to determine the basis for the charges to be levied by the Geological Survey and the Indian Bureau of Mines for the services rendered, it should have been initiated in 1965, if not earlier, when the Public Accounts Committee had specifically commented on these heavy arrears. The Committee also regret to observe that the departmental committee have not finalised their report yet though it was due in August 1968 as per original schedule. The Committee trust that the report will be finalised soon and action thereon taken by Government expeditiously.

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I. 12

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The Committee would like Government to consider whether, as part of the scheme of rationalisation of charges, it would be possible for the Geological Survey and the Indian Bureau of Mines to

recover a suitable proportion of the charges in advance in all cases, instead of from only private parties as hitherto and also whether penal interest could be charged on overdues. The Committee would also like it to be examined whether an agreement should not be signed in advance about the terms and conditions for the services to be rendered by the Geological Survey of India and the Indian Bureau of Mines so as to avoid any subsequent controversy.

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|---|------|------|--|
| 4 | 1.13 | -Do- | For the past arrears, the Committee would like Government to examine whether it is not possible to persuade the Public Sector Undertakings to pay straightaway at least the portion of dues which is not in dispute pending settlement of the disputed items. |
| 5 | 1.14 | -Do- | The Committee would also like Government to take steps to eliminate delay in billing which apparently still persists. |
| 6 | 2.17 | -Do- | The Committee consider it unfortunate that Government should have committed itself to an expenditure of Rs. 25.67 lakhs for the preparation of a Project Report for setting up a Zinc Smelter Unit, without taking a firm decision on the necessity for the unit. The decision to undertake the preparation of the Project Report was taken after the Planning Commission had accepted the scheme in principle, but within two months of the commencement of the work, the Planning Commission dropped the Project from the Plan, on the ground that it was not attractive enough from the point of view of import saving and that, in any case, instead of going in for a new unit based on imported concentrates, it was preferable to |

expand the capacity of the existing Public Sector smelting unit based on richer ores at Zawar. The Committee note that, in point of time, it was only after the Audit paragraph on the case was initiated that it was decided by Government that the work on the Project Report should be resumed. However, a firm decision on the inclusion of the project in the Plan has been deferred, pending an examination of the economics of the scheme on the basis of the project Report and the location of regular sources of supply of concentrates for the project.

Deptt. of Mines
& Metals

The Committee cannot help feeling that the whole scheme was planned in a haphazard manner and that Government allowed events to overtake them. In their opinion, before considering the case for a new smelting unit, Government should have carefully assessed the country's ore potential and the possibilities of developing and expanding the two existing smelters at Zawar and Alwaye. A new smelting unit should have been considered only if the expansion of the existing units still left a gap to be covered. The Committee, however, notice that Government have only recently in principle accepted the proposal for expansion of the private smelter at Alwaye and that an integrated scheme for the expansion of the public sector project at Zawar, covering both the expansion of the mines and smelting unit, is still to be drawn up. In the Committee's opinion,

it was premature to have embarked on a project for a new unit till plans for developing the existing units had been drawn up and their potentialities for meeting the country's demand for zinc carefully assessed. Even if a new unit was considered necessary, the feasibility of the project should have been adequately established through a prior survey. However, the feasibility report that was prepared in this case "did not give any data regarding the capital cost of the project and the economics of its operation." The Committee hope that Government will draw the necessary lessons from this experience and ensure that planning in respect of non-ferrous metals is done in a more systematic, organised and businesslike way in future.

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2.19

-Do-

The Committee would like to know in due course the decision taken by Government about the project in the light of the economics to be worked out in the detailed Project Report. The Committee need hardly stress that, as zinc is one of the important non-ferrous metals finding extensive and varied application in several basic industries, it is essential that its cost of production in any new unit that may be set up should be kept at a competitive level.

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2.20

-Do-

Another disconcerting fact to which the Committee would like to draw attention is the import of 51,000 tonnes of zinc in the first four months of the current year under the liberalised import policy without taking into account the capacity which had already been developed within the country for the manufacture of zinc. The re-

sult was that the consumers became reluctant to lift indigenous zinc and the stocks accumulated particularly with the Hindustan Zinc Ltd., a public undertaking. The Committee note that since September, 1968, Government have taken action to restrict the imports under "Actual Users Restricted" category and have devised informal distribution arrangements in order to ensure full utilisation of the indigenous capacity for the manufacture of zinc. The Committee would like Government to make sure that such a situation does not recur and that not only the capacity developed in the country is fully utilised to obviate imports but that the price of indigenous zinc is made fully competitive with the price of imported zinc.

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2.21

Deptt. of Mines
& Metals

Another aspect of the case to which the Committee would like to draw attention is the question of association of Indian personnel with the preparation of the detailed Project Report and the use of indigenous equipment in the Project. The Committee are distressed to observe that the question was raised by Government with the Polish firm responsible for the preparation of the project report belatedly in May, 1968. The Committee feel that the matter should have been thrashed out at the very beginning before the agreement with the firm for the preparation of the Project Report was signed in February, 1966. From copies of correspondence furnished by Government, the Committee note that the Polish firm have hinted at not only a revision in contract price but also extension of time

for completion of the report on this account. They would like to be informed of the decision ultimately taken in this regard.

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2.22

-Do-

The Committee would also like to refer to the efforts now being made on an emergency basis under the Scheme 'Operation Hard Rock' to locate deposits of minerals in the country, particularly non-ferrous metals. They hope that close coordination will be maintained between the field agencies responsible for the operation of the Scheme and the Governmental agency responsible for the exploration of ores, so that the objective of developing adequate capacity within the country of these scarce metals is achieved without delay.

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3.11

-Do-

The Committee are distressed to find that two study teams constituted by the Coal Board in 1963 and 1964 went into the question of revision of scales of subsidy to collieries, but failed to conduct a study of the problem in depth. Apparently, the Coal Board did not clearly spell out the nature and scope of inquiry by these study teams in their terms of reference. The Committee note that a Study Group has since comprehensively examined the whole question and submitted a report to Government. They hope that a speedy decision will be taken in the matter. While taking a decision, Government would do well to consider whether, with the relaxation of control over the prices of coal and coke with effect from 24th July, 1967, the justification for the original scheme of subsidy still continues. The Committee need hardly stress that, in the meantime, Government should ensure that the expenditure on subsidy to collieries does not exceed the net proceeds of the excise duty on coal and coke.

23

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI					
24.	Jain Book Agency, Connaught Place, New Delhi.	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
26.	Auna Ram & Sons, Kashmir Gate, Delhi-6.	9	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Gani, New Delhi.	88
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	93
28.	The Centre News Agency, 23/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sant Naran Kari Colony, Kingsway Camp, Delhi-9.	96
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	MANIPUR		
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri. N. Chaoba Singh, News Agent, Ramlal Pau, High School Annex, Imphal.	77
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27	AGENTS IN FOREIGN COUNTRIES		
32.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	56	39.	The Secretary Establishment Department, The High Commission of India India House, Aldwych, LONDON W.C.—2.	59

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