

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

(FOURTH LOK SABHA)

SEVENTY-FOURTH REPORT

[Audit Report (Commercial), 1968, Chapter XVIII, relating to the Forest Department, Andamans (Ministry of Food, Agriculture, Community Development and Cooperation).]



LOK SABHA SECRETARIAT
NEW DELHI

April, 1969/Chaitra, 1891 (Saka)

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CORRIGENDA TO THE SEVENTY-FOURTH REPORT OF
PUBLIC ACCOUNTS COMMITTEE (1968-69), PRESENTED
ON THE 30TH APRIL, 1969.

<u>Page</u>	<u>Reference</u>	<u>Correction</u>
14	Line 11	<u>read</u> "31st August, 1951" <u>for</u> "31st August, 1961"
16	Paragraphs 1.17, line 1	<u>delete</u> "which".

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PART—II*

Minutes of the sittings of the Public Accounts Committee he'd
on—

28th February, 1969 (AN);

17th April, 1969 (AN).

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

336.3951R

PUBLIC ACCOUNTS COMMITTEE
(1968-69)

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Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri K. Seshadri—*Under Secretary.*

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

INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventy-Fourth Report (Fourth Lok Sabha) on Audit Report (Commercial), 1968, Chapter XVIII relating to the Forest Department, Andamans (Ministry of Food, Agriculture, Community Development and Cooperation).

2. The Audit Report (Commercial), 1968 was laid on the Table of the House on the 10th May, 1968. The Committee examined Chapter XVIII at their sitting held on the 28th February, 1969 (AN). The Committee considered and finalised this Report at their sitting held on the 17th April, 1969 (AN). Minutes of these sittings of the Committee form part II* of the Report.

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

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

5. The Committee would also like to express their thanks to the officers of the Department of Agriculture for their cooperation extended by them in giving information to the Committee.

M. R. MASANI,
Chairman,
Public Accounts Committee.

NEW DELHI;
April 17, 1969.
Chaitra 27, 1891 (Saka).

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

MINISTRY OF FOOD, AGRICULTURE, COMMUNITY DEVELOPMENT AND CO-OPERATION

FOREST DEPARTMENT, ANDAMANS

Audit Paragraph:

Introduction

The main functions of the Department are the extraction of timber for commercial purposes, sale of timber and regeneration of the areas denuded by felling of the trees.

Targets and achievements

(a) The table below indicates the targets for shipment and the actual quantity shipped to the Calcutta and Madras Depots during the Third Five Year Plan period:—

Year	Targets (Tons)	Actual quantity shipped (Tons)
1961-62	37,200	23,350
1962-63	35,200	24,988
1963-64	38,400	23,958
1964-65	42,400	30,174
1965-66	36,000	20,931

In this connection, the Ministry have stated (January, 1968) that

- (i) "The actual quantities of logs shipped fell short of the targets mainly as a result of deterioration of shipping position.....despite our constant requests to the D.G. Shipping, the required number of vessels for the transport of logs from the Andamans to the mainland could not be made available".
- (ii) "The two station vessels 'M.V.' Andamans and 'M.V.' Nicobar carry only sawn timber. The Harbour Master who is the final authority to allot shipping space in these vessels could not allot the space asked for by the Forest Department.....".

[Paragraphs Nos. 1 and 2, Chapter XVIII, Audit Report (Commercial), 1968]

Short-fall in shipment of timber

1.1. The Committee drew attention to the persistent shortfall in shipment of timber from the Islands and enquired how far this state of affairs was avoidable. In this connection they pointed out that even though the targets for shipments had been progressively scaled down, the shortfall had persisted. The Committee cited in this connection following data about the targets fixed for shipments and the actual shipment effected since 1964-65:

Year	Target	Shipment
	Tons	Tons
1964-65	42,400	30,174
1965-66	36,000	20,931
1966-67	34,000	15,282
1967-68	34,000	17,586

The Secretary, Department of Agriculture stated that this was "due to non-availability of shipping facilities." There had, however, been an improvement in the position lately. The Committee pointed out that a Shipping Committee for the Andaman & Nicobar Administration had recommended purchase of extra vessels to ease the shipping position. That Committee had submitted their report in 1966. The Committee enquired whether the recommendations of the Shipping Committee had been implemented. The representative of the Ministry of Transport stated that the Shipping Committee had recommended the acquisition of two passenger-cum-cargo vessels with a capacity of 900 passengers and 3,000 tons of cargo, two cargo vessels and one timber carrier. Instead of two passenger-cum-cargo vessels, one vessel, 'State of Bombay', with a capacity equal to the combined capacity of the two vessels recommended by the Shipping Committee, had been purchased. One timber carrier MV 'Shompen' was also purchased. In addition to this, the Andaman & Nicobar Administration had two station vessels M.V. 'Andamans' and M.V. 'Nicobar'. M.V. 'Nicobar' was a passenger-cum-cargo ship, but it was converted exclusively into a cargo carrier. "So it could be deemed", the witness said, "that by and large Government have given effect to the recommendation of the Andaman Shipping Committee". The witness added that though these facili-

ties had been progressively made available upto 1968, the Andaman and Nicobar Administration was still dependent on the Coastal Conference. In this respect "the position remains unsatisfactory in spite of a constant dialogue by the Director General, Shipping with these people". The freight rate was increased after discussion with the Coastal Conference in 1966-67 from Rs. 109 to Rs. 123, but even this had not improved the position regarding availability of ships. Giving the reasons for this situation, the witness said that apart from other difficulties, the Coastal Conference was unwilling to take ships to the Islands because of "problems relating to delay in the loading and unloading both at Calcutta and the Islands."

1.2. The Committee drew the attention of the representatives of the Andaman & Nicobar Administration to the observations of the Shipping Committee that the space in the Station Vessels M.V. 'Andamans' and M.V. 'Nicobar' was not being fully used. Due to this and other reasons, such as frequent breakdown of the vessels, the Shipping Committee had calculated that the operation of these two vessels had resulted in substantial losses every year. In the case of M.V. 'Andamans', the loss between 1957-58 and 1963-64 was calculated to be Rs. 50.67 lakhs and for 'Nicobar', Rs. 52.54 lakhs. The Committee pointed out that though the space available in these vessels was not being fully utilised, shipping space asked for by the Andaman Forest Department was not being provided in these vessels. In this connection they drew attention to the following data about the space asked for and that provided:

Year	Asked for	Provided
	Tons	Tons
1964-65	10,000	6,004
1965-66	8,000	6,669
1966-67	9,755	6,004
1967-68	9,000	4,446

The Committee enquired why it was difficult for these ships to provide the space asked for when it was not being fully utilised. The representative of the Andaman & Nicobar Administration stated that this was due to difficulties in loading and unloading at Port Blair and at Calcutta. At Port Blair, "Our handling capacity is 175 tons of cargo a day—loading & unloading. We are trying to utilise our capacity. In the last two months it has gone up to 275 or 300 tons. Even that is not satisfactory. The most pressing need for

Port Blair is harbour facilities and the earliest we can anticipate that something will come up is early 1972". So far as Calcutta was concerned, the representative of the Ministry of Transport stated that Government "have been in constant touch with the Calcutta Port Commissioners for resolving the bottleneck that exists for the loading and unloading of timber. The main difficulty has been that unloading used to be from the side of the ship or from lighters and barges. Timber logs cannot be unloaded at the docks." The Calcutta port authorities had since agreed to give No. 10 Garden Reach mooring and in addition berthing facilities at No. 30 Kiderpore dock "on a preferential basis."

1.3. To a question how many trips had been made by the 'State of Bombay', the representative of the Shipping Corporation informed the Committee that "it has done 13 trips during the last one year." The Committee pointed out that this meant about a trip a month. The Shipping Committee had recommended two passenger-cum-cargo vessels instead of which one big vessel with a capacity equal to these two had been provided. Had two smaller ships been provided, the frequency of the trips could have been increased. The Committee enquired whether the timber carrier M.V. 'Shompen' was being sufficiently and adequately used. The representative of the Andaman & Nicobar Administration told the Committee that after the ship was made available, it had made 7 trips. During discharge of general cargo that the ship carried from Calcutta to Port Blair it was detained at Port Blair, in some cases for "more than a month and a half," as "harbour facilities have not been very good." "That situation had been rectified recently."

1.4. The Committee enquired what steps were being taken to ensure that the requirements of the Islands in the matter of shipping facilities were fully met. The representative of the Ministry of Transport stated that at a recent Inter-Ministry meeting held in December, 1968, a decision had been taken that M.V. 'Nicobar' should be replaced. "Accordingly our plan for acquisition of tonnage is in progress." He added: "So far as requirements for timber are concerned, if the Andaman Administration feel that additional ships are required, the Ministry is prepared to consider augmenting the vessels for transport of timber."

1.5. The Committee enquired how the timber, which was not shipped was used. The representative of the Andaman and Nicobar Administration stated that they "had better return on the logs", and would "very much like to sell the timber in the market." If the ships were not forthcoming, they had "no option but to let the timber stay and deteriorate or use it in saw mills (in the Islands)", which they did "not consider very economical". The major losses of the Department, it was added "are on account of sawn timber."

1.6. The Committee note in this connection that a Cost Accounts Officer who examined the working of the Forest Department had the following observations to make on the economics of selling timber as logs and as sawn timber:

"The average price fetched in the mainland (Howrah and Madras Depots) during 1966-67 was Rs. 386 per ton for logs and Rs. 414 per ton for sawn timber (both squares and scantlings). We are using up more than two tons of logs for producing one ton of sawn timber. It is obviously advantageous to sell the timber in the shape of logs rather than in the shape of sawn timber. We have not been able to do this because enough shipping facility was not available for transport of logs to the mainland. The first important action to be taken to improve the working results of the Department is therefore to increase the shipping facility."

1.7. The Committee are concerned over the persistent shortfall in shipment of timber extracted by the Forest Department in Andamans. During the four years ending 1967-68, the shipment fell short of the annual targets fixed by about 25 per cent to 56 per cent. The shortfalls occurred despite the scaling down of the targets for shipment from 42,400 tons to 34,000 tons. It is apparent that the shipping requirements of the Islands for timber traffic are not being fully met. In consequence, the timber extracted in the Islands had to be either sawn locally or just allowed to deteriorate, resulting in substantial losses to the Department. The Committee would like Government to take the following steps to remedy the situation.

(i) The requirements of the Islands for additional ships should be carefully assessed and steps taken to augment the fleet for transport of timber. Government should in this connection take up with the Coastal Conference the question of improving the position in regard to availability of ships to the Islands. If necessary, the question of acquisition of additional ships by the Shipping Corporation may also be considered.

(ii) The existing shipping space available should be fully and adequately used and the frequency of trips should be improved by taking concerted action to minimise delays in loading and unloading operations. Any substantial improvement in this regard would no doubt depend on provision of improved harbour facilities at Port Blair. The Committee note that the connected works are under way and hope that they will be completed as scheduled.

(iii) The scope for maximising local consumption of timber should be explored and Government should take steps to accelerate schemes for the setting up of wood-based industries in the Islands. Such a step would also help to foster the economic development of the Islands.

Audit Paragraph:**Working results**

1.8. (a) The working results of the Department for the four years ending 31st March, 1967, are given below:—

	(Rupees in lakhs)			
	1963-64	1964-65	1965-66	1966-67
(a) Government capital at the close of the year	455.66	505.23	567.01	678.40
(b) Sale of timber (including departmental consumption), jungle fuel and charcoal	106.07	125.13	101.35	96.92
(c) Royalty receipts	58.19	64.94	72.42	102.05
(d) Net profit	10.84	13.73	5.35	23.06
(e) Percentage of profit to capital	2.38	2.72	0.94	3.40

The royalty receipts shown above include Rs. 49.00 lakhs, Rs. 60.98 lakhs, Rs. 66.94 lakhs and Rs. 96.86 lakhs, being the royalty on shortfalls for the years 1963-64, 1964-65, 1965-66 and 1966-67 respectively, recoverable from the North Andamans Licensee. Similar claims for the period ending March, 1963, have been referred to the arbitrators. The claims of the Department for the period up to 1960-61 have already been rejected by the arbitrators *vide* para 4. It will, thus, be seen that, but for the *pro forma* inclusion of these receipts, which the Department has not, so far, been able to realise, the working results would have disclosed a loss of Rs. 38.16 lakhs, Rs. 47.25 lakhs, Rs. 61.59 lakhs and Rs. 73.80 lakhs respectively during the four years mentioned above. These figures of losses would still go up if the other disputed claims outstanding against the North Andamans Licensee are, also, excluded from the *pro forma* accounts.

(b) The table below indicates the details of the amount of Rs. 2,50,953 outstanding for recovery in the books of Howrah Depot as on 31st March, 1967:—

	Rs.
(i) Outstanding for two years or less	1,01,224
(ii) Outstanding for three years and above	1,49,729
TOTAL	<u>2,50,953</u>

The Ministry have stated (January, 1968) that efforts to realise the outstanding amounts are being made.

[Paragraph No. 3, Chapter XVIII, Audit Report (Commercial), 1968]

Working Results of the Forest Department

1.9 The Committee pointed out that the *pro forma* accounts of the Department showed a net profit ranging from 0.94 per cent. to 3.4 per cent. on capital during the four years ending 1966-67. This, however, did not reflect the true financial position, as the profit had been worked out after taking credit for royalty on shortfall stated to be due from North Andamans licensee. The matter was under arbitration and the arbitrator had not accepted this claim for the period upto 1960-61. The Committee enquired why credit for such disputable items was being taken in the accounts. The Secretary, Department of Agriculture agreed that "these accounts do not depict a clear picture.....We have appointed a cost Accountant to go specially into *pro forma* accounts. That officer's initial report has come.....We hope to get his final report within about three months' time". Indicating how the accounts, as now prepared, were not capable of giving a correct picture of the working results of the Department, the representative of the Andaman and Nicobar Administration stated that there were three factors which distorted the picture. One was that the capital at charge included a sum of Rs. 6 crores due from North Andamans licensee. The second was "the unrealistic royalty (on the timber extracted departmentally) shown in the accounts on the basis of the licensee's rates". Thirdly, the allocation of general overheads as shown in the accounts was "rather irrational."

1.10 The Committee have been supplied with a copy of the preliminary report of the Cost Accounts Officer, who recast the accounts of the Department. From that report, the following position emerges:

(a) Overall losses:

"The total loss during 1966-67 was Rs. 62.40 lakhs, "out of which Rs. 3.25 lakhs were on log account and Rs. 59.15 lakhs was on sawn timber account." This loss was worked out after valuing opening stocks on the basis of cost of production for 1966-67. "If this had not been done and the working result was arrived at by the normal process of valuing both the opening and closing stocks, the loss would have been less by about Rs. 14.25 lakhs."

due to the degree of supervision and allied services required for these processes and also to the particular method adopted in allocating some of the overheads. It would nevertheless be worthwhile to examine in detail the overhead expenses under these processes to find out whether there is any scope for economy."

(vi) A substantial part of the loss was on account of sawn timber. "The losses in the local market are due to the defective method adopted for price fixation. Further, sale of sawn timber in the local market is necessary in the public interest and a considerable portion of such sales is to other Government Departments. The price can be raised to some extent."

"The losses in the other markets are due to open market operations. No public interest is served in such sales. It is therefore better to stop such sales. If due to some reason or other (such as a fall in the local consumption from the expected quantity and consequent surplus stock which is liable to deteriorate if not disposed of we have to sell some quantity in the mainland, it is better to market it at Madras where the loss is less rather than in Calcutta."

(3) *System of maintenance of Accounts*

"The working results (of the Forest Department) as reflected in the *pro forma* accounts are neither the working results of the so called commercial activity (of the Department) nor the working results of the Department as a whole but an unscientific jumble of both. No dependable decision or any worthwhile policy matters could safely be based on the working results as brought out by these accounts without recasting them fully."

1.11 The following were some of the points made by the Cost Accounts Officer for re-orientating the accounts.

(i) The accounts as at present do not exhibit all the quantity of timber extracted. "The stocks lying in the export depots, Ghat depots as well as the quantity at the site of extraction are not included. All the quantity extracted must enter the account."

(ii) The allocation of general overheads, particularly interest on capital, must be changed so that it is on the basis of capital employed in each operation.

(iii) There are "mistakes" in computing depreciation on assets. "The value of assets which are fully depreciated are not removed from the asset register."

(iv) Under the existing procedure, royalty on extraction done by the Department is charged as an item of expenditure in the accounts on the basis of a fixed percentage of f.o.b. prices ex-Andaman ports.

that portion of the losses incurred by the Department arises out of sale of sawn timber. The Cost Accounts Officer had suggested that the production and sale of sawn timber should be curtailed and the Department should concentrate on production and sale of logs. The Committee would like this suggestion to be examined for implementation. If sale of sawn timber is undertaken in mainland markets, the Department should ensure that the sales are confined to markets where they have been relatively more remunerative.

Audit Paragraph;

Outstanding royalty

1.14 In para 114 of Audit Report (Civil), 1962, it was mentioned that as on 31st March, 1961 a sum of Rs. 2.10 crores was outstanding against the North Andamans Licensee on account of royalty charges and that the Licensee had also put in a counter-claim of about Rs. 2 crores before the arbitrator.

- As on 31st March, 1966 the amount recoverable from the Licensee stood at Rs. 4,99,61,999 out of which a sum of Rs. 3,44,03,852 was on account of royalty on shortfalls and the balance on account of other claims.

The table below indicates the particulars of the arbitration cases filed by Government and the Licensee before the arbitrators, the amounts claimed by the Licensee and Government, etc.

Sl. No.	Date of filing arbitration case	Amount claimed by the firm	Amount claimed by Government	Period of claim
(Rupees in lakhs)				
1	4-7-1961 (Suit filed by the firm)	208.12	224.41	Since inception to 1960-61
2	15-7-1964 (Suit filed by Government).	89.44	100.90	1961-62 and 1962-63.
3	20-3-1965 (Suit filed by the firm)	39.53	Claim not filed so far	1963-64

A total expenditure of Rs. 4.13 lakhs was incurred by the Department up to February, 1968 on the arbitration proceedings. On 18th March, 1967 the arbitrators gave the award in respect of the first case according to which Government's claim to the extent of Rs. 2,04,99,205 (including Rs. 1,97,86,935 on account of royalty on shortfalls up to 1960-61) and the entire claim of the Licensee were rejected.

In this connection, the Ministry have stated (January, 1968) that the Licensee has moved the Court for setting aside the Award and that it has been decided to oppose the application made by him to set aside the Award and to obtain judgement in terms of the Award under Section 17 of the Arbitration Act, 1940. The case is pending in the Calcutta High Court.

The Ministry have stated further that, pursuant to the recommendation of the Public Accounts Committee contained in para 2.22 of their 54th Report (Third Lok Sabha), a Committee of three Secretaries to the Government of India (in different Ministries) has been appointed on 10th August, 1967 to investigate the matters relating to the agreement with the North Andamans Licensee and that the Committee has been requested to submit its report within six months from the date of its appointment. The report is awaited (March, 1968).

[Paragraph No. 4, Chapter XVIII, Audit Report (Commercial), 1968]

Working of contracts with licensee in North Andaman

1.15 In paras 2.20 to 2.22 of their Fifty-Fourth Report (Third Lok Sabha), the Public Accounts Committee had reviewed the working of contracts with North Andamans licensee. There were disputes in regard to certain matters arising out of the contract, particularly in regard to royalty payable by the contractor on shortfalls. In para 2.22 of the Report, the Committee made the following observations:—

“The Committee are alarmed at the state of affairs disclosed with regard to the working of the contracts with the licensee in the North Andamans. The Committee regret to note that the arbitration, which was stated before PAC of 1962-63 to have been in progress (para 46 of 7th report) (3rd Lok Sabha) is still proceeding in 1965-66 and is “likely to take about two years” more. If arbitration proceedings are to take 5 to 6 years to settle then the very purpose of arbitration, viz. expeditious settlement of dispute is defeated. Cases have arisen in respect of the disputes and differences arising in the working of the agreement for each of the year 1961-62, 1962-63 and 1963-64. This indicates that there is something radically wrong about the Agreement and its working that needs investigation by an independent agency as to how the agreement has been entered into with this particular company what are the lacuna in the Agreement, whether it would not be desirable to cancel the agreement rather than spending Public funds on litigation and Arbitration year after year, and

other such allied matters. The Committee desire this investigation to be set afoot at an early date."

1.16 The Committee understand* the present position of these cases to be as follows:

"There are 3 arbitration proceedings on hand against M/s. North Andaman Licensee and the details regarding each of these are given below:—

- (1) *First Arbitration case.*—This pertains to the various issues under the North Andaman Agreement of Licence, which arose during the period from the beginning of the contract i.e. from 31st August, 1961 to 31st March, 1961. The licensee company was the claimant in this case and an amount of Rs. 2,08,12,135/- on account of alleged excess payment of royalty and damages was claimed from the Government. In addition, they had also claimed for specific performance of the terms of the agreement. The arbitration proceedings which were started in early 1961 concluded in early 1967 and the arbitrators rejected both the claims of the licensee company. Out of Government's claim of Rs. 2,24,87,586·29/- in this arbitration, an amount of Rs. 19,41,299·70 has been awarded in favour of the Government by the learned Arbitrators. The Government's claim of Rs. 2,24,87,586·29 represents the following amounts:—

	Rs.
(1) Royalty outstanding on timber exported and or milled in the licensee's sawmill	17,27,832·92
(2) Interest on unpaid royalty on timber exported and/or consumed in the licensee's mill	2,13,466·78
(3) Royalty on logs lost or deteriorated due to negligence on the part of the Company	7,46,778·51
(4) Royalty on shortfall	1,97,86,934·97
(5) Misc. claims	12,573·11
	2,24,87,586·29

Out of the above amounts the learned arbitrators admitted the claim of Government of Rs. 17,27,832·92 on account of royalty out-

*Based on information furnished to a Study Group of PAC which visited Andaman and Nicobar Islands in January, 1969.

standing (item 1) and Rs. 2,13,466·78 on account of interest on unpaid royalty (item 2) and rejected all other claims. The award of the arbitrators reads as follows:—

“As a result, the Union of India is entitled to recover a sum of Rs. 17,27,832·92 paise as royalty and Rs. 2,13,466·78 paise on account of interest, in all a sum of Rs. 19,41,299·79 paise (Rupees nineteen lakhs forty-one thousand two hundred ninety-nine and seventy paise only) from Messrs

The award was filed in the Calcutta High Court in early April, 1967 by the arbitrators. The Company thereupon, filed an application to set aside the award. The Government also filed its affidavit—in—opposition requesting confirmation of the terms of the award. The Hon'ble High Court delivered judgement in August, 1968 dismissing the Company's prayer for setting aside the award of the arbitrators. On the other hand, the Government's prayer for confirmation of the award, rent for the room where arbitration meetings were held at Calcutta, charges for spot inspection by the arbitrators and counsels, arrears paid to arbitrators etc., realisable from the company was granted by the Hon'ble High Court. In addition, as per the judgement, interest of 6 per cent is payable by the company till the date of payment. The company's request for staying execution of the decree for one month was however granted by the Court. This period of stay of execution of the decree for 30 days will count only from the date of obtaining certified copy of the judgement and decree. Action has already been initiated for obtaining certified copy of the judgement as early as possible and it is expected that the same will be obtained shortly.

(2) *Second Arbitration case.*—This case covers the period from 1st April 1961 to 31st March, 1963. The Government is the claimant in this case and the company is the respondent. An amount of Rs. 1,00,90,041·30 has been claimed from the respondent in this case. After some preliminaries one of the arbitrators i.e. the arbitrator appointed by the Government died in June, 1967 and in his place another retired judge was appointed by Government under due notice to the parties concerned. The company disputed over the appointment of Government arbitrator in the place of the arbitrator who expired. In the meantime, the arbitrator, appointed by the Company was also elevated to the bench as a Judge in the Calcutta High Court and so he was not able to continue as arbitrator in this case. This required the company to appoint another arbitrator in the vacancy. This procedural difficulty over appointment of arbitrators by each party is being sorted out.

(3) *Third Arbitration case.*—This relates to the disputes arising during the period from 1st April, 1963 to 31st March, 1964 and the company is the claimant. The Government's counter claim amounts to Rs. 64,21,277·23. Proceedings in this case also are pending completion of formalities regarding appointment of arbitrators by the parties concerned as explained above against second Arbitration case.

(4) *Money suit No. 1482 of 1968.*—The company filed a money suit in the Calcutta High Court for damages amounting to Rs. 1,73,68,850/- for the Government having proceeded against the company's principals under the D.I. Rules. The Government moved its stay petition against the above suit in the High Court in September, 1968. The Company was given time upto 11th December, 1968 to file its affidavit. The matter is expected to come up for hearing in mid-January, 1969."

1.17. A committee of Secretaries which was appointed by Government pursuant to the observations of the Public Accounts Committee in para 2.22 of their Fifty-Fourth Report (Third Lok Sabha). That Committee came to the conclusion "there have been lapses on the part of Shri—— and Shri ——, the most important of which was their failure to obtain timely orders of higher authorities regarding certain important modifications made in the draft agreements. The Committee's report shows that there were certain other failures too, but in its view the primary responsibility for the lapses must be on the aforesaid two officers of the Department of Agriculture." The Committee of Secretaries also pointed out "that it is not desirable to continue spending public funds on prolonged litigation and arbitration proceedings." Pursuant to this suggestion, notice has already been served on the Company that on account of several breaches on the part of the company which amount to repudiation of the contract by them, the Agreement of Licence dated 31st August, 1951 has been revoked with effect from 21st December, 1968, the date on which the notice was formally served on the company.*

1.18. In para. 2.22 of their Fifty-Fourth Report (Third Lok Sabha) the Committee had expressed dissatisfaction at the slow progress in the settlement of disputes arising out of the contracts with North Andaman licensee. The Committee regret to observe that two out of three arbitration cases in this regard are still to be finalised. The Committee observe from the information furnished to them that due to "procedural difficulties" final arrangements for the appointment of arbitrators are still to be made in these cases. A Committee of

*Based on information furnished to the Study Group of P.A.C.

Secretaries which was appointed pursuant to the recommendations of the Public Accounts Committee to review the working of these contracts came to the conclusion that "it is not desirable to continue spending public funds on prolonged litigation and arbitration proceedings." Besides, in the arbitration case which has been decided, Government's claim against the licensee for royalty on shortfalls has not been sustained. As this is the main issue under arbitration in the remaining cases also, the Committee would like Government to examine whether it would be worthwhile to continue the proceedings in this regard any further.

1.19. The Committee note from the information furnished to them that a sum of Rs. 19.41 lakhs (out of a claim amounting to Rs. 2.24 crores referred to the arbitrator) is due for realisation from the licensee as a result of the findings of the arbitrator in one of the three cases. They would like to be informed of the steps taken to realise this sum from the licensee.

1.20. The Committee would also like disciplinary proceedings to be speedily initiated against officials who have been found by the Committee of Secretaries to be responsible for various lapses in connection with the drafting of the agreements executed with the licensee.

Audit Paragraph:

Saw Mills

1.21. The table below indicates the intake and outturn of the departmental saw mills for the five years ending March, 1967:—

(Figures in tons)

	1962-63	1963-64	1964-65	1965-66	1966-67
Intake . . .	21,370	23,177	27,020	27,509	26,043
Outturn (Squares and Scantlings)	11,530	12,524	13,424	13,869	11,864
Wastage . . .	46.04%	45.97%	50.32%	49.58%	54.44%
Cost of sawn timber (in Rs. per ton)	314.67	309.71	336.59	385.10	546.67

It will be seen that (i) the percentage of wastage which was 36.04 per cent. in 1962-63 went up to 54.44 per cent. in 1966-67 and (ii) the per ton cost of production of sawn timber during 1966-67 recorded an increase of Rs. 232 (74 per cent.) over the figure for 1962-63.

The Ministry have stated (January, 1968) that the cost of production of sawn timber had increased mainly because of general increase in (a) the cost of extraction, (b) milling charges and (c) overhead charges. As regards the wastage, they have stated that Chatham Saw Mill (which accounts for more than 90 per cent. of the total intake) is basically a salvaging unit and as such it has not been possible to ensure a better outturn percentage.

[Paragraph No. 6, Chapter XVIII, Audit Report (Commercial), 1968].

Working of Chatham Saw Mill

1.22. In regard to the working of the Saw Mills, the representative of the Forest Department, Andamans, informed the Committee that the working result as shown in the *pro forma* accounts "does not satisfy me as realistic. This is under examination by the Cost Accounts Officer." From the report of the Cost Accounts Officer, the Committee note the following position in regard to the Mill:

"The wastage in the mill was about 55 per cent in 1966-67 and 58 per cent in 1967-68. This is on the face of it very high. The explanation given viz. that only bad quality logs are sent to the mills is also not fully correct as the logs are not graded at all. It was estimated in October, 1966 that only about 30 per cent of the logs fed to the mill are defective logs which could not be sold in the shape of logs. The remaining 70 per cent apparently therefore represent good logs which cannot be exported due to the shipping bottle-neck. This is also proved by the fact that there was a short fall of about 15,000 tons per year between the targetted quantity for export and the actual quantity exported. It is not the case that this 70 per cent of logs were waiting for the ship and were sent to the mill only after they deteriorated and became unfit for export. The even flow of logs to the Mill, the fact that the in-take of the Mill was fixed at 100 tons per day and the fact that the existence of the shipping bottle-neck was known and acknowledged would mitigate against such a view."

"The mill should therefore be able to give a better outturn by more efficient operation. One of the reasons for the high wastage is that the mill is an old one and is out moded. This also explains the

high cost of conversion in the mill. It is therefore worthwhile examining how far it will be advantageous to have new machinery in the mill. Other considerations such as capital cost of such new machinery etc., would also have to be taken into account before arriving at a final decision."

"Even in the existing mill, the possibilities of reducing wastage should be examined in more detail. At present, the particular method of sawing a log is left to the workman on the spot..... We are not interested only in using maximum portion of the circle but also in producing such sizes of squares and rectangles which can be marketed. So the logs have to be cut bearing in mind the necessity of optimum utilisation and also the particular sizes required in the interest of marketability. Even within the marketable sizes, there is more demand for some sizes and less demand for the others. Even apparently unpopular sizes can be sold by reducing the prices for such sizes. They will definitely fetch more price than the fuel which we will be producing more if we do not produce the unpopular sizes. So the conversion of logs into sawn timber is a very complicated matter requiring a knowledge of geometry, a knowledge of market demands and a knowledge of comparative utility of unpopular sizes vis-a-vis fuel. Each ton of logs fed to the Mill costs about Rs. 200 (including royalty) and for 26,000 tons fed in 1966-67, the cost comes to Rs. 52 lakhs. When we are using up Rs. 52 lakhs worth of raw materials, we should do everything possible to ensure economic utilisation of this raw material. We should have a highly skilled and very responsible official on the spot to decide the method of cutting and this very important work should not be left to the sawer."

"We should study the particular method of measuring the logs as this has a bearing on the wastages. The logs are measured by their girth and are converted into volumetric measurements by what is called the timber formula or quarter girth formula $\frac{(\text{Girth})^2 \times \text{length}}{4}$ ". By adopting this formula for volumetric conversion, we have already made provision for a certain amount of wastages in the conversion of the round shape of the logs into the square or rectangular shape."

"In 1966-67 we got only 0.45 tons of sawn timber as measured by actual volume from 1 ton of log as measured by the timber formula. So our outturn was not 45 per cent as assumed in the proforma accounts but was only about 35.4 per cent $\frac{(45 \times 100)}{127}$ and the wastage (or spoilage, to use the correct term) was not 55 per cent as assumed but was 64.6 per cent."

"The more serious point is that the wastage was actually measured and was found to be only 0.55 tons per ton of log as exhibited

in Timber Account No. II included in the Proforma Accounts. This would indicate that about 0.27 tons out of every ton of log fed into the mill has physically disappeared."

"A sudden reduction in the Mills' intake will, of course, create some problems. We have to find out more shipping capacity for exporting logs and we have also to make arrangements for their sale in the mainland. It may not be practicable to retrench the surplus labour in the Mills. Their absorption in other fields will take time. The surplus machinery and unutilised capacity in the mill will add to the cost per ton of milling. But even with the full complement of labour and machinery, a reduction in the Mills' intake will improve our working results as we will then be saving at least the considerable portion of loss in the value of the logs. This is a peculiar situation where we stand to gain if our labour is idle rather than if they work. Pay them all and ask them to please remain idle, your losses will be much less than what they are now."

1.23. The Committee are not happy about the performance of the Government-run saw mill at Chatham. The wastage in the mill which was 55% in 1966-67 increased to 58% in 1967-68. The Cost Accounts Officer who examined the working of the Mill came to the conclusion that "the mill should be able to give a better outturn by more efficient operation" and that effective supervision at higher levels would substantially help to reduce wastage. The Cost Accounts Officer had also pointed out that "0.27 ton out of every ton of log fed into the mill has physically disappeared. The Committee would like Government to take, in the light of these findings, concerted steps to minimise wastage and leakage.

1.24. A more important point bearing on the working of the Saw Mill arises out of the findings of the Cost Accounts Officer referred to in an earlier section of the Report that it is intrinsically uneconomic for the Department to go in for the production and sale of sawn timber. The Committee would therefore like Government to consider how far the scale of operations of the mills could be rationalised and also whether the machinery in use in the mills should not be modernised to improve productivity.

NEW DELHI;

17th April, 1969.

27th Chaitra, 1891 (Saka)

M. R. MASANI,

Chairman,

Public Accounts Committee.

APPENDIX

Summary of Main Conclusions/Recommendations (Referred to in para. 3 of Introduction)

Serial Para No. No. of Report	Ministry/Department concerned	Conclusions Recommendations
1 2	3	4
1 1.7	Food, Agriculture, Community Development and Cooperation (Department of Agriculture); Shipping and Transport.	<p>The Committee are concerned over the persistent shortfall in shipment of timber extracted by the Forest Department in Andamans. During the four years ending 1967-68, the shipment fell short of the annual targets fixed by about 25 per cent. to 56 per cent. The shortfalls occurred despite the scaling down of the targets for shipment from 42,400 tons to 34,000 tons. It is apparent that the shipping requirements of the Islands for timber traffic are not being fully met. In consequence, the timber extracted in the Islands had to be either sawn locally or just allowed to deteriorate, resulting in substantial losses to the Department. The Committee would like Government to take the following steps to remedy the situation:</p> <p>(i) The requirements of the Islands for additional ships should be carefully assessed and steps taken to augment the fleet for transport of timber. Government should in this connection take up with the Coastal Conference the question of improving the position in regard to availability of ships to the Islands. If necessary, the question of</p>

acquisition of additional ships by the Shipping Corporation may also be considered.

(ii) The existing shipping space available should be fully and adequately used and the frequency of trips should be improved by taking concerted action to minimise delays in loading and unloading operations. Any substantial improvement in this regard would no doubt depend on provision of improved harbour facilities at Port Blair. The Committee note that the connected works are under way and hope that they will be completed as scheduled.

(iii) The scope for maximising local consumption of timber should be explored and Government should take steps to accelerate schemes for the setting up of wood-based industries in the Islands. Such a step would also help to foster the economic development of the Islands.

2 1.12 Department of Agriculture

The Committee observe that according to the Report of the Cost Accounts Officer the proforma accounts of the Forest Department as at present prepared are an "unscientific jumble" of figures on which "no dependable decision on any worthwhile policy matters could safely be based". The Committee note that the Cost Accounts Officer is now engaged in the work of rationalising these accounts. The Committee desire that early action should be taken in this respect, in consultation with Audit. While overhauling the accounts, the following points mentioned in the preliminary report of the Cost Accounts Officer should receive special attention:

- (i) The correct determination of capital employed;
- (ii) The correct computation of depreciation on assets;
- (iii) A scientific basis for the allocation of general overheads amongst the various activities of the Department;
- (iv) The determination of correct rates of royalty on timber extracted by the Department. The practice adopted in this regard in saw mills on the mainland should also be ascertained.

3 1.13 Department of Agriculture

The Committee observe that the working results of the Department for 1966-67 as reflected in the Accounts as recast by the Cost Accounts Officer showed a loss of Rs. 62.40 lakhs. The Committee would like action to be taken expeditiously to eliminate these losses through proper programming of extraction work, more intensive exploitation of timber in coupes, grading of logs, fixing of prices on the basis of grades instead of on the average quality of logs, and then "chasing", and control over overhead expenses, as suggested by the Cost Accounts Officer. One important point emanating from the Cost Accounts Officer's examination also deserves mention. A substantial portion of the losses incurred by the Department arises out of sale of sawn timber. The Cost Accounts Officer had suggested that the production and sale of sawn timber should be curtailed and the Department should concentrate on production and sale of logs. The Committee would like this suggestion to be examined for implementation. If sale of sawn timber is undertaken in mainland markets, the Department should ensure that the sales are confined to markets where they have been relatively more remunerative.

4 1-18 Department of Agriculture

In para 2.22 of their Fifty-fourth Report (Third Lok Sabha) the Committee had expressed dissatisfaction at the slow progress in the settlement of disputes arising out of the contracts with North Andaman licensee. The Committee regret to observe that two out of three arbitration cases in this regard are still to be finalised. The Committee observe from the information furnished to them that due to "procedural difficulties" final arrangements for the appointment of arbitrators are still to be made in these cases. A Committee of Secretaries which was appointed pursuant to the recommendations of the Public Accounts Committee to review the working of these contracts came to the conclusion that "it is not desirable to continue spending public funds on prolonged litigation and arbitration proceedings." Besides, in the arbitration case, which has been decided, Government's claim against the licensee for royalty on shortfalls has not been sustained. As this is the main issue under arbitration in the remaining cases also, the Committee would like Government to examine whether it would be worthwhile to continue the proceedings in this regard any further.

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The Committee note from the information furnished to them that a sum of Rs. 19.41 lakhs (out of a claim amounting to Rs. 2.24 crores referred to the arbitrator) is due for realisation from the licensee as a result of the findings of the arbitrator in one of the three cases. They would like to be informed of the steps taken to realise this sum from the licensee.

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The Committee would also like disciplinary proceedings to be speedily initiated against officials who have been found by the Committee of Secretaries to be responsible for various lapses in connection with the drafting of the agreements executed with the licensee.

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8 1-24

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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, Sciadia 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.	Atma Ram & Sons, Kashmir Gate, Delhi-6.	9	35.	The United Book Agency, 48, Anrit Kaur Market, Pahar Ganj, New Delhi.	83
27.	J. M. Jains & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	13	37.	Bookwell, 4, Sant Narsimhari Colony, Kingsway Camp, Delhi-9.	96
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	80	MANIPUR		
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	83	38.	Shri N. Chooba Singh, News Agent, Ramkai Puri High School Annex, Imphal.	77
AGENTS IN FOREIGN COUNTRIES					
31.	Bahree Brothers, 188 Lal-petrai Market, Delhi-6.	27	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON W.C.—2.	99
32.	Jayans Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66			

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