

# COMMITTEE ON PUBLIC UNDERTAKINGS (1967-68)

## SEVENTH REPORT

(FOURTH LOK SABHA)

**Action taken by Government on the recommendations  
contained in the Fifty-First Report of the  
Estimates Committee (Third Lok Sabha)**

**HEAVY ENGINEERING CORPORATION LTD.**

**(Ministry of Industrial Development  
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**LOK SABHA SECRETARIAT  
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**February, 1968/Magha, 1889 (Saka)**

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Seventh Report of the Committee on Public  
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<u>Page</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
2	23	ability	viability
3	2nd from bottom	economics	economic
4	17	Foundary	Foundry
5	13	delete	'as' <u>after</u> 'far'
5	11 from bottom	instal	install
6	19	detained	detailed
8	12	held	hold
9	2	particulars	particular
9	8 from bottom	Contry	Country
12	4	hings	hinges
15	12	delete	'for persons'
22	5	insert	'to' <u>after</u> 'taken'
23	10	'Rs.27,24 lakhs'	'Rs.27.24 lakhs'
23	14	recommended	recommend
32	16	Insert	'In', <u>after</u> 'policy'
32	17	add	'they' <u>before</u> 'would'
33	3	has	have
40	18	suitably	suitable
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		( hould	( should
43	22	'Supply his'	'Supply. His'
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51	12	inherrent	inherent
51	24	delete	which
56	9	'present. Had'	'present, had'
60	12	havig	having
61	17	or	of

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COMMITTEE ON PUBLIC UNDERTAKINGS  
(1967-68)

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Shri A. L. Rai, *Deputy Secretary.*

Shri M. M. Mathur, *Under Secretary.*

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Seventh Report on the action taken by Government on the recommendations contained in the Fifty-first Report of the Estimates Committee (Third Lok Sabha) on the Heavy Engineering Corporation, Ltd.

2. The fifty-first Report of the Estimates Committee was presented to the Lok Sabha on the 3rd April, 1964. Government furnished their replies indicating the action taken on the recommendations contained in that Report between 8th November, 1965 and 9th August, 1967. As the Public Undertakings are now to be examined by this Committee, the replies of Government to the recommendations made by the Estimates Committee in the aforesaid Report have been considered by this Committee. The Draft Report was adopted by the Committee on the 30th January, 1968.

3. The Report has been divided into the following four Chapters:—

- I. Recommendations that have been accepted by Government.
- II. Recommendations which the Committee do not desire to pursue in view of Government's reply.
- III. Recommendations in respect of which replies of Government have not been accepted by the Committee.
- IV. Recommendations in respect of which final replies have not been received from the Government.

4. An analysis of the action taken by Government on the recommendations contained in this Report of the Estimates Committee is given in Appendix VIII. It would be observed therefrom that out of 118 recommendations made in the Report 77.1 per cent have been accepted by Government and the Committee do not desire to pursue 15.3 per cent of the recommendations in view of the Government's reply. Replies of Government in respect of 4.2 per cent of the recommendations have not been accepted by the Committee.

NEW DELHI;  
February 15, 1968.  
Magha 26, 1889 (Saka).

D. N. TIWARY,  
Chairman,  
Committee on Public Undertakings.

**CHAPTER I**  
**RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY**  
**GOVERNMENT**

**Recommendation (Serial No. 1)**

*It is regrettable that though Government thought of setting up plants for heavy engineering industry as early as 1955, it took them three to five years to arrive at the decision. The urgency for the plants does not appear to have been fully realised and much precious time had been lost in the preliminaries. The Committee cannot help deprecating the delay in the development of heavy engineering industry in the country, which was rightly assigned the highest priority with tentative targets in the Second Plan. (Paragraph 9).*

**REPLY OF GOVERNMENT**

Noted

[*Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965.*]

**Recommendation (Serial No. 2)**

*Under the present arrangement, initial investigation of industrial projects is being done by National Industrial Development Corporation pending the ultimate implementation by other approved agencies. The Committee are not happy over this arrangement and consider that the agency through which the projects are to be executed should be decided well in advance and entrusted with the task from the very beginning. A different agency like the National Industrial Development Corporation processing the work relating to negotiations, agreements etc. may not give the same urgency as the agency which takes it over may have given. In all such cases the proper course would appear to be to entrust the projects to an executing agency. In this case, this could have been done in December, 1957 rather than waiting till May, 1959, i.e. a year and half later. (Paragraph 11).*

**REPLY OF GOVERNMENT**

Noted.

[*Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965.*]

### Recommendation (Serial No. 3)

*The Committee feel that the time taken at the various stages of finalising the project reports has been rather long as has been admitted by the representative of the Ministry. Since these initial delays affect the commissioning of the projects and the achievement of production targets set forth in the Plan, it would be desirable if a review of the processes involved in the collection of data, preparation and finalisation of detailed project reports and the time taken therein is made by Government with a view to reduce this time lag to the minimum in future projects (Paragraphs 14)*

#### REPLY OF GOVERNMENT

1. An examination of the position has revealed that the presentation of preliminary data by Government to the consultants for the preparation of a detailed project report is the main foundation on which the project is built. In a few cases, inadequate investigation at the preliminary stage led not only to delay in the execution of the project but also resulted in extra cost on account of change in site, non-availability of fuel or other raw materials like ores etc. It is, therefore, considered that every effort should be made to eliminate avoidable delay. The preliminary investigation should be both adequate and conclusive if the project is to proceed on sound footings.

2. Normally the preliminary data would itself be sufficient for the Government to study the feasibility and the economic ability of the proposed project and decide upon calling for the DPR. In a few cases, however, even the technological-cum-feasibility report has to be obtained from foreign consultants. The time taken, therefore, for the preparation of DPR which sometimes includes a preliminary feasibility study, depends very much on the consultant chosen. The pattern also varies from country to country. For example in Western Countries the project report takes the form of a techno-economic feasibility study which indicates, amongst other things, broad specification on the basis of which tenders can be invited. The detailed project engineering is undertaken by the tenderers.

On the other hand, in the case of east European countries, a contract is usually signed for the DPR which very often includes a time limit for not only the preparation of the report, but also the scrutiny and final acceptance of the Report by the Government. In view however of the practice in the East European countries to cover in the DPR even the techno-economic feasibility study, the specification for raw materials, supply of equipment and production cost etc., the consultants require time to submit such finished reports.

Again, in regard to acceptance of the DPR, a time limit is prescribed in many cases, within which the project report received from a consultant has to be scrutinised, discussions held with the consultant to seek clarification and a final acceptance. Even where there is no time limit prescribed in the DPR, the Government fixes a target time and tries to work within the schedule. To avoid loss of time, examination is also made simultaneously by the Administrative Ministry in consultation with other Ministries/Departments concerned like the Ministry of Finance, Planning Commission etc. when the report is under scrutiny by the Technical Committee.

In the circumstances, it will be appreciated that appropriate steps are being taken at every stage to reduce the time lag between the collection of data, preparation and finalisation of DPR in regard to approved project.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### **Recommendation (Serial No. 6)**

*No definite schedules of construction and commissioning of projects were drawn up initially. There has thus been an element of uncertainty in this regard which might have partly been due to revision of capacities. It is essential for proper planning and execution that definite time schedules of construction and commissioning of projects are prepared as early as possible and are adhered to. (paragraph 23).*

#### **REPLY OF GOVERNMENT**

The time schedules of construction and commissioning of projects should, and, in fact, are normally indicated in the Detailed Project Reports. Instructions in this regard were also issued in October, 1965 (Appendix I). For proper programming, the new projects are increasingly using the scheduling techniques such as net work planning. The projects also furnish to Government periodical progress reports which are scrutinised, and wherever delay is noticed, steps are taken to have the completion of the project expedited.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/FI/ISS/67 dated the 17th May, 1967].

#### **Recommendation (Serial No. 9)**

*The Committee note that no Planning Cell to watch the different stages of execution of the projects under the Control of the Ministry and to concentrate on their broad technical and economics aspects has been set up by the Ministry so long. They hope that the pro-*

posed Cell would be organised without any further delay. (Paragraph 27).

#### REPLY OF GOVERNMENT

A Planning Section has been set up in the Ministry with effect from 29th November, 1965.

[Ministry of Industry O.M. No. 22/1/64-HECHE dated the 25th November, 1966].

#### Recommendation (Serial No. 10)

*The Committee trust that early action would be taken by the Corporation to draw up firm production programmes for each project in consultation with the users. They would also suggest that these programmes, when finalised, should be published in the Annual Reports of the Corporation. (Paragraph 29).*

#### REPLY OF GOVERNMENT

The recommendation has been noted and will be adopted to the extent possible. However, in projects like Heavy Machine Building Plant and Foundry Forge Project where items of heavy machinery and equipment, or castings and forgings have to be manufactured in accordance with the specifications to be furnished to us by the users, production can only be organised with reference to firm orders received. Accordingly every effort is being made to obtain firm orders from others such as Hindustan Steel Limited, Heavy Electricals (India) Limited, Oil and Natural Gas Commission etc. before firm production programmes are drawn up and published.

C. M. M. P.

Firm production programme for the current year has already been made. Programme for the next two years are also under preparation and every effort would be made to adhere to this.

The recommendation regarding publication of production programmes in the Annual Reports of the Corporation has been noted.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 11)

*There would be a gap of 6 to 7 years between calling for the D.P. Rs. and the commencement of production and it would also take 5 to 8 years for the projects to attain rated capacities from the time of commencement of production. The Committee feel that the gestation period in the case of projects of the Corporation is too long.*

*They hope that every effort would be made by the management to attain production to optimum capacities as early as possible. (Paragraph 31).*

#### REPLY OF GOVERNMENT

Every effort will be made to attain production upto the optimum capacity as early as possible.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### Recommendation (Serial No. 12)

*The Committee are not convinced with the explanation given for delay in the installation of machinery. They regret the slow progress in construction of projects and in the installation of plant and machinery, most of which was received as far as back as 1961-62. In spite of realising their inability to do the construction work according to schedule the Corporation has not exercised due care in ordering the equipment and synchronising its receipt with the construction work. It is surprising that obvious dangers of damage etc. to the uninstalled machinery which has to be stored were not fully realised by the Management. This was unfortunate as subsequent events proved when heavy losses to the stored equipment were caused by the recent fire. It is also noteworthy in this context that the period of performance guarantee of the equipment in the case of supplies from U.S.S.R. extends to 18 months from date of shipment. Apparently in many cases, the equipment received from U.S.S.R. will be installed after the guarantee period is over. That the management had to approach the Soviet suppliers to secure guarantee for more period of 3 to 4 months after erection is a further proof of lack of care in coordinating the construction work with the arrival of machinery from U.S.S.R. The Committee cannot over-emphasise the need for complete coordination in these matters. They hope that effective measures would be taken to remedy such a state of affairs and to step up the tempo of construction work so as to instal the machinery which is lying idle. Further, the Committee have no doubt that this lesson will be borne in mind while ordering machinery for future projects. (Paragraph 36).*

#### REPLY OF GOVERNMENT

The delays in construction and erection in the past were unavoidable in spite of the best efforts of the Heavy Engineering Corporation. However, every possible action is being taken to step up construction work and to install the machinery already received. It will be pertinent to mention in this connection that only Rs. 5 lakhs worth of Machinery meant for Foundry Forge Project was

received in 1960-61 and only Rs. 3.40 crores worth of machinery was received during 1961-62.

So far Heavy Machine Tools Plant is concerned, subject to the construction works proceeding according to our schedule, the installation of machinery and equipment is expected to be completed prior to the extension of the guarantee term. However, every effort is being made to persuade the supplier to extend the terms of guarantee for a period of 6 months after installation and simultaneously the tempo of construction is also being accelerated so that the Heavy Engineering Corporation may not have to face a situation as pointed out by the Estimates Committee.

Heavy Engineering Corporation tried to get shipments of machinery delayed and the schedule of delivery of equipment was rephased to the extent possible.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### **Recommendation (Serial No. 13)**

*The Committee hope that the necessary lesson not to place orders for machinery before the receipt of detained project report, as had been done in the case of Foundry Forge Project, will be drawn by Government to avoid recurrence of such cases in other projects. (Paragraph 37).*

#### **REPLY OF GOVERNMENT**

In the case of the Foundry Forge Project (for the first two stages only) the contract for machinery was concluded on the basis of a preliminary project report to expedite the completion of the project. In the case of all the other projects, orders for supply of plant and machinery were placed only after the Detailed Project Reports were received.

This observation has been noted and communicated to all other Ministries/Departments for guidance.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### **Recommendation (Serial No. 14)**

*The Committee suggest that suitable instructions may be issued by Government to all public undertakings not to procure machine tools from H.M.T. Bangalore much ahead of requirements. (Paragraph 39).*

#### **REPLY OF GOVERNMENT**

It is agreed that Public Enterprises should not procure capital equipment including machine tools, and other items of inventory



in excess of or ahead of requirements. The Enterprises have been asked to introduce proper inventory and cost controls, and other necessary measures for minimising the cost of production vide Ministry of Finance O.M. No. F. 2(43)/66-FI, dated 5-9-1966. (Appendix II).

[Ministry of Finance (Bureau of Public Enterprises O.M. No. 202/F1/155/67, dated the 17th May, 1967].

#### **Recommendation (Serial No. 15)**

*The Committee hope that adequate steps would be taken by the Corporation and the Ministry to ensure optimum utilisation of capacity of the Projects. (Paragraph 40).*

#### **REPLY OF GOVERNMENT**

Noted. Every effort will be made that the available capacities in the Heavy Engineering Corporation's projects are utilised to the fullest extent.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### **Recommendation (Serial No. 16)**

*The Committee fail to understand why there should be any delays in the supply of shipping documents or defects in their preparation and why the Corporation should be penalised for the same. At any rate, such difficulties should have been resolved with the suppliers in the very beginning. Obviously no commercial organisation would allow an expenditure of about Rs. 15 lakhs to be borne by it on this account. They would recommend that the matter should be carefully examined by Government with a view to streamlining the procedure as also to obviate such delays or defects in documents in future. In this connection the possibility may be explored of including a clause in the agreements for reimbursement of losses by the suppliers arising on account of delay in receipt of or defects in shipping documents. (Paragraph 43).*

#### **REPLY OF GOVERNMENT**

The points raised by the Estimates Committee have been considered. In contracts which are now being finalised, a suitable clause is being inserted to provide for the immediate despatch by airmail of the original shipping documents to India once the shipment is effected. At the instance of the Corporation, the case has also been taken up with the U.S.S.R. Government's Commercial Representa-

tive here to ensure that shipping documents are in proper form and are despatched as quickly as possible.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### **Recommendation (Serial No. 17)**

*The Committee feel that the payment of such heavy demurrage charges as well as congestion at the port could have been avoided if the Corporation had kept close liaison with the suppliers and programmed the movement of the consignments accordingly. They trust that immediate steps would now be taken by the Corporation to get the package lying at the port transported to the project sites and to avoid any undue held up at the port in future. (Paragraph 45).*

#### **REPLY OF GOVERNMENT**

Regarding the delay in clearance at Calcutta port due to consignments being over-sized, it may be mentioned that even if the shipping documents reach us in time and advance intimation is given to us by the suppliers, the entire process of handling involved in the movement and clearance of unusually bulky consignment at too many points cannot be avoided and the time taken in clearance in such cases is unavoidable. Certain unusually bulky consignments which were lying in the Calcutta port for a long time have been moved by Boat upto Durgapur and thereafter by Road to Ranchi; such operations require considerable planning and skill.

2. All efforts are now being taken to get the packages lying at the port transported immediately to the Project sites.

3. The Soviet authorities have been requested to take up the question of the late receipt of shipping documents or receipt of incomplete or incorrect shipping documents by the Heavy Engineering Corporation from Messrs. Prommachexport, Moscow with the concerned authorities in U.S.S.R. to ensure that the shipping documents complete in all respects are received in time by the Heavy Engineering Corporation and that intimation about overdimensional packages along with the drawings and sketches is sent, three months in advance.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### **Recommendation (Serial No. 19)**

*It needs no emphasis that production at the projects would involve movement of large quantities of raw materials and finished*

*products which would need special types of wagons, etc. There have been cases in the past when due to shortage of particular type of wagons, the imported equipment had been held up at the Calcutta Port. The Committee suggest that the Ministry should ensure that the requirements of the Corporation for line capacity, special types of wagons etc. are finalised and necessary action initiated well in time by the Railway authorities. (Paragraph 48).*

#### REPLY OF GOVERNMENT

Heavy Engineering Corporation have intimated their future requirements of special types of wagons to the South Eastern Railway authorities. Besides, they would ensure that as many items as possible are so designed that they are capable of being transported on standard type of wagons. They have a special design bureau which ensures that items are shaped in suitable weights and dimensions group to conform to the overall requirements of Indian railways. In case, however, any difficulty is experienced by the Heavy Engineering Corporation in getting railway wagons, every assistance will be given to them by the Ministry.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].*

#### Recommendation (Serial No. 20)

*So far little attention has been paid towards developing indigenous sources of supply of raw materials and the Auxiliary items required by the Corporation. It is unfortunate that the supply of Electric Motors and ball bearings etc. was not ensured so as to coincide with the manufacturing programme of the Corporation. In this connection, it is pertinent to note that as early as 1957, the USSR Team suggested that production of auxiliary items indispensable for completing the equipment of Heavy Machinery Building Plant and Coal Mining Machinery Plant should be secured in good time and planned supplies thereof ensured. The absence of such supplies and any uncertainty about them would now not only saddle the contry with heavy foreign exchange expenditure on imports but is also likely to affect utilisation of full capacity of the plants. The committee regret that the Corporation as well as the Ministry should have taken a complacent view of this important matter. (Paragraph 55).*

#### REPLY OF GOVERNMENT

The Government and the Heavy Engineering Corporation Limited are fully aware of the need to obtain various ancillary items which

are to be obtained either from the existing manufacturers in the country or through the medium of indigenous capacity yet to be created failing which through the medium of imports. A list of such requirements, the procurement position and the attempts made so far for locating sources are indicated below:

The biggest items in which the Corporation is interested in creating ancillary capacity are large size ball roller and taper bearings and flame-proof motors. In regard to the former, the question of setting up a public sector project for undertaking manufacture of ball roller and taper bearings is under consideration.

In regard to flame proof motors, the Corporation had approached the Government and a proposal had already been worked out. The Department of Technical Development has given wide publicity through the various Chambers of Commerce. This has resulted in some of the firms, showing their willingness to either supply from their factory or alternatively extending the scope of their manufacturing programme to cater to Heavy Engineering Corporation's needs. It is virtually impossible for the Corporation to have plant facilities for undertaking manufacture of all the items. There are quite a number of items where the Corporation had realised long ago the need to set up ancillary capacities and have also been trying to interest prospective entrepreneurs. A standing committee has also been appointed with the Chairman of the Heavy Engineering Corporation as the Chairman of the standing committee to draw plans for creation of an industrial estate and development of ancillary industries in and around Ranchi. Certain specific fields of development have been suggested and the State Government have been asked to find out suitable sites for the location of the ancillary units and also to develop the land and make water and power available to these areas so that the Committee may go into further details for the establishment of such ancillary units.

Extensive enquiries and discussions have taken place on this subject of manufacture of flame proof motors for Coal Mining and Machinery Plant and it has been agreed to by Bharat Heavy Electricals Limited that they will manufacture and supply all flame-proof motors of 60 k.w. and above to meet the requirements of Heavy Engineering Corporation. In regard to motors 60 k.w. and below 60 k.w. Messrs. Kirloskar Limited are the only organised manufacturers of flame proof motors and as their capacity alone is not enough to meet

the requirements of Heavy Engineering Corporation, the Heavy Engineering Corporation has entrusted the new Government factory at Bangalore and discussions are going on with Messrs. General Electric Company to find out whether they could create plant facilities to undertake manufacture of these motors.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

**Recommendation (Serial No. 21)**

*The estimated value of raw materials and components required from other sources for each project at full production stage is expected to be 52 per cent of the output of CMMP., 45 per cent of HMBP, 36 per cent of FFP and 60 per cent of the HMTP. The need for making concerted efforts to locate and increase the indigenous production of components and raw materials required by the Corporation is evident. It is imperative that the Corporation should aim at ensuring that they are available from indigenous sources in the quickest time possible. The Committee suggest that, with this end in view Government should immediately appoint a Committee of technical experts which may include the representatives of the Corporation Department of Technical Development and the Ministry to survey the indigenous capacity in this regard and to draw up, in consultation with the various interests concerned, a long term plan for allocating among various producers the responsibility for the manufacture of specified items. Attempts should also be made to standardise the components as far as possible. The representative of the Ministry welcomed the setting up of such a Committee.*

(ii) *The Committee also consider it highly desirable that the Annual Reports of the Corporation should indicate the percentage of imported raw materials and components used in the manufacture of equipment so that the progress made in the utilisation of indigenous raw materials and components is known from year to year. (Paragraph 56).*

**REPLY OF GOVERNMENT**

(i) A Committee has been set up accordingly and a copy of the Resolution constituting it, is enclosed (Appendix III). The Report of the Committee is expected shortly.

(ii) Noted.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

**Recommendation (Serial No. 22)**

*No source of supply for castings and forging required by HMBP for its manufacturing programme, till these are available from FFP,*

*has yet been firmly located. The Committee are unhappy at this position and hope that effective steps would be taken to locate the source for the castings on which the machine building programme hinges. (Paragraph 57).*

REPLY OF GOVERNMENT

(a) *Heavy Machine Building Project*

The original concept was that the Foundry Forge Project which has a metallurgical base will supply all the forgings and castings required for the Heavy Machine Building Project to meet its full needs for the 80,000 tons annual production of heavy machinery. But due to various reasons production in the Foundry Forge Project will be behind the Heavy Machine Building Project's production schedule. However, certain improvised programme of construction and erection have been thought of for the Foundry Forge Project whereby at least some of the units in the grey iron foundry, non-ferrous foundry and steel foundry are being commissioned. The non-ferrous foundry commenced production from the 1st May, 1964 and the grey iron foundry on 15th June, 1964. In the earlier production of Foundry Forge Project, manufacturing of only small size forgings and castings can be undertaken, the heavier groups will therefore have to be procured from outside. Efforts have been made from the reputed foundries in India in both private and public sectors to tap their capacity in meeting Heavy Machine Building Project's requirements of castings and forgings and some of them have already borne fruit. It is only the heavier range of castings and forgings not available indigenously that the Heavy Engineering Corporation will have to resort to imports by entering into the contract with Soviet Agency during the interim period. This interim period is not also likely to last for more than two years at most, by which time, the Foundry Forge Project is likely to manufacture castings and forgings of heavier ranges. The Soviet authorities have been sounded in this regard and their reaction seems to be favourable. In addition to all the above requirements, 4 ton electric arc furnace is being installed in the Coal Mining Machinery Project at Durgapur and it is also likely to supply some steel castings to the Heavy Machine Building Project till such time as the Foundry Forge Project at Ranchi is able to deliver such castings.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

**Recommendation (Serial No. 23)**

*The Committee would suggest that the Corporation should so streamline its purchasing and procurement procedures that the in-*

Inventory is not unduly heavy at any time. It is desirable to avoid unnecessary locking of working capital in the inventories and stockpiling of scarce materials which would otherwise become available to other industries (Paragraph 60).

#### REPLY OF GOVERNMENT

Heavy Engineering Corporation are looking into the present procedure and intend to simplify them wherever possible. They are also keeping a close watch on the stores balances to ensure that inventories are kept low.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### Recommendation (Serial No. 24)

The Committee regret that Government selected the sites for the projects without carrying out detailed boring and soil investigations, which were all the more necessary for this heavy engineering industry. Had this been done, it would have saved the extra expenditure of Rs. 1.17 crores and the time of 2 years in further investigations and decisions. Another unsatisfactory aspect of this delay is that the FFP which should have actually been commissioned along with HMBP, if not earlier, would now go into production much after the latter, thereby necessitating imports of castings and forgings for the machinery to be manufactured there. There have been similar cases in the past e.g. HEL, Bhopal and Barauni Refinery where selection of sites has been made on inadequate technical investigations leading to considerable extra expenditure and delays in the completion of projects. The Committee trust that at least now the Government would be cautious and take adequate steps to guard against location of Projects on inadequate soil investigations. In this connection the Committee would also draw attention to para 32 of their 34th Report (3rd Lok Sabha) on Indian Refineries Ltd. wherein they recommended that definite criteria should be laid down by Government for selection of sites for the Public Undertakings. (Paragraph 64).

#### REPLY OF GOVERNMENT

The attention of the public undertakings has been drawn to the importance of proper soil investigations through any of the existing specialised Government agencies [Copy of circular No. 296-Adv. (c)/Cir-2/66 dated the 4th November, 1966 and 91. Adv. (c)/Cir-17/67 dated 21st March, 1967 are enclosed]. (Appendices IV and V).

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/P1/ISS/67 dated the 17th May, 1967].

### Recommendation (Serial No. 25)

*It appears that the whole difficulty regarding land acquisition arose because the Government of India neither indicated the requirement of land (both for projects and townships) in specific terms to the State Governments nor got any clear assurance from them in regard thereto, as has been admitted during evidence. Had this been done it would have obviated the various delays and heavy extra expenditure. It is evident that there should be clear and specific agreement on such issues in the very beginning as otherwise ambiguities arise which lead to difficulties and high costs. There have also been other cases where the original assurances given by the State Governments have been subsequently changed by them and the grant of free land had to be changed into financial participation of State Governments. In this connection a reference is invited to para 64 of 34th Report of the Estimates Committee (3rd Lok Sabha) on Indian Refineries Ltd. The Committee would recommend that the whole question of land acquisition for public sector projects may be examined by Government in a comprehensive manner and broad guiding principles laid down to avoid any similar difficulties in future projects. (Paragraph 70).*

### REPLY OF GOVERNMENT

The Thacker Committee on Land Acquisition Proceedings has since submitted its Report. The recommendations contained therein have been communicated to the State Governments for adoption. Other matters relating to land acquisition not covered by the Thacker Committee are being examined by an Expert Group set up in the Ministry of Food, Agriculture, Community Development and Co-operation.

The suggestion for having in the beginning itself clear agreements on the terms regarding cost of land to be obtained from the State Governments is noted.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/ISS/67 dated the 17th May, 1967].

### Recommendation (Serial No. 26)

- (i) *Though the responsibility for rehabilitation of persons displaced by the projects rests primarily with the State Governments the Corporation should lend full support and help to them in securing decent means of livelihood and in providing suitable jobs, ever after training in the projects.*



- (ii) *The desirability of regulating land transactions in the project areas, so as to curb any speculation in the sale of land and profiteering, may be considered in consultation with the State Governments.*

*The Committee expect the State Governments to ensure that the rates at which land is made available to the public undertakings and private sector units in the same area are uniform as far as possible (Paragraph 71).*

#### REPLY OF GOVERNMENT

(i) Instructions already exist *vide* para 1 of Department of Industry O.M. No. Pr. C14(1)/61 dated 26-11-64 (Appendix VI) to the effect that in the recruitment of persons for persons in the lower categories in the public undertakings, the latter should give preference to persons displaced from the areas acquired for the projects.

(ii) This suggestion is being brought to the notice of the State Governments.

This will also be brought to the attention of the State Governments.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/ISS/67 dated the 17th May, 1967].

#### Recommendation (Serial No. 27)

*The Committee feel that the cost of townships of the Corporation which works out to as much as 21 per cent. of the total investment is disproportionately on the high side, as had been admitted by the representative of the Corporation during evidence. It should be realised that the investment on townships which is unproductive, will have a bearing on the cost of the products by way of adding to the depreciation, overheads and interest charges. In fact, based on the number of employees, the average cost of a quarter per employee works out to Rs. 19,000. It is doubtful whether expenditure on houses at such a lavish scale could be incurred from the general point of economy, much less from commercial viewpoint of the Corporation. It is very essential, that utmost economy, is exercised in this regard. With this end in view, the Committee would recommend that the cost of the townships should immediately be reviewed and brought down to the absolute minimum (Paragraph 77).*

#### REPLY OF GOVERNMENT

The standard of housing accommodation in Public Sector Undertaking is generally according to the norms laid down by the Com-

mittee on Plan Projects. The Heavy Engineering Corporation also has adopted the same standards, except that the provision for non-residential buildings has been reduced by us to about half of the size recommended by the C.O.P.P. Also, as of necessity, in view of the shortage of adequate housing facilities in Ranchi, this Corporation has planned to provide housing accommodation to as many as 80 per cent. of the workers and the staff. The township cost is 21 per cent. of the total investment, as the cost includes the cost of non-residential buildings and cost of land. The cost of acquisition of land at Ranchi was very high and this alone amounted to Rs. 3 crores.

The average cost per quarter of Rs. 19,000 includes the cost of land, cost of land development, such as levelling, formation of roads, cost of non-residential buildings, sewers etc. The average cost of the various categories of houses built by the Corporation as per the recommendation of the C.O.P.P. is given in the statement below:

*Statement showing the Approximate cost per unit of the quarters: built in this Corporation.*

Type	Plinth area in	Cost in Rs.
	Sq. Ft.	
A	365/405	7561.00
B	614	10034.00
C/D	500	15747.00
E	1623	25174.00
F	2093+485	41708.00

In the Heavy Engineering Corporation, the proportion of highly skilled and supervisory person is very high, as compared to other factories and therefore, more buildings in the higher categories have to be built and this has contributed to some extent to the average cost being Rs. 19,000. The recommendation of the Estimates Committee has been noted and the costs will be reviewed and brought down to the absolute minimum.

Lately the construction of 1596 houses in Sector IV of the township which was expected to cost about Rs. 2.14 crores has been deferred indefinitely. The construction of the 64 bedded hospital estimated to cost Rs. 23.31 lakhs has also been deferred and the services available in the temporary hospital are being utilised to the maximum extent. The construction of some non-residential buildings like Cinema houses and recreation centre has been deferred.

[Ministry of Industry & Supply O.M. No. 22-1/64-HECHE dated the 8th November, 1965].

**Recommendations (Serial Nos. 28 (iii)-(v))**

*The Committee would also make the following suggestions which should be borne in mind:—*

- (i) *The temporary houses should be properly utilised so long as they can last and to that extent the construction of permanent houses could be obviated.*
- (ii) *The designs of houses may be reconsidered so as to make them simpler and cheaper.*
- (iii) *The establishment and other expenses are estimated at 6 to 7 per cent. of the total investment of Rs. 43 crores. These seem to be on the high side and could perhaps be brought down considerably by increasingly resorting to lumpsum system of contracts. (Paragraph 78).*

**REPLY OF GOVERNMENT**

(i) The temporary houses constructed will be utilised for a long time to come and these are off-set against the provision for permanent houses.

(ii) Noted.

(iii) Against the provision of 6 per cent for establishment, and other expenses in the Preliminary Project Report the actual expenses have only been 4½ per cent. The suggestion of the Committee regarding lumpsum contracts has already been adopted to the extent possible.

[Ministry of Industry & Supply O.M. No. 22-1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 29)**

*The Committee feel that the addition of the heavy costs incurred on townships and other social amenities add to the costs of the projects and tend to affect the economics of the projects. The cost of production of every item goes up. When that item enters into the production process of other Undertakings, the end product bears the cost of two or more townships with the result that it is priced out in the world markets. They would therefore recommend that the matter may be examined by Government in a comprehensive manner, with a view not only of proper allocation of such an expenditure but also finding out ways and means of reducing it to the absolute minimum (Paragraph 81).*

## REPLY OF GOVERNMENT

In order to reduce the incidence of cost of township on production cost, sanctions for construction of townships are now being accorded in phases to meet minimum requirements. Moreover the scales of accommodations for the different categories of staff have been revised with a view to achieving maximum economy. Further action is being taken to effect reduction in cost of amenities etc. The Bureau of Public Enterprises is also evolving standard specifications and type designs.

The question is to how best the expenditure on townships could be maintained and analysed separately from the commercial operations is being examined.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/ISS/67 dated the 17th May, 1967].

**Recommendation (Serial No. 31)**

*Though Government have prescribed the plinth areas and scales of accommodation for different types of quarters in public undertakings, no standard designs and specifications of the houses, amenities to be provided etc. have been laid down. The Committee would recommend that the question of laying down standard designs and specifications of the houses, scale of amenities to be provided, overall ceiling of cost, rent to be recovered etc. may be examined by Government and specific instructions issued in this regard to public undertakings (Paragraph 84).*

## REPLY OF GOVERNMENT

It is not feasible to fix ceilings on costs for various categories of residences, as these would vary from locality to locality. The scales of accommodations for the different categories of staff have been revised with a view to achieving maximum economy. Further action is being taken to effect reduction in cost of amenities etc. The Bureau of Public Enterprises is also evolving standard specifications and type designs.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/ISS/67 dated the 17th May, 1967].

**Recommendation (Serial No. 32)**

*In 1962-63 alone, tenders other than the lowest have been accepted in 20 cases. Besides, contracts were awarded without calling for tenders in 61 cases. In most of these cases approval has been given by the Charman and other officers of the Corporation under the powers delegated to them by the Government. Such cases do not*

*appear to have been placed before the Board for its approval. The Committee feel that the awarding of a large number of contracts in this manner is not proper and is open to criticism. It indicates that the works were not planned in advance and had to be rushed through. Most of these cases, particularly those relating to the township, could have been avoided by advance planning. The Committee recommend that the matter may be looked into by Government and proper precautions taken to avoid recurrence of such case in future (Paragraphs 87-88).*

#### **REPLY OF GOVERNMENT**

Such cases will be reduced to the minimum in future. Planning will be done in advance and the approval of the Board will be obtained in cases where in special circumstances, Heavy Engineering Corporation find it necessary to accept tenders other than the lowest.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*

#### **Recommendation (Serial No. 33)**

*The Committee feel that it would have been possible to avoid the loss of Rs. 1.06 lakhs which the Corporation suffered due to delay in supply of materials to a contractor by proper planning. They hope that the Corporation has learnt the necessary lesson and would guard against such losses in future (Paragraph 90).*

#### **REPLY OF GOVERNMENT**

The Corporation will make every effort to ensure that such losses do not recur.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*

#### **Recommendation (Serial No. 36)**

*The Committee feel that the terms in the contracts regarding compensation for not giving further work, supply of materials especially the grant of advances to the contractors, are contrary to the principle of open tendering and vitiate the terms on which contracts are placed. The grant of such facilities are also open to public criticism. They would urge that these should not normally be resorted to (Paragraph 95).*

#### **REPLY OF GOVERNMENT**

Noted for future guidance.

*[Ministry of Industry & Supply O.M. No. 22-1/64-HECHE dated the 8th November, 1965].*

**Recommendation (Serial No. 37)**

*The Committee are not sure if the defects in the Hatia storage shed could not have been avoided. They are also not aware whether cracks have developed in other buildings in the area. Though under circumstances or urgency certain unconventionalities may have been inevitable, the Committee trust that the management would take adequate steps to ensure that in future designs of buildings, the soil conditions etc., will be borne in mind. (Paragraph 99)*

**REPLY OF GOVERNMENT**

Noted.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 37 (ii))**

*(ii) The Committee have observed that these defects have come in for criticism in the local papers. In such cases, earliest opportunity should be taken to clarify the position through the Public Relations Officer of the Corporation. (Paragraph 100).*

**REPLY OF GOVERNMENT**

The cracks that appeared in the buildings of Foundry Forge Project were of a very minor nature. All care is being taken to avoid occurrence of even such cracks in future buildings. Steps have been taken to ensure that the position is clarified to the public through the Public Relations Officer of the Corporation at the earliest opportunity in such cases.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 40)**

*The Committee regret that the question of getting construction equipment from undertakings which have been completed, has not been carefully gone into either by the Corporation or by the Ministry before sanctioning the imports, with the result that considerable avoidable expenditure in foreign exchange seems to have been incurred. They recommend that the present arrangements in this regard may be reviewed by Government with a view to avoiding any import of construction equipment that may be available with other projects in the country. (Paragraph 107).*

## REPLY OF GOVERNMENT

Heavy Engineering Corporation Ltd., approached a number of other projects for such surplus construction equipment as could be located there and acquired whatever was available for disposal. Imports were resorted to only for the balance of their requirements.

The question of laying down some procedure which might make for greater effectiveness is under consideration.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 7th April, 1966].

**Recommendation (Serial No. 41)**

*Considering the needs of a developing economy and increasing tempo of construction work in the public sector as well as difficulty of getting suitable contractors, the Committee are of the opinion that there is an imperative need to build up strong organisations in the public sector for undertaking construction and erection work. The setting up of such organisations will have the following advantages:—*

- (i) *The costly construction equipment which is at present purchased by the undertakings for hiring out to the contractors (often at uneconomic rates) and is generally disposed of after completion of works, will be pooled and fully utilised thereafter, resulting in considerable savings.*
- (ii) *The large engineering staff which is now engaged by public undertakings for supervision and other work during construction period will not be necessary, thus saving considerable sums of moneys.*
- (iii) *A body of experienced engineering staff will be built up by such organisations for undertaking similar works in the public sector.*
- (iv) *The Management of Public Undertakings will be left to concentrate on matters relating to production from the very beginning.*

*The Committee recommend that the matter may be examined by Government with a view to organising such agencies in the public sector. In this context the strengthening of the two existing organisations viz. National Projects Construction Corporation and National Buildings Construction Corporation for undertaking such works may also be considered by Government. (Paragraph 110).*

## REPLY OF GOVERNMENT

Apart from National Projects Construction Corporation Ltd., and National Buildings Construction Corporation Ltd., Government have

also since set up Hindustan Steel Works Construction Ltd., and construction works in specialised fields like steel, refineries etc. More such undertakings will be set up as and when considered necessary.

As regards construction equipment, steps are being taken assess the surplus in the various undertakings for its utilisation elsewhere and thus coordinate the requirements of various public undertakings for optimum utilisation of the available construction machinery. (Copy of circular No. 322-Adv(c)/Cir.7/66 dated 15th November, 1966 enclosed). (Appendix VII).

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/ FI/ISS/67, dated the 17th May, 1967].

#### **Recommendation (Serial No. 43)**

The consultancy charges work out to about 10 per cent of the total capital on the projects which appears to be on the high side. (Paragraph 115).

#### **REPLY OF GOVERNMENT**

Noted. Every effort will be made to reduce these charges in future contracts.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### **Recommendation (Serial No. 44)**

The Committee realise the difficulties in securing sufficient number of suitably qualified Indian personnel for the projects of the Corporation. They, however, feel that present number of foreign specialists, especially in the cost of Foundry Forge Projects on which expenditure of about Rs. 10 crores is likely to be incurred appears to be on the high side and the period of their stay of 8 years too long. They would suggest that the requirements for foreign specialists may be reviewed by the Corporation with a view to keeping them to the minimum and obtaining maximum results from them by a well-planned replacement by Indian counterparts. For this purpose, it might perhaps be advantageous if the Indians are put incharge of the sections as far as possible while the foreign technicians are entrusted mainly with the job of guiding them. The Committee feel that in this way Indians might be able to acquire the requisite experience in much shorter time and gain the necessary confidence (Paragraph 119).



## REPLY OF GOVERNMENT

Noted. Partly the higher cost of Foreign Experts is due to the preparation of a detailed design drawings and working drawings in India.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 46)**

*The Committee are not satisfied with the explanation given for entering into separate contracts with consultants for organisation manuals at a cost of Rs. 27,24 lakhs. They feel that there is a general tendency among various public undertakings to depend on consultants for every detail. This appears to be entirely due to a habit of mind and to a lack of national self-confidence. They recommended that such a tendency should be curbed by Government. In this connection the Committee would also invite attention to para 79 of their 32nd Report (3rd Lok Sabha) on National Coal Development Corporation wherein they have recommended the laying down by Government of certain principles to guide the nature and extent of foreign collaboration in a project. (Paragraphs 123-24).*

## REPLY OF GOVERNMENT

Noted for future guidance.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 47)**

*It appears that no serious thought has yet been given by Government towards attaining self-sufficiency in the machinery required for steel plants. The steps so far taken have been inadequate resulting in dependence on heavy imports. The Committee recommend that the proposed studies should be undertaken forthwith and a specially worked out plan for manufacture of heavy equipment and machinery required to support the contemplated industrial growth drawn up at an early date. (Paragraph 128).*

## REPLY OF GOVERNMENT

As a result of detailed study, it has been decided that the Heavy Machine Building Plant at Ranchi should be set up as outlined in the Detailed Project Report. After a few years of operational ex-

perience, studies and steps for rationalisation and increasing the capacity will be taken.

[Ministry of Industry O. M. No. 22-2/64-HECHE dated the 18th September, 1966].

#### Recommendation (Serial No. 48)

The Committee would also make the following suggestions:—

- (i) Out of 1.05 lakhs tons of mechanical equipment required for a million ton steel plant, the Heavy Machine Building Project is at present designed to produce only 70,000 tons and the remaining 35,000 tons (i.e., mechanical handling equipment, electrical equipment compressors boiders, instruments etc.) are to be obtained from out-side sources. First priority should be given to the manufacture of such equipment. In fact the Russian Team in 1957 suggested that special consideration should be given to the establishing of plants, for production of such equipment as their production at Heavy Machine Building Project was not considered advisable."
- (ii) "The nearness to sources of raw-materials, consuming centres as well as soil conditions, should be taken into account while deciding the location of new plant centres."
- (iii) "Any further increase in size of Ranchi complex, without allowing time to consolidate, might not be a step in the right directon."
- (iv) "Due consideration should be given to the economics of scale while deciding the setting up of future units. In this connection it has been suggested to the Committee that it might be desirable to set up a number of small units designed to fill the existing gaps in the equipment manufacturing spectrum. In fact the U.K. Heavy Engineering Mission and the Jehangir Gandhi Committee (1957) also recommended such an approach as these would permit (a) a greater industrial base (b) earlier production and return and (c) dispersal and availability of skilled persons. But Government decided that it would be desirable to concentrate on a few large scale units.

In this context it is noteworthy that the pattern in other countries appears to be towards specialised units. Even in USSR where the economic system facilitates centralisation, the trend appears to be distinctly away from multi-purpose engineering units doing jobbing work towards specialised units each concentrating on one

*segment of the total task of manufacturing heavy equipment. It is stated that equipment for Bhilai was supplied by as many as 400 different units. In Poland the mining machinery is produced by 17 units, each specialising in a different type of equipment.*

*The above suggestions may be borne in mind. The Committee have no doubt that the pattern of development in other countries would also be gone into by Government before arriving at the decision. (Paragraph 129).*

#### REPLY OF GOVERNMENT

Noted.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 49)

*The Committee feel that the setting up of the Bokaro steel plant is of crucial importance to the future of the country. They hope that after a firm assessment of the requirements has been made, the Corporation would make all possible endeavours to produce the maximum equipment of latest type required for this plant. They also trust that whatever equipment is produced by the Corporation would compare favourably both in price and quality with the imported equipment. (Paragraph 131).*

#### REPLY OF GOVERNMENT

Noted. As soon as Bokaro's Detailed Project Report is ready, a separation list of equipment to be manufactured by the Heavy Machine Building Plant will be drawn up. The manufacturing programme of this plant will include as much as can be produced for Bokaro.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 51)

*The Committee suggest that the desirability of setting up of separate factories for screens, crushers, and pulverisers may be taken into account while deciding the capacity and pattern of production of the Second Coal Mining Machinery Unit, which the representative of the Ministry agreed to do. (Paragraph 133).*

#### REPLY OF GOVERNMENT

The recommendation of the Committee will be borne in mind if and when it is decided to set up a Second Coal Mining Machinery Plant.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 52)**

*The Committee feel that in view of the nature of the industry and the long gestation period involved, it might be necessary to vary the existing pattern of financing Government Companies (i.e. 50 per cent. equity capital and 50 per cent. loan capital) to some extent. They hope that Government would examine the matter carefully and arrive at a suitable decision. (Paragraph 136).*

**REPLY OF GOVERNMENT**

Approval of the capital costs has been taken up. After these are determined, the question of varying the existing pattern of loan, equity parity in respect of these projects will be taken up for consideration.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 54)**

*The envisaged gross profit of Rs. 19 crores (before taxation and interest) works out to a return of 7.6 per cent on the total investment of Rs. 249 crores on the projects. The Committee feel that the profitability of the Project is low and it may be many years before the Corporation is able to yield any return on the investment. In fact, the representative of the Ministry stated during evidence that it would take about 7 years for the Corporation to break even and another about 4 to 5 years to make any net profits. The Committee regret that due importance has not been given to the technical and economic feasibility of the projects initially. It is well known that higher capital investment increases the costs of the products and adversely affects the competitive position of the undertaking. The Committee recommend that this aspect should be carefully gone into by Government before sanctioning any project in future. (Paragraph 143).*

**REPLY OF GOVERNMENT**

Noted. As a guide to the procedures and techniques for advance technical and economic feasibility studies of the projects, a document on 'Feasibility Studies for Public Sector Projects' is being finalised by the Bureau of Public Enterprises in consultation with the Planning Commission. This will serve as a guide to Ministries before sanctioning any projects in future.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 7th September, 1966].

**Recommendation (Serial No. 55)**

*The Committee would also recommend that the Corporation should take all possible steps to improve the turnover and the profitability of the projects. One possibility is taking on outside work to utilise idle equipment capacity as fully as possible. Secondly, when in course of time it becomes possible to narrow the range of production by opting for greater specialisation, it may be possible to get higher levels of output by more continuous batch production than will now be possible. The representative of the Corporation assured the Committee that they would give serious thought to this matter and endeavour to improve the position (Paragraph 144).*

**REPLY OF GOVERNMENT**

Noted. Heavy Engineering Corporation would endeavour to implement this recommendation. Comments on recommendation No. 53 may also please be referred to.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 56)**

*The Committee would recommend that all public undertakings should maintain indices or ratios in respect of the labour and personnel employed, machinery installed, materials consumed, space occupied and other variable and fixed expenses, as is the practice in other countries with a view to secure proper utilisation of men and machinery, etc. (Paragraph 145).*

**REPLY OF GOVERNMENT**

Suitable instructions are being issued to the Ministries in this regard.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/155/67 dated the 17th May, 1967].

**Recommendation (Serial No. 59)**

*The Corporation has not yet established a Cost Reduction Unit as suggested in the Third Five Year Plan. The Committee regret that such an important suggestion aimed at economy could not have been appreciated by the Corporation till now. There appears to be a considerable scope for saving in construction costs of the projects especially in civil construction works and establishment costs which amount to over Rs. 150 crores i.e. 60 per cent. of the total cost of Rs. 249 crores on the projects and townships. The Committee would recommend that a Cost Reduction Unit should immediately be set up by*

*the Corporation and made an effective instrument of reducing the construction costs. In this connection they would also invite attention to the various other suggestions made in the Planning Commission's Memorandum on 'Reduction in cost of major Construction Projects, (Paragraphs 153-54).*

#### REPLY OF GOVERNMENT

In the Foundry Forge Project, a cost reduction unit has been set up and has started functioning. In the township also a cost reduction unit has started functioning. In the other projects the cost reduction units are proposed to be set up progressively.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 60)

*So far the Corporation has not yet prepared or even started preparing any completion reports in regard to its projects. This is another instance where an important suggestion made in the Plan and aimed at economy and efficiency in working, has been overlooked both by the Corporation and the Ministry. The Committee expect that the valuable suggestions contained in the Plans are taken due note of and implemented by Public Undertakings without any delay. It is high time that Government issued specific instructions to public undertakings in the matter (Paragraph 155).*

#### REPLY OF GOVERNMENT

Noted. The recommendation of the Committee will be kept in view and the important events etc. will be properly recorded for the preparation of the final comprehensive completion report of various projects.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 61)

*From the terms and conditions of appointment of the Chairman and the other two re-employed full-time Directors, it is observed that while the Chairman was given extension of service for three years, the Director (RLWT) was re-employed for three years and Director (Construction) for two years. The letters of their appointment contain no provision for earlier termination of their services on any ground. While the Committee agree that appointment to these top posts in public undertakings should be made for sufficiently long periods, they consider that there should always be provision for earlier termination of services by giving three months' notice on speci-*

*fied circumstances. They regret that such obvious conditions were not included in the terms of appointment and recommend that these conditions should be incorporated in all future cases. In this connection the Committee would also invite a reference to para 64 of their 28th Report (Third Lok Sabha) on Indian Oil Company Ltd. (Paragraph 158).*

#### REPLY OF GOVERNMENT

In the interest of efficient working of the Public Enterprises, it has since been decided that appointments to top management posts should be in the nature of contract appointments for a minimum period of 4 years, which could be extended to 6 years, the appointing authority having the right to terminate the appointment after the first year. In case of such contract appointments, it has been decided to incorporate in the contracts a clause for three months' notice for termination of service by either party.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/155/67 dated the 17th May, 1967].

#### Recommendation (Serial No. 62)

*The present provisions of Article 93 of the Articles of Association of the Corporation, which allow the Government to delegate the powers exercisable by the Board to various officers of the Corporation, appear to be contrary to Government decision VII on the Krishna Menon Committee Report, and should be changed suitably (Paragraph 160).*

#### REPLY OF GOVERNMENT

The Article 93 has since been deleted.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 64)

*The Committee feel that the setting up and the operation of four big projects involve responsibilities which might be difficult for a single centralised organisation to manage efficiently. They, therefore, consider that it would be desirable to delegate the powers at the project level as much as possible, leaving the central Organisation i.e. the Corporation to deal with policy questions, planning, co-ordination, provision of finance, man-power staff services etc., as has recently been decided in the case of H.S.L. Both the representatives of Corporation and the Ministry agreed with this and undertook to reorganise the set-up as soon as the production stage was reached. (Paragraph 164).*

## REPLY OF GOVERNMENT

The administrative set up has been reorganised. The system of functional Directors has been done away with. Individual projects have been delegated wider powers with effect from the 1st April 1965. The Corporation has been bifurcated and a new Corporation under the name and style of Mining and Allied Machinery Corporation Ltd. set up to manage the Coal Mining Machinery Plant at Durgapur.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 65 and 66)**

The Committee feel that the present staff in the Corporation, especially in the Construction Department, is on the high side. They would recommend that a comprehensive review of the staff requirements may be undertaken by the management with a view to reducing the existing strength, bringing the various posts on some rational basis and doing away with the system of providing helpers to skilled workers etc. (Paragraph 169).

The Committee feel concerned at the excessive manpower which besets many of the public undertakings today. They hope that the Corporation would endeavour from the beginning to (i) restrict the number of administrative and supervisory staff (ii) increase the productivity of direct workers by proper training and (iii) avoid any over-staffing particularly at the initial stages. (Paragraph 173).

## REPLY OF GOVERNMENT

The ultimate requirement of staff in the various projects according to the Project Reports and the present strength are indicated below:

<i>Ultimate requirements</i>		<i>Present Strength</i>
F.F.P.	6782	3857
H.M.B.P.	4745	4027
C.M.M.P.	5765	4409
H.M.T.P.	1686	101
Others	3500	4907
<b>Total</b>	<b>22478</b>	<b>17301</b>

With a view to ensuring that there is no over-staffing even at this stage of construction and production; a decision has been taken



to freeze recruitment at all levels. Staff is presently being recruited only when it is absolutely essential. A review of the staff requirements on the construction side is also being carried out and men are being transferred from projects like Heavy Machine Building Plant where the construction work is tapering off to other projects, where the construction work is in progress. The Committee's observations are noted.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 67)**

*The Committee would suggest that a clear distinction should be made from the beginning between the permanent work force of the units and those taken on for training with a view to transfer later to other units so that there is no difficulty in their mobility at a later stage (Paragraph 174).*

REPLY OF GOVERNMENT

Noted.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 69)**

*The Corporation has not yet laid down job specifications for various categories of posts and the same are stated to be in the process of being worked out. The Committee are surprised that though the Corporation has been in existence for five years, job specification which is a pre-requisite for recruitment of right type of personnel, training, research, merit rating etc., should have not been laid down till now. They hope that the management would take immediate steps to lay down those specifications (Paragraph 178).*

REPLY OF GOVERNMENT

Job specifications for 180 trades have been completed so far, as also for Personnel and Accounts Departments. For others, including supervisory Personnel, the job specifications are being drawn up by the Corporation Industrial Engineering Cell.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated, the 8th November, 1965].

**Recommendation (Serial No. 70)**

*The Committee observe that the number of Scheduled Castes and Scheduled Tribes in the employ of the Corporation is less than that*

*prescribed by the Government of India. They hope that the management would give more attention to this matter and recruit more candidates belonging to Scheduled Castes/Scheduled Tribes (Para 179).*

**REPLY OF GOVERNMENT**

Noted.

In accordance with Government's policy, preference in the matter of recruitment is being given to Scheduled Castes and Tribes.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 71)**

*The Committee regret that promotions should have been made by the Corporation prematurely and without there being clear vacancies. They are constrained to observe that the Corporation could not so far evolve a clear promotion policy and has resorted to practices which invite criticism. They trust that at least now the management would lay down a suitable promotion policy this connection would commend the introduction of system of cadre schemes, on the lines adopted by the National Coal Development Corporation, as has been agreed to (Paragraph 181).*

**REPLY OF GOVERNMENT**

The recruitment and promotion policy of the Corporation has been finalised and the recruitment and promotion are being regulated accordingly. A Committee has also been formed to look into the question of lines of promotion, wherever the same are not clearly evident.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 72)**

*The Committee are surprised that the Corporation should have not by now framed suitable rules regulating the conditions of service of its employees. They hope that immediate steps would be taken by the management towards this end. The representative of the Corporation assured that this would be done (Paragraph 183).*

**REPLY OF GOVERNMENT**

Rules such as Provident Fund Rules, Leave Travel Concession Rules, Medical Attendance Rules and Heavy Engineering Corporation Discipline and Conduct Rules have already been framed and are being followed. Simplified Travelling Allowance Rules and Leave

Rules have also been framed. In regard to workers, the Standing Orders which contain the conditions of service of industrial employees has already been approved by the Central Labour Commissioner for implementation.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

### **Recommendation (Serial No. 73)**

The following other suggestions relating to personnel matters may also be considered:

- (i) At present recruitment programme is stated to be planned on the basis of requisitions received from projects/divisions from time to time. There is need to assess the requirement of staff on a long-term basis or at least on an annual basis and plan recruitment programme well in advance.
- (ii) The need to develop a well-organised Personnel Department in the Corporation with specified powers and functions.
- (iii) At present it takes the Corporation between 5 to 8 months to make recruitment after advertisement of posts. There is need to reduce this time lag. The representative of the Corporation stated that they were themselves unhappy about it.
- (iv) The need to arrest drift of personnel. During the last 3 years 152 technical/managerial personnel are stated to have left the Corporation.
- (v) At present there are as many as 50 different scales of pay in the Corporation. It is desirable to rationalise scales of pay attached to various posts in the Corporation and base them on work studies or job specifications.
- (vi) The need to maintain statistics of absenteeism in the projects.
- (vii) At present, there are 126 deputationists in the employ of the Corporation. It is desirable to progressively reduce dependence on deputationists, by training the Corporation's own men in commercial accounting etc.
- (viii) The need to lay down performance standards for various categories of production staff (Paragraph 184).

### **REPLY OF GOVERNMENT**

- (i) Noted. This is being done now.

- (ii) The reorganisation of the existing Personnel Division and its decentralisation to the maximum extent with wide powers are under consideration of the Heavy Engineering Corporation.
- (iii) Heavy Engineering Corporation have streamlined their procedures and the delays are being curtailed.
- (iv) With the start of production, it is expected that this drift will become much less. Even the construction personnel are being properly absorbed in production jobs wherever they are found suitable. This will help the Heavy Engineering Corporation to reduce the drift of their personnel. To certain extent some drift is unavoidable when the construction work tapers off.
- (v) The question of reducing the number of scales of pay is engaging Heavy Engineering Corporation's consideration and every effort will be made to reduce the number. It may be mentioned in this connection that there are only eight scales for construction and production workers and the other scales are mostly applicable to staff of the other departments at various levels.
- (vi) Noted.
- (vii) The largest number of deputationists are in the Finance Division. The number of deputationists in the other division is relatively small. As it has been Heavy Engineering Corporation's experience as well as the common experience of several other projects that men with knowledge of works accounts, cannot be found from the open market, it was considered necessary to draw deputationists from various accounts offices like Indian Audit Department, Indian Railways Defence Department, etc.
- (viii) A scheme of merit rating has been finalised and instructions for adoption of this system have been issued to the Projects and Divisional Heads.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965]

#### Recommendation (Serial No. 75)

The Committee regret that there should have been delays and shortfalls in the implementation of the foreign training programme to such a great extent. They would recommend that the requirements for foreign training be assessed a new and a well-planned programme drawn up therefor and adhered to (Paragraph 191).

## REPLY OF GOVERNMENT

A revised foreign training programme has already been drawn up in consultation with the foreign consultants and Heavy Engineering Corporation are now adhering to this programme.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 76)**

No serious thought has yet been given regarding making adequate arrangements for the training of various cadres required for the projects. The Committee attach a great importance to adequate arrangements being made to the training of various categories of personnel required for manning the projects. The progress and ultimate success of the projects depend a great deal on the availability of suitably trained men. It needs no emphasis that it takes time to train a worker.

The Committee feel that it is not too late even if at this stage a Committee is appointed on the lines suggested by Jehangir Ghandy Committee, to assess the training requirements and evolve a suitable planned programme of training for the Corporation. A number of suggestions have been made in the Reports of the U.S.S.R. Team and the U.K. Heavy Engineering Mission in regard to training which could also be considered by that Committee. The Committee would, therefore, recommend the immediate setting up of a Committee for the purpose. (Paragraph 195).

## REPLY OF GOVERNMENT

A Scheme for re-organisation of the Central Training Institute with complete assessment of training requirements has been drawn up and is under the consideration of the Management. The matter has also been discussed by the Management with the Soviet Experts and the scheme will soon be finalised and implemented.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

**Recommendation (Serial No. 77)**

It appears that the Corporation has not specified the training requirements in respect of the trainees deputed to foreign countries and other establishments in India. This is a pre-requisite for any training programme to be effective. The Committee would recommend that the Corporation should evolve manuals of training in consultation with the foreign collaborators for the use both of the

trainees and the trainer. In addition, there should be at least a quarterly report on the performance of the trainees from the units to which they are posted by the Corporation, indicating the progress made in different operations/maintenance schedules. (Paragraph 196).

#### REPLY OF GOVERNMENT

In respect of trainees deputed abroad, the subject of specialisation and scope of training are discussed by the C.P.Os./G.Ms. with the foreign consultants and the Training Centres and the facilities that are to be given by the foreign consultants in either U.S.S.R. or Czechoslovakia, are formulated by them strictly in accordance with what has been agreed to. Invariably, the field of training is specifically mentioned to them and training arranged accordingly. Even though the Corporation had asked for a quarterly report from the Foreign Consultants regarding the performance of trainees, they are giving one report after the successful completion of their training. The trainees themselves, however, submit their own periodical Reports, which are forwarded by the Liaison Officer to C.P.O./G.M. The Liaison Officer submits his observations in special cases. We are also putting trainees at the rate of 40 under one supervisor-trainees for ascertaining their difficulties, watching their progress and keeping the General Managers informed so their difficulties could be looked into and removed.

#### (ii) Training within India:

(a) A complete syllabus based on the recommendations of the foreign collaborators has been prepared and is under the consideration of the Management.

(b) Progress Reports in respect of Engineer Probationers who are sent to the various centres in India for training are received regularly from the centres concerned.

(c) Monthly progress reports are also compiled in respect of artisan trainees trained at the Corporation's Central Training Institute.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation [Serial No. 78 (i)]

The following other suggestions may also be carefully considered:—

The need to introduce a proper system of induction of newly recruited employees. It has been stated that a system

*of induction was started but it could not be implemented successfully. (Paragraph 197).*

REPLY OF GOVERNMENT

The system of induction is already being implemented in case of Artisan Trainees and Engineer Probationers.

A hand-book containing all material information about the Corporation, in particular about what the Heavy Engineering Corporation is doing, its organisation and the role of the worker, etc. will be prepared and made available to the trainees.

[*Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated, the 8th November, 1965*].

**Recommendation [Serial No. 78 (ii)]**

*It should be ensured that the trainees at Ranchi are assigned adequate responsibilities to keep them engaged for the whole day.*

REPLY OF GOVERNMENT

The trainees at the Central Training Institute, Ranchi have already been working according to the routine prescribed for them and it has been ensured that they are engaged fully for the whole period of the shift to which they are assigned. As regards the other Engineer Probationers who are not undergoing training in the Institute, action has been taken to assign them suitable jobs.

[*Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965*].

**Recommendation [Serial No. 78 (iii)]**

*The need to have a scheme for training of supervisory and middle grade management personnel. In this connection it has been agreed to take advantage of the Management Training Institute of H.S.L., at Ranchi. (Paragraph 197).*

REPLY OF GOVERNMENT

All available facilities in the country are being availed of. Programmes have been drawn for deputing persons of different categories to attend special courses. The Corporation is also arranging for a few executive development courses.

[*Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965*].

**Recommendation [Serial No. 78 (iv)]**

*It has been suggested to the Committee by an eminent industrialist that adequate number of low level supervisors should be recruited from foreign countries for training Indian personnel in this country. The representatives of the Corporation and the Ministry undertook to examine this. (Paragraph 197).*

**REPLY OF GOVERNMENT**

Heavy Engineering Corporation are already taking the assistance of some of their foreign experts in organising the courses of Training in the Training Institute. The question of inviting some more foreign experts for imparting training to Heavy Engineering Corporation's employees will be considered as and when the need arises. [Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 79)**

*The Committee are constrained to observe that the urgency for a proper design and research organisation for the industry does not appear to have been sufficiently realised. Early standardisation of equipment, in close consultation with the users, seems necessary both for evolving original designs in the country and arranging technological assistance from various sources as no single source is likely to prove adequate to cover HEC's manufacturing range. In fact for CMMP, the Corporation has already entered into technical collaboration with a British firm for making a particular kind of coal cutter which is suitable for use in Indian mines. The Committee hope that Government would immediately take suitable steps to expedite the submission of the Thacker Committee Report and thereafter to set up the Institute. It may also be necessary to clearly demarcate the functions as between the Institute which would be an autonomous body and the Corporation's Design Bureau so as to avoid any overlapping of functions as between them and thereby build up a design and research organisation for the industry on sound lines. (Paragraph 203).*

**REPLY OF GOVERNMENT**

Noted.

In so far as their needs are concerned, Heavy Engineering Corporation have already taken action to develop research and design organisations.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].



**Recommendation [Serial No. 80 (i)]**

*The following other suggestions may also be borne in mind—.*

*The need for a special unit or a cell in the Corporation charged with the sole function of maintaining liaison with the users on problems of design and research. There are innumerable fields in which the Corporation could work closely with users with the objects of improvement in design, avoidance of premature failure, suitability of the equipment for the service conditions met with etc. In technically advanced countries, there seems to be an extensive exchange of opinion, suggestions and ideas between the manufacturers and users at professional gatherings and elsewhere. In fact the users like HSL, NCDC etc. would be the "shop windows" for overseas buyers of products of the Corporation in the years to come. (Paragraph 204).*

**REPLY OF GOVERNMENT**

This is already being implemented. The Heavy Engineering Corporation are in constant touch with organisations like H.S.L., N.C.D.C., etc., with a view to ascertaining the users requirements both in regard to problem of design and research. Constant touch is also being maintained with the Fuel Research Institute, Dhanbad, and other such Research Institutions.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*

**Recommendation [Serial No. 80 (ii)]**

*The need for a special cell or unit to translate into English technical literature published in other languages and thereby help in the development of new designs. The necessity for such a translation has been stressed by the Indian Productivity Team in their Report (1961 on machine building industry in USSR and Czechoslovakia). The representative of the Corporation stated that they have set up a nucleus translation bureau and would strengthen it. (Paragraph 204).*

**REPLY OF GOVERNMENT**

The Translation Bureau has been further strengthened. Literature received in the Russian language is being translated in Corporation's Translation Bureau.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*

**Recommendation (Serial No. 81)**

*Not much use seems to have so far been made by the Corporation of the research facilities available in the country. The Committee trust that the Corporation would utilise to the utmost extent possible the facilities available at and the processes developed by the Central Fuel Research Institute and other National Institutes/Laboratories and for this purpose maintain a close liaison with them. (Paragraph 206).*

## REPLY OF GOVERNMENT

Noted. This will be done.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation [Serial No. 81 (ii)]**

*They also feel that there is a great need to ensure that the processes developed by and the other facilities available in the National Institutes/Laboratories are increasingly made use of by public sector projects. They would therefore recommend that the matter may be looked into by Government and suitably instructions issued in this regard to public undertakings, if need be. (Paragraphs 206-207).*

## REPLY OF GOVERNMENT

In order to fully utilise the indigenous technical know-how it has been now decided that the Ministry concerned should be required, before engagement of any foreign consultancy organisation is approved, to make a specific assessment that the existing indigenous organisations are not in a position to do the particular work.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/FI/ISS/67, dated the 17th May, 1967].

**Recommendation (Serial No. 82)**

*The Corporation has been depending mainly on protracted correspondence for ascertaining the requirements of the users. The Committee feel that the detailed character of the information required by the Corporation necessitates personal contacts with the primary users of its products and it could hardly be achieved by protracted correspondence. They would suggest that the Corporation should maintain a close liaison with user units both in public and private sectors, which the representative of the Corporation agreed to do. (Paragraph 209).*

## REPLY OF GOVERNMENT

This is being done.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 83)**

*No serious thought appears to have yet been given to the question of setting up a suitable marketing organisation for the Corporation. This seems all the more surprising as the projects have already gone into partial production and the Corporation would in the near future need a sales organisation with personnel who would have to be trained for the purpose. The Committee would suggest that the question of setting up a suitable marketing and sales organisation for the Corporation may be examined at an early date. (Paragraph 210).*

## REPLY OF GOVERNMENT

A start has been made by the appointment of a Senior Engineer who has got wide experience in the operation of coal fields as an officer in charge of conducting Market Survey, as well as to secure orders for the Coal Mining Machinery Project at Durgapur. Similar arrangements are being made for the other Projects. A commercial wing has been set up in the Corporation for this purpose.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 84)**

*The Committee agree with the view expressed by the representative of the Ministry that the Corporations should not take over the Hatia Dam as it would increase the cost of the projects and moreover there was a clear understanding with the State Government in this matter. They feel that services like water supply should normally be rendered by the local authorities, rates for which should be decided in advance. The Committee also expect that the State Government would take all necessary steps to ensure timely supply of adequate water to the projects including the township. (Paragraph 212).*

## REPLY OF GOVERNMENT

The Corporation was advised not to take over the Hatia dam as it was the responsibility of the State Government to ensure timely supply of adequate water to the projects in accordance with the

assurances given by them to the Central Government at the time of deciding the location of the project.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 85)**

*The Committee feel that the grant of a loan of Rs. 35 lakhs by the Corporation to the Durgapur Projects Ltd., at a rate of interest lower than that paid by it for the loan taken from Government would not appear to be justified from the commercial angle. If it was necessary to advance the loan it should have been given by the Central Government through the State Government and not by the Corporation direct to the Durgapur Projects Ltd. (Paragraph 214).*

**REPLY OF GOVERNMENT**

Noted for future guidance.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 86)**

*The Committee note that the labour relations in the Corporation have been none too satisfactory. It is necessary for the efficient and economic working of the Corporation that there should be complete understanding between its labour and the management. The Committee hope that the management would take all possible steps to iron out the differences such as there may be between the management and the labour and make room for a friendly and co-operative endeavour in the best interest of the country. The desirability of holding evening classes with a view to impart general education to the workers so that they can understand the problems of the country and of the management may also be considered. (Paragraphs 215-216).*

**REPLY OF GOVERNMENT**

One evening class for workers was opened in 1962 but had to be closed down due to non-attendance. Another attempt has been made and evening class restarted from 1st October, 1964 in which peons, daftries, etc. are taught elementary English and other subjects of general interest.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 87)**

*So far no Works Committee has been set up by the Corporation nor has any procedure for redress of grievances been introduced. The Committee trust that Works Committee would soon be set up by the Corporation and be made an effective instrument for the democratic administration of labour matters. A suitable procedure for redress of grievances and resolving disputes should also be immediately laid down. (Paragraph 217).*

**REPLY OF GOVERNMENT**

A Works Committee has already been organised in the Foundry Forge Project. This will be organised in other projects also as early as possible.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 88)**

*The Committee hope that the Corporation would immediately take necessary steps to tighten up the security arrangements so as to avoid recurrence of thefts. (Paragraph 219).*

**REPLY OF GOVERNMENT**

The entire question of security force has been examined by the Security Adviser to the Government of India in the Ministry of Industry and Supply his suggestions are being implemented.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 89)**

*The Committee regret that adequate security arrangements for the protection of the costly equipment were not made nor was the adequacy of fire fighting services, ensured. They trust that proper precautionary measures, as may be suggested by the Enquiry Committee, would be taken to avoid recurrence of such accidents. (Paragraph 222).*

**REPLY OF GOVERNMENT**

With a view to organising an efficient fire fighting service, the services of a Senior officer have been procured from the West Bengal Government. Security arrangements have been considerably strengthened and tightened up. Fire fighting organisation has been more fully equipped and augmented.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 90)**

*The Committee are not unaware that some of the difficulties were inevitable in projects of this magnitude but all the same it should have been possible to avoid some of them. They are conscious of the vital role that the heavy engineering industry has to play in the industrialisation of the country and its future development. The Corporation holds out the hope that its four projects will usher in a new era of industrialisation. The Committee have no doubt that the Government and the Corporation would do their best to bring the plants into full fruition as early as possible. (Paragraph 223).*

**REPLY OF GOVERNMENT**

An earnest endeavour will be made to bring the plants into full fruition as early as possible.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

## CHAPTER II

### RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

#### Recommendation (Serial No. 18)

*The Committee reiterate their earlier recommendation made in para 176 of their 32nd Report (3rd Lok Sabha) on National Coal Development Corporation regarding the setting up of a separate agency for dealing with work relating to customs clearance, transportation etc. of all public undertakings at Calcutta. They hope that such an agency would be set up by Government at an early date. (Paragraph 47).*

#### REPLY OF GOVERNMENT

Attention is invited to Government's reply in respect of recommendation at Sl. No. 62 (para No. 176) contained in the 32nd Report of the Estimates Committee (3rd Lok Sabha) on Ministry of Mines and Fuel—National Coal Development Corporation Limited, Reproduced below.

The proposal has been carefully examined and it is felt that a single monolithic agency for all the Public Sector Undertakings at Calcutta, as proposed by the Committee, would not prove sufficiently vigilant and sensitive to the needs of the various enterprises. The existing arrangements whereby the public undertakings carry out their customs clearance work either departmentally or through contractors are considered satisfactory and adequate by them and they do not wish to disturb them.

As regards the transportation needs of Public Undertakings, Government of India have since set up a Central Roads Transport Corporation to cater to the road transportation needs of Public Undertakings and all the Ministries have been urged to request their Public Undertakings to make use of the services of the said Corporation.

[Ministry of Industrial Development & Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C 16(13)/65 dated the 9th August, 1967].

**Recommendation (Serial Nos. 28(i) and (ii))**

*The Committee would also make the following suggestions which should be borne in mind:*

- (i) *The expenditure on non-residential buildings is estimated at Rs. 2.43 crores. Such heavy expenditures on these buildings are hardly justified and need to be pruned down considerably.*
- (ii) *At present, the construction of quarters seems to have been taken up for the entire number of personnel required for the Plants at full production stage. The construction should have been phased and spread over a number of years. It should bear some proportion to actual requirements from time to time.*

**REPLY OF GOVERNMENT**

(i) The provision made for the non-residential buildings in the Corporation is less than the norms laid down by the Committee on Plan Projects.

(ii) The Construction of quarters has not been taken up for the entire number of persons simultaneously. The construction of houses is being phased, and at present it is proposed to build only about 50 per cent. of the quarter required till the end of the 1964. Further buildings will only be taken up as and when required.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 30 (iv) and (v))**

*The Committee would also make the following suggestions which should be borne in mind:—*

(i) *The public undertakings do not seem to take full advantage of the financial assistance available for industrial employees under the Subsidised Industrial Housing Scheme. There is need to take full advantage of financial assistance available under the scheme, as is done by private sector industrial units.*

(ii) *The employees may be encouraged to build their own houses as is done in Jamshedpur.*

**REPLY OF GOVERNMENT**

(i) Upto the end of December, 1964, 22 public undertakings have availed of the financial assistance available under the Subsidised In-



dustrial Housing Scheme to the extent of Rs. 1:53 crores. Certain other projects did approach the State Governments for assistance under the scheme but nothing was forthcoming because of the limited funds at their disposal. The facilities under this Scheme, to the extent available, is thus being fully utilised by the undertakings.

(ii) The suggestion made is not practicable. The land acquired for public undertakings for a specific purpose in the public interest cannot be sold to private parties and may lead to legal complications. If the house is constructed and owned by the employees, the undertaking cannot have any control over the use to which it is put. Moreover, once an employee retires or leaves the undertaking, the public undertaking will have to go in for additional construction. The management of such transactions will become an increasing burden on the public undertaking and will tend to divert its attention from the main task of production.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 212/FI/ISS/67, dated the 17th May, 1967].

#### **Recommendation (Serial No. 34)**

*There have been revisions in the value of a number of contracts due to increase in quantities or extra items. The Committee feel that such a large revision of the contract value vitiates the terms on which tenders are originally called and contracts placed. It appears also that certain changes were due to revision of capacities. It is elementary that before a work is undertaken full data relating thereto should be worked out. They hope that such situation as mentioned above would be avoided in future. (Paragraphs 91-92).*

#### **REPLY OF GOVERNMENT**

Noted. However, it may be mentioned that the tenders etc., were drawn up on the basis of quantities indicated in the Detailed Project Report and in the absence of working Drawings (which were received subsequently) it was not possible to indicate in advance, the precise quantities involved. Action was taken to call the tenders without waiting for detailed Working Drawings with a view to speeding up the Construction.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### **Recommendation (Serial No. 35)**

*It seems that the producers could not supply steel at Col. 1 rates in time as orders had not been placed on them well in advance. This would clearly indicate a certain lack of planning in ordering supplies.*

*The Committee recommend that the Corporation should plan its requirements of steel and other materials well in advance so as to avoid such extra expenditure in future. (Paragraph 94).*

#### REPLY OF GOVERNMENT

Noted. However, it is not quite correct to say that the producers could not supply steel at Col. I rates in time as orders had not been placed on them well in advance or that there was lack of planning in ordering supplies. For example, in the case of Foundry Forge Project indents for 30,600 tonnes of Steel materials were placed. They were actively followed up at the highest level. There were several meetings between Heavy Engineering Corporation's representatives and the Iron and Steel Controller. In spite of all the best efforts only 28,299 tonnes of Steel materials were supplied upto the middle of 1964 (8,273 tonnes upto March, 1963, 12,065 tons from April to December '63 and 4,092 tons from January to March '64 and the rest subsequently) by the indigenous suppliers. In fact in 1962-63 Government decided to import 15,422 tons of steel to meet the requirements of Foundry Forge Project. It will thus be seen that the delay is due to short supply of steel in the country and not due to lack of planning by the Corporation.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### Recommendation (Serial No. 38)

*The Committee feel that it would be desirable if on the basis of experience gained, standard schedule of rates are laid down, by Government on a zonal basis for guidance of public undertakings. The representative of the Ministry agreed that standard schedules would be beneficial and helpful to the undertakings (Paragraph 102).*

#### REPLY OF GOVERNMENT

Fixation of rates even on a zonal basis is not practicable as the cost of building material, labour and leads vary considerably from place to place within a region itself.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/FI/ISS/67, dated the 17th May, 1967].

#### Recommendation (Serial No. 39)

*The Committee regret that the Corporation went in for acquiring construction equipment estimated at Rs. 2.8 crores when it was stipulated in the contracts that the contractors would bring their*

own equipment. In fact the contracts are normally awarded on the basis that the contractors have all the necessary equipment, unless otherwise specified in the agreements. The hiring of costly equipment at uneconomic rates tantamounts to giving an unintended benefit to the contractors. The Committee hope that public undertakings would in future ensure that the contractors have the necessary equipment to undertake the work. The Committee also believe that the Corporation would take necessary steps to make this "venture" an economical proposition and ensure that at least the running, maintenance and depreciation charges are recovered from the contractors. (Paragraph 105).

#### REPLY OF GOVERNMENT

Most of the construction equipments were purchased for erection of Plant and Machinery which is being done departmentally. There was no idea of hiring out the construction equipment to the Civil Contractors. In a few cases only, in the interest of speedy execution of the work, some of the equipments which could be spared were hired out for short durations.

It may not be correct to compare (*vide para 104*) the amount of maintenance and depreciation charges of Rs. 14.98 lakhs with the recoveries of hire charges to the extent of Rs. 1.94 lakhs effected from Contractors as the former figure relates to the entire lot of construction equipment whereas the later only to the construction equipment hired out to Contractors which forms a minor part of the entire lot. The rates of recovery of hire charges have been fixed after taking into account the depreciation and all the other charges incurred by the Corporation on the equipment.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

#### Recommendation (Serial No. 42)

The organisation of drawing and design units for civil engineering, in various public undertakings is a very desirable development and should be encouraged. Government should, however, ensure coordination between these organisations and full utilisation of their expertise. At a later stage they may also consider pooling these agencies with a view to developing an independent strong central consultancy organisation for which there is a great need in the country. In this connection the Committee would also invite attention to para. 269 of the 35th Report (Third Lok Sabha) on Heavy Electricals Ltd. wherein they have stressed the need for such an organisation (Paragraphs 111-12).

### REPLY OF GOVERNMENT

In the Technological Consultancy Bureau of National Industrial Development Corporation, technological experience and skills in different fields of consultancy are being developed. The Central engineering Design Bureau of Hindustan Steel Ltd., Engineers (India) Ltd., Planning & Development Division of Fertilizer Corporation of India Ltd. etc. are specialising in the fields of steel, refineries and fertilizer respectively. In view of the specialised nature of problems in the different industries, it may not be practicable or advisable to centralise these arrangements. However, the need for coordination between the different agencies, wherever necessary, has been accepted.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/ FI/ISS/67 dated the 17th May, 1967].

#### Recommendation (Serial No. 45)

*The Committee feel that it would be desirable if model terms for various types of agreements e.g., for supply of plant and machinery, consultancy activity etc. are laid down by Government for the guidance of Public Undertakings with a view to bringing about uniformity as also to secure better terms while negotiating with foreign collaborators. In this connection the Committee would also invite attention to para 86 of their 32nd Report (3rd Lok Sabha) on National Coal Development Corporation wherein they have recommended the setting of a special cell by the Government to deal with all foreign agreements. (Paragraph 122).*

### REPLY OF GOVERNMENT

The nature of plant and machinery, consultancy arrangements etc. necessary in individual cases differ considerably. Apart from the technology and process of manufacture, the terms and conditions of the available foreign credit are also relevant. It may not, therefore, be feasible to prescribe model uniform terms. However, the negotiations relating to all projects estimated to cost more than Rs. 5 crores and involving foreign collaboration are guided by a high level Committee.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/ FI/ISS/67 dated the 17th May, 1967].

#### Recommendation (Serial No. 50)

*It would appear that even after about a year of Government decision, the preliminaries of the 2nd Coal Mining Machinery Project have not yet been determined. In this context it is pertinent to note that as early as 1957 the U.S.S.R. team recommended the sitting up of additional plants as also undertaking manufacture of some of the items in other units. The Committee trust that at least now the Gov-*

ernment and the Corporation would take urgent steps for the establishment of the project (Paragraph 133).

REPLY OF GOVERNMENT

Based on the present tentative estimates and the downward revision of coal target, a second unit does not appear necessary.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

**Recommendation (Serial No. 53)**

The Committee feel that all the projects appear to be over-capitalised and their investment-output ratio is on the low side. It is particularly disappointing in the case of H.M.T.P. In the case of H.M.B.P. and F.F.P. the low ratio seems to be due to inherent diseconomies of covering a wide manufacturing range relatively thinly. A number of highly expensive special purpose machines appear to have been added to take care of this range but yielding only marginal increase in the value of total output. A case in point is the "6000 tons forge press" which has been decided to be installed at F.F.P. at a cost of Rs. 6.3 crores. It is capable of producing 30,000 tons of forging a year but at present it is expected to be worked to meet requirements of about 6,000 tons i.e., one fifth of the capacity (Paragraph 141).

REPLY OF GOVERNMENT

All the Heavy Engineering Corporation's projects are entirely new to the country and with which the best of efforts it has been possible to negotiate prices and enter into agreements with a view to bringing down the cost.

If the country has to be self-sufficient it is unavoidable that this capacity has to be created because we cannot obtain unit casting upto 100 tons and unit forgings upto 100 tons anywhere for our large projects. No one could supply these requirements. Efforts will be made to ensure that utilisation of resources is made to the maximum extent. It is true that there will be a slightly higher ratio of capital investment compared to the output and consequently the cost will be higher. But the demand will be greater than what it is today and when own resources are expanded the cost will come down. Action is being taken to economise and reduce cost in the construction stage as well as in production. Already some construction of residential buildings have been postponed. Recruitment has been stopped except where it is totally unavoidable. A close watch is being kept to ensure that inventories are kept low. With these and other possible economies, the investment output ratio is expected to improve.

[Ministry of Industry and Supply O.M. No. 22/1/64-HECHE, dated the 8th November, 1965].

**Recommendation (Serial No. 58)**

*The Committee regret to observe that in spite of a written enquiry from them, neither the Ministry nor the Corporation could furnish information regarding the capital cost of establishing comparable projects elsewhere. The Committee consider the collection of such data very necessary. In the absence of such data, it is difficult to determine the reasonableness of estimates given by the consultants. The Committee hope that Government would take suitable steps to gather such basic information for future guidance (Paragraph 151).*

**REPLY OF GOVERNMENT**

Efforts have been made, through various agencies, to obtain the information regarding capital cost of establishing comparable projects elsewhere, but without any success. It is extremely difficult to compare the capital cost of projects in various countries. The cost of any single project depends not only on the cost of land, power and water but also depends on the product range, the availability of raw materials, the cost of distribution etc. It is almost impossible to make a straightforward comparison between two projects even in the same country since location of other factors affect capital cost. Enquiries made from professional Associations abroad have revealed that the cost of major projects such as the Heavy Machine Building Plant of the Heavy Engineering Corporation can only be worked out individually with respect to that plant in that particular location.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**Recommendation (Serial No. 63)**

*The Committee feel that it would be desirable if a Memorandum of Instructions setting forth clearly the objectives, targets, time schedules, etc. is issued by Government at the out-set and thereafter periodically so that the Boards are clear about their responsibilities and their plans, programmes and performance could be watched properly (Paragraph 162).*

**REPLY OF GOVERNMENT**

The programmes, targets, time schedules etc. are generally set out in detail in the Feasibility Studies/Detailed Project Reports. Any modifications considered necessary are indicated in the sanctions

issued by Government accepting the Detailed Project Reports. Performance is watched against the Project Report anticipations. Reply to recommendation at Sl. No. 6 also refers.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/155/67 dated 17th May, 1967].

#### **Recommendation (Serial No. 68)**

*The present policy of the Corporation seems to be to recruit degree-holders as probationers for manning the supervisory posts of Foreman etc. The Committee feel that degree-holders, who are scarce and more expensive should be utilised for design and technology and that diploma and trade certificate-holders should be taken and trained for supervisory posts of Foreman etc. They hope that the management would suitably modify their policy with a view to avoid taking men of higher qualifications for jobs which could be manned by persons of lesser qualifications (Paragraph 177).*

#### **REPLY OF GOVERNMENT**

Heavy Engineering Corporation have recruited Engineer Probationers only for the purpose of utilising them in Research, Development, Design and for process Technology and for such other responsible production jobs. For their requirements of Foremen, Heavy Engineering Corporation have been drawing only from Diploma holders and trainees from the C.T.I.

The management has also taken a decision to designate all Engineer Probationers as Assistant Engineers on the completion of their training/probation.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

#### **Recommendation (Serial No. 74)**

*The Committee note that it was only in 1961 that a programme for foreign training and a scheme for setting up a Central Training Institute at Ranchi was formulated and approved by the Government i.e. more than three years after the decision to set up the projects was taken. No Committee was appointed to draw up the training programme. Evidently the importance and the urgency of drawing up a proper training programme/scheme for the projects does not seem to have been realised by Government and the Corporation. What is more surprising is that the Corporation has not gone through the Report of the Jehangir Ghandy Committee—one of the reports which formed the basis of setting up the projects and which also stressed the importance of the training. The Committee cannot*

*but deplore the delay of over three years in formulating the training programme and the manner in which such an important matter has been dealt with both by the Corporation and the Government (Paragraph 186).*

#### REPLY OF GOVERNMENT

The Corporation started work at Ranchi only in the latter part of 1959. Considerable preliminary work such as location of site for the construction of the Institute, calling of tenders for the construction of the Building, examination of the requirements of machinery and equipment required for the training institute, recruitment of staff for the institute, construction of Hostels etc. etc. has to be done. All these took time. The building was ready in the middle of 1962 and immediately thereafter the institute started working. The recommendations of the Jehangir Ghandy Committee, will be adopted to the extent possible.

Regarding training programmes, please see replies to recommendation Nos. 75 & 76.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*

#### Recommendation [Serial No. 78(v)]

*(v) The feasibility of some payment being made by the collaborators to the Indian trainees deputed abroad, after some time for the value of the products produced by their labour, as has been indicated by M/s. Schiessaktengesellschaft of West Germany in their preliminary offer (1955) on HMT. The representative of the Corporation agreed that the suggestion was worth examining. (Paragraph 197).*

#### REPLY OF GOVERNMENT

In the present contracts, there is no provision for the collaborators to make payment to our trainees while abroad.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*



### CHAPTER III

#### RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

##### **Recommendation (Serial Nos. 4 and 5)**

*Considering the revisions and modifications that had to be carried out in the Detailed Project Reports, Working Drawings, contract agreements etc. on account of the upward revision of the initial capacities of the various projects, the Committee are unable to appreciate the contention of the representatives of the Corporation and of the Ministry that there has been no extra expenditure and delays on this account. Besides numerous complexities that have been created due to changes in the schedules of commissioning, cost estimates etc. there is little doubt that if the revised capacities had been planned from the initial stages, various delays and extra expenditure on civil works and other items would have been avoided. It is true that these projects were altogether new in the country and, therefore, called for a cautious approach but this approach does not appear to have been followed subsequently, despite the advice of the Consultants. The Committee cannot help regretting that had the original capacities not been interfered with, these units intended for the first stage would have been commissioned by now and would have been in the production stage with the additional advantage of production personnel gaining in practical experience and skill.*

*Demand in a developing economy can always be expected to rise. In fact, even with the revised capacities, these plants would meet only a portion of the anticipated requirements during the Fourth and subsequent plans. In all such cases, the wiser course would have been to plan the initial capacities carefully after fully considering the requirements etc. and to execute them before any increase in the capacity was considered. Additional requirements should be met either by expansion of the existing units after they have been commissioned or by setting up new units. There have been similar other cases in the past, when capacities of projects were revised in the construction stage, resulting in delays in commissioning of projects and extra expenditure, for example in H.E.L. Bhopal and Neyveli Lignite Corporation. The Committee would, therefore suggest that Government may examine all these cases of revisions to assess the delay in commissioning and the consequent loss to the national economy apart from any infructuous*

*expenditure involved in such revisions. Such a review would reveal many valuable lessons for future planning of projects (Paragraphs 20-21).*

#### REPLY OF GOVERNMENT

It has been stated that there has been extra expenditure on modification of the D.P.Rs. working drawings, additional equipment etc. on account of the upward revision of the capacities of the plants. It may be pointed out that more expenditure would have been incurred than what has been incurred at present. Had the Government thought of setting up new units or expansion at a later stage as the charges for preparation of fresh reports or supply of plant and equipment at a later date would definitely have been more. The Project was still in the planning stage when the upward revision of capacity was decided upon. No field work had actually been undertaken and so there was no infructuous field work. There has been some economy in machinery on account of the two stages being telescoped.

Upward revisions of capacities were agreed to be by the consultants and additional Credit of 337.5 Million Rouble for expansion of H.M.B.P. and C.M.M.P and the Rs. 23.1 crore Czech credit for F.F.P. (III Stage) which were not available earlier were also made available at the time of revision.

With practically no delay in Commissioning or extra expenditure the plants would now be able to meet the needs of the fourth and subsequent plans and in view of this, it is considered that a review as proposed is not necessary. The Committee's observations have, however, been noted.

*[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].*

#### COMMENTS OF THE COMMITTEE

The Committee are not satisfied with the reply of Government in this case. They have suggested a review of all cases of revision of capacities of projects during construction in para 180 of their 13th Report (3rd Lok Sabha). They would pursue this matter in their 'Action Taken Report' on that Report.

#### Recommendation (Serial Nos. 7 and 8)

*In many cases civil works have not been completed even according to the revised schedules. Progress in erection of machinery in most of the shops is also lagging behind schedules and is nil in most cases. It has also been noticed that various works had not been commenced according to the schedules. The Committee were, however,*

*assured by the representative of the Corporation that the present schedules would be maintained. They trust that every effort would be made by the Corporation to adhere at least to these revised time schedules by expediting construction and erection work as much as possible.*

*2. The Committee consider it unfortunate that it should have taken the Government and the Corporation 3½ years in the various stages i.e., preparation of detailed project report, finalising negotiations for purchase of plant and machinery etc. They would recommend that a firm schedule of construction of the project should be drawn up immediately and every effort made to commission the project by the end of the Third Plan period as had been envisaged. (Paragraph 25).*

#### REPLY OF GOVERNMENT

The original schedule for construction which was intended for the production of 45000 Tons of Machinery in H.M.B.P. was drawn up in March 1962. This has not been revised. The civil works are progressing fairly in accordance with the original construction programmes. This is especially so in the case of those buildings wherein the steel structurals are not involved. In the major shops where the superstructures are entirely of steel the progress of structural works is lagging behind to some extent because of the delay in receipt of fabricated steel structures. The fabrication of these steel structures is entirely dependent upon timely receipt of steel sections and plates. The supply of these steel sections and plates has been very much delayed and inconsistent in the past. The supplies have also been arranged from Imports. The erection of Plant and Machinery is wholly dependent on the progress of structural works which in its turn is dependent on the supply of structural steel. The supply position of steel is improving and with the improved supply, the fabricators are being urged to increase their output in order to keep up our schedule. Every effort is being made as also to adhere to the original construction programme for the 45000 tons stage of F.F.P.

Every effort would be made by the Heavy Engineering Corporation to adhere to the time schedules by expediting construction and erection work as much as possible.

[*Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965*].

#### COMMENTS OF THE COMMITTEE

The Committee are not satisfied with the reply in this case. They will pursue this matter during the course of their current examination of Heavy Engineering Corporation Ltd. this year.

**Recommendation (Serial No. 57)**

*The Committee fail to understand why costs of obvious items like consultancy fees, customs duty, port trust charges, foreign experts, training of Indian Engineers, enabling works, sand washing plant, railway siding outside plant areas, etc., which amount to Rs. 65 crores, should have not been provided for in the D.P.R. estimates. This is especially so when the Indian experts are associated with the preparation of the detailed project reports at every stage. Time and again, the Committee have emphasised that the total commitment on such projects should be prepared as realistically as possible in the beginning and should be available to Government and to Parliament before a project is approved. It is not correct to undertake a project on the basis of incomplete estimates and to subsequently increase the outlay thereon which has in any case to be agreed to by Government—a feature which is fairly common to most of the projects and which has to be discountenanced. The Committee recommend that the final estimates of the various projects be immediately prepared and placed before Parliament with proper explanation for variations between the D.P.R. estimates and the anticipated cost. (Paragraph 150).*

**REPLY OF GOVERNMENT**

The capital costs of the Heavy Engineering Corporation's projects have been obtained and these are being examined. A decision is expected to be taken shortly.

[Ministry of Industry & Supply O.M. No. 22/1/64-HECHE dated the 8th November, 1965].

**COMMENTS OF THE COMMITTEE**

The Committee regret to note the inordinate delay in the approval of and in laying before Parliament the final estimates of the various projects of the Corporation. They would pursue this matter during the course of their examination of H.E.C. this year.

## CHAPTER IV

### RECOMMENDATIONS IN RESPECT OF WHICH THE FINAL REPLIES HAVE NOT BEEN RECEIVED FROM THE GOVERNMENT

#### **Recommendation [Serial No. 30 (i), (ii), (iii) and (vi)]**

*The Committee would also make the following suggestions which should be borne in mind:—*

- (i) At present considerable expenditure is incurred on the provision of medical and education facilities by undertakings, which should largely be the concern of Employees State Insurance Corporation and the State Governments. It appears that there is also a general tendency among public undertakings to provide the facilities themselves with a view to keep them under their own control rather than approaching the appropriate authorities for the same. It has also been mentioned that certain categories of employees (over Rs. 400) will not be covered by the ESIC. To avoid two agencies providing separate medical facilities to the Employees (i.e. ESIC to employees drawing salary upto Rs. 400 and the undertaking for others), it is suggested that one agency preferably ESIC may provide the entire medical facilities by obtaining suitable contribution from the Undertakings.*
- (ii) The desirability of dispersal of houses to adjoining villages so that the cost as well as the servicing might be less and the villages would also be developed i.e. a sort of "satellite towns." The villagers will get a share of the expenditure of the employees and that will give them better economic prospect.*

*The representative of the Corporation agreed that it would be a "very sound arrangement" if suitable transport system could be developed and that the suggestion was worth examining.*

- (iii) Steps should be taken by undertakings from the beginning to keep the maintenance expenditure on the townships as low as possible and not in any case more than realisation from rent so as to avoid any incidence thereof on cost of production.*

(iv) *The expenditure on townships and other social amenities should be borne out of undertaking's own resources or by borrowings to be ultimately written off from profits and not from the capital account as seems to have been done by the H.E.C. (Paragraph 82).*

REPLY OF GOVERNMENT

(i) This question is under examination.

(ii) The dispersal of houses to adjoining 'satellite villages' may not be practicable as this may create difficulties in management and provision of educational and health facilities. There is not likely to be any reduction in the cost of construction but on the other hand it may go up due to services having to be provided over scattered areas. The prescribed scales of accommodation and the proposed specifications for the different categories of buildings will be at a low level, and, therefore, there is not likely to be any possibility of further reduction in this regard. Hence, it is felt that the proposal of satellite villages may not result in economy but may create problems as mentioned above. However, this matter will be further examined by the Standing Technical Committee in the Bureau of Public Enterprises.

(iii) Data is being collected from the Enterprises for a study of the question.

(iv) This matter is being examined.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 202/F1/155/67 dated the 17th May, 1967].

NEW DELHI;  
February 15, 1968.  

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Magha 26, 1889 (Saka).

D. N. TIWARY,  
Chairman,  
Committee on Public Undertakings.

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# COMMITTEE ON PUBLIC UNDERTAKINGS

(1967-68)

## CHAIRMAN

Pandit D. N. Tiwary

## MEMBERS

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3. Shri Surendranath Dwivedy
4. Shri S. S. Kothari
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14. Miss M. L. Mary Naidu
15. Shri Awadheshwar Prasad Sinha

## SECRETARIAT

Shri N. N. Mallya—*Joint Secretary.*

Shri A. L. Rai—*Deputy Secretary.*

Shri M. M. Mathur—*Under Secretary.*

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Ninth Report on the Central Warehousing Corporation.

2. This Report is based on the examination of the working of the Central Warehousing Corporation upto the year ending 31st March, 1967. The Committee took the evidence of the representatives of the Corporation on the 20th December, 1967 and that of the Ministry of Food and Agriculture, (Department of Food) on the 21st December, 1967.

3. The Report was adopted by the Committee on the 21st March, 1968.

4. The Committee wish to express their thanks to the officers of the Ministry of Food and Agriculture and the Central Warehousing Corporation for placing before them the material and information that they wanted in connection with their examination. They also wish to express their thanks to the non-official organisations/individuals who, on request from the Committee, furnished their views on the working of the Corporation.

NEW DELHI;  
March 25, 1968.  

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Chaitra 5, 1890 (Saka).

D. N. TIWARY,  
Chairman,  
Committee on Public Undertakings.

## HISTORICAL BACKGROUND

Scientific storage and warehousing are recognised as important adjuncts of proper marketing. With a view to regeneration of rural India, the need for warehousing was particularly felt especially after enlargement of credit facilities including recognition of warehouse receipts for the purpose. It was with this end in view that the Reserve Bank of India recommended, initially, in 1944 to all the State Governments to enact legislation for the setting up and supervision of warehouses.

2. Recommendations of a general nature for the establishment of warehouses in the country had been made earlier by a number of committees and commissions. It was only after 1944 that a few State Governments passed the requisite legislation, but no warehouses were set up anywhere in the country.

3. The Rural Banking Enquiry Committee, 1949, appointed by the Government of India at the instance of the Reserve Bank of India, also emphasised the importance of storage and warehousing in relation to rural credit and rural banking. It recommended active participation by the state in certain spheres of cooperative activity and more particularly for the purpose of promoting warehousing on a country-wide scale. As a result of the recommendations made by this Committee, the Agricultural Produce (Development and Warehousing) Corporations Act was passed by Parliament in 1956. This Act provided for the establishment of the National Cooperative Development and Warehousing Board, the Central Warehousing Corporation and a State Warehousing Corporation in each State.

4. The Central Warehousing Corporation was initially constituted by the Government of India on the 2nd March, 1957, but started functioning only in July of that year. The subsidiary bodies in the States viz. the State Warehousing Corporations came into being in the various States on different dates later on.

5. It was decided by the Government in 1962 that it would be in the interest of better functioning of the two inter-dependent bodies i.e. the Central Warehousing Corporation and the National Cooperative Development and Warehousing Board to function independently under separate enactments. Accordingly the Act of 1956 was repealed and replaced by two new enactments. The Warehousing

Corporations Act, 1962 enlarged the scope and sphere of storage by authorising the Central Warehousing Corporation to store certain industrial produce and 'notified commodities' in addition to agricultural produce.

### *Functions*

6. The functions of the Central Warehousing Corporation as given in the Warehousing Corporations Act, 1962 are:

- (a) to acquire and build godowns and warehouses at such suitable places in India as it thinks fit;
- (b) to run warehouses for the storage of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities offered by individuals, co-operative societies and other institutions;
- (c) to arrange facilities for the transport of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities to and from warehouses.
- (d) to subscribe to the share capital of a State Warehousing Corporation;
- (e) to act as agent of the Government for the purpose of the purchase, sale, storage and distribution of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities; and
- (f) to carry out such other functions as may be prescribed.\*

### *Objects.*

7. The main objects of the Central Warehousing Corporation are as under:—

- (i) Creation of a negotiable paper to provide an instrument for expansion of credit through commercial banks for the benefit of producers, dealers and others who might be connected with rural economy.
- (ii) Decreasing waste and losses in storage by promoting and developing warehousing and scientific storage facilities by themselves and also through the State Warehousing Corporations.
- (iii) Assistance in orderly marketing by introduction of standard grade specifications and the warehouse receipts.

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\*'Prescribed' means as prescribed by Rules made under the Act.

- (iv) Training of personnel to run warehouses under the scheme.
- (v) Assistance to Government and Government-sponsored organisations in the scheme of price support and/or price control.

*Examination by the Estimates Committee*

8. The working of the Central Warehousing Corporation was examined by the Estimates Committee (1960-61) in their 128th Report presented to Parliament in March, 1961. A report on the action taken by Government on this Report was contained in the 8th Report of the Estimates Committee (1962-63).

## II TARGETS AND ACHIEVEMENTS

### A. Setting up of Warehouses

9. The details of targets and achievements regarding setting up of general warehouses in the country during the Second Five Year Plan and Third Five Year Plan periods by the Central Warehousing Corporation are as follows:—

Period	Target	Achievement	Shortfall
Second Five Year Plan (1956-57/1960-61)	100	40	60
Third Five Year Plan (1961-62/1965-66)	100 (including 40 set up during 2nd Plan).	42	18
Proposal for Fourth Five Year Plan	100 (including 82 set up during 2nd & 3rd Plan periods).	..	..

10. Yearwise progress made by the Corporation in setting up new warehouses from 1957-58 onwards is indicated below:—

Year	No. of ware- houses added during the year	No. of ware- houses at the year end
<i>Second Five Year Plan Period</i>		
1957-68	..	7
1958-59	3	10
1959-60	17	27
1960-61	13	40
<i>Third Five Year Plan period</i>		
1961-62	20	60
1962-63	18	78
1963-64	7	85
1964-65	..	85
1965-66	(-3)	82
		(General)
		18
		(Special)

11. It will be seen that the target of setting up of general warehouses in the country by the Central Warehousing Corporation during the Second Five Year Plan was 100 as against which only 40 warehouses were opened during that period. The target for the Third Five Year Plan period was retained at 100 warehouses but only 42 warehouses could be added during the plan period thus reaching a total of 82 warehouses. This works out to an average addition of 9 warehouses every year over a period of 9 years of the working of the Corporation.

12. In the Fourth Five Year Plan period it was proposed to add only 18 warehouses thus reaching a total of 100 warehouses during a period of about 14 years.

13. The following reasons have been assigned for the shortfall in warehouse targets during the Second and Third Five Year Plan periods and for fixing very low target for the Fourth Five Year Plan period by the Corporation:—

*Second Five Year Plan.*—The Corporation had been established one year after the start of Second Five Year Plan and the organisation started working effectively from a much later date and in view of a number of other unforeseen factors, the target of 100 warehouses could not be achieved. The Corporation had revised the target of warehouses to be set up during the Second Five Year Plan to 40, which they have achieved.

*Third Five Year Plan.*—Because of establishment of the Food Corporation of India through which the surplus produce is now supposed to be channelled, it was not possible to achieve the target of opening general warehouses at 100 centres by the end of Third Five Year Plan. However, instead of general warehouses, crash programme warehouses, have been established at 21 centres which exceed the shortfall of 18 centres in general warehouses.

*Fourth Five Year Plan.*—In view of the fact that the total number of centres at present considered of all India importance suitable for setting up Central warehouses is about 100 only, the target of the number of centres was not increased for the Fourth Five Year Plan period. The programme envisaged was, therefore, to gradually replace the hired accommodation by constructed accommodation at the general warehouses.

14. During evidence, the Managing Director of the Central Warehousing Corporation stated that the higher target in setting up gene-

ral warehouses could not be achieved as funds were not made available to them by the Government during the last three years owing to a ban imposed on construction of new buildings in October, 1965. Besides, the Corporation had closed down a large number of warehouses during the last two years because they had proved uneconomical in their working.

15. The Committee regret to note that the Central Warehousing Corporation has not made much headway in setting up general warehouses in the country during 12 years of its existence. Even the modest target laid down for the five years ending 1960-61 had not been fulfilled by the end of that period and is now expected to be achieved in the Fourth Plan period. The progress made by the Corporation in setting up new warehouses during the years 1963-64 to 1965-66 has also been extremely slow as is evident from the fact that 78 general warehouses at the end of the year 1962-63 could only be increased to 82 at the end of 1965-66. The Committee would suggest that the Corporation should make an intensive survey in consultation with the Agricultural Marketing Societies, Central/State Government authorities etc., with a view to locating new centres of All-India importance and extending warehousing facilities where necessary.

#### B. Storage capacity

16. In terms of storage capacity, the progress made by the Corporation was as follows:—

Year	Capacity added during the year (Thousand tons)	Total capacity at year end (Thousand tons)
<i>Second Five Year Plan</i>		
1957-58	.	7.0
1958-59	8.3	15.3
1959-60	28.7	44.0
1960-61	35.0	79.0
<i>Third Five Year Plan</i>		
1961-62	.	123.5
1962-63	44.5	180.1
1963-64	56.6	249.1
1964-65	69.0	206.8
1965-66	(-)42.3	301.6
	94.8	(General)
	(Thousand Tons)	
Capacity at the end of Second Five Year Plan	.	79.0
Capacity added during Third Five Year Plan	.	222.6
		301.6



17. The Estimates Committee, which examined the working of the Corporation during the year 1960-61, was informed that during the Third Five Year Plan period the Central Warehousing Corporation had a programme of setting up 35 warehouses for ordinary storage and 20 warehouses for specialised storage with a total storage capacity of 4.25 lakh tons. But it will be noticed from the above table that during the Third Five Year Plan period the Corporation could add only 2.23 lakh tons to their capacity which comes to 52 per cent of the promised target. This, however, does not include additional capacity of 2.89 lakh tonnes added under the Crash Programme for storage of foodgrains on behalf of the Madras and Andhra Pradesh Governments.

18. The Committee are unhappy to note that the undertaking regarding addition of storage capacity given to their predecessor Committee remains un-fulfilled and the targets fixed for the Third Five Year Plan are still to be achieved. The obvious lesson is that future targets should be more realistically framed and every effort made to achieve them.

### C. Occupancy

19. Occupancy of the general warehouses depends on cropping seasons and flow of marketable surplus in the Mandis. A large portion of marketable surplus is offered for storage immediately after harvest and is gradually consumed as the time passes. The average occupancy of the warehouses of the Corporation for the last seven years was as follows:—

year	Occupancy (%)
1960-61	62
1961-62	63
1962-63	70
1963-64	53
1964-65	44
1965-66	72
1966-67	79

20. It will be seen from the above that there had been steep decline in the business during the years 1963-64 and 1964-65. The reasons attributed by the Corporation for this decline are as follows:—

- (i) Due to critical food situation in the country, the prices of agricultural produce ruled 30 per cent higher. Because of attractive prices, both producers and traders preferred to dispose of their stocks.

- (ii) A number of States had embarked upon procurement of foodgrains and stored departmentally instead of using warehouses.
- (iii) The Central and State Governments released the buffer stocks to arrest the soaring prices. As a result of this, percentage of government stocks held by the Corporation came down.
- (iv) Beginning from the year 1963 severe credit curbs were imposed by the Reserve Bank of India against warehouse receipts. The State Bank of India also adopted a policy of credit squeeze.

21. The Committee were informed that the following steps were taken by the Corporation to overcome the above setbacks:—

- (i) A detailed study of the business at each centre coupled with visits by senior officers. This resulted in closure of 10 warehouses.
- (ii) Introduction of concessional storage charge for stocks deposited during lean season months.
- (iii) Special incentive awards to field staff in the form of high occupancy allowances during lean months.
- (iv) New warehouses were set up only after a thorough survey of potential in consultation with agricultural marketing and cooperative organisations.
- (v) Close and intense liaison with state governments at high levels.
- (vi) Reservation of facilities and special concessional rates for cooperatives.
- (vii) Negotiations were started with the Reserve Bank of India to relax the credit curbs. The Reserve Bank of India later on agreed to exempt advances against warehouses receipts in respect of warehouses started on or after 1.1.1961 from the purview of credit control.

22. The Committee trust that as a result of the above steps the occupancy ratio of the warehouses will be maintained at a higher level in future.

#### D. Percentage of Deposits

23. The Warehousing Corporation at the Centre and similar institutions in the States were started with a view to provide scientific

storage to the agriculturists and protect them from low prices that prevail at the time of harvest with the help of loans available from the banks against receipts issued by the Warehousing Corporation so that the farmers could tide over their financial problems and sell their produce so stored in the warehouses at a remunerative rate later on when favourable circumstances reappear.

24. The percentage of deposits from the various categories of depositors during the last 5 years was as follows:—

*Percentage of deposits of various classes at warehouses of the Central Warehousing Corporation*

Particulars	1962- 63	1963- 64	1964- 65	1965- 66	1966- 67
	%	%	%	%	%
1. Government					21
2. Food Corporation & other Government Organisations	34	16	39	42	15
3. Private Parties	66	84	61	58	64
Percentage of private depositors					
(i) Producers	16	13	8	4	5
(ii) Cooperatives	3	10	18	37	30
(iii) Merchants	81	77	74	59	65

26. It will be seen from the above table that the percentage of deposits from private parties was 64% at the end of 1966-67 while the balance of the deposits i.e. 36% was from Government, Food Corporation and other Government organizations.

It is, however, noticed that of the private depositors, as much as 65 per cent was from merchants while the percentage of deposits from Co-operatives and producers was only 30 and 5 per cent respectively. Further the percentage of deposits of commodities from producers had come down from 16% in 1962-63 to 5% only in 1966-67.

27. The Committee desired to know the reasons for such a downward trend as also for the comparatively low percentage of deposits from cooperatives and producers. It was stated that the scheme of developing warehousing facilities in the public sector was thought of on a three tier system namely, the cooperatives functioning at village

level, the State Warehousing Corporations at markets of local importance at talukas and tehsil levels and the Central Warehousing Corporation functioning in markets of all India importance. It was, therefore, not possible for the producer, to reach the terminal market where the Central Warehousing Corporation was operating. With the small/average size holdings the farmer did not find it economical to bring his produce to the big cities. The original conception of the scheme also did not envisage that the farmer would directly utilize the central warehouses.

28. The Committee obtained the figures of percentages of deposits from the cooperatives and producers in the State Warehousing Corporations. These are given below:—

Name of the State	As on 31-3-1964		As on 31-3-1965		As on 31-3-1966	
	Producers	Coop.	Producers	Coop.	Producers	Coop.
Andhra Pradesh	38	..	25	..	4.80	..
Assam	3.49	4.44	0.20	1.90		0.80
Bihar	9.05	0.19	8.17		3.60	1.10
Gujarat	11.00	3.00	3.00		3.40	4.60
Kerala	12.16	2.96	3.26	3.09	14.50	0.50
Madhya Pradesh	9.00	3.31	5.57	6.29	0.70	70.40
Maharashtra	5.60	5.10	3.60	8.60	1.30	43.70
Madras	10.48	3.25	7.36	4.27	0.80	0.40
Mysore	29.13	0.82	17.40	2.14	1.10	33.20
Punjab	0.07	2.02	2.34	8.46	1.10	49.00
Orissa	4.01	21.02	3.00	8.00	6.30	19.00
Rajasthan	0.17	7.11	0.43	0.57		4.00
U.P.	0.23	0.86	0.48	4.47	1.60	6.30
West Bengal	10.67	2.39	0.23	2.86	0.10	4.20

29. It will be seen that while there were no deposits from producers in the States of Assam and Rajasthan, the percentage of deposits in the State Warehousing Corporations of West Bengal, Madhya

Pradesh, Madras, Mysore, Punjab and Uttar Pradesh were negligible as on 31-3-1966. Similarly while there were no deposits from cooperatives in the State Warehousing Corporation of Andhra Pradesh, the percentage of deposits from this category was very meagre in the State Warehousing Corporations of Assam, Bihar, Kerala, Madras, Rajasthan, Uttar Pradesh and West Bengal. The performance of the State Corporations where this development should have been faster on account of their operations being nearer to the producing areas is thus not encouraging. Even the percentage inclusive of the deposits from the cooperatives in most of the State Warehousing Corporation is very low.

30. Thus the facilities provided by the Central Warehousing Corporation appear to have been availed of mainly by the merchants. It is the farmer/producer who needs warehousing facilities in a greater measure and needs to be protected against distress selling of the stocks or from exploitation by middlemen. The Committee are of the view that further efforts are needed to attract deposits from producers and cooperatives for whose benefits these facilities were originally contemplated. .

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### III

#### OPENING OF NEW WAREHOUSES

##### A. Market Survey

31. The time taken by the Central Warehousing Corporation to judge the potentiality and prepared a final survey of the centre for opening of a new warehouse depends on the size of the market and trading operations carried out and the time taken by various departments of the Government and other organisations to supply the necessary data. Usually for completion of a survey report, a period of 3 to 6 months is sufficient, but in some cases it has taken more time depending on factors referred to above.

32. In case of doubtful possibilities a beginning is made with a smaller capacity and that too in a hired accommodation and final decision for retention of a warehouse or otherwise is taken after seeing its actual performance.

33. The following centres were suggested by the undermentioned authorities for setting up warehouses:—

Centre	Suggested by	Year in which suggestion was made
<i>Himachal Pradesh</i>		
1. Simla	Hill Commissioner, Punjab	..
2. Paonta	Registrar, Co-operative Society, Himachal Pradesh	1951
3. Joginder Nagar	Registrar, Co-operative Society, Himachal Pradesh	1961
4. Solan	Lt. Governor, H.P.	1961
<i>Tripura</i>		
5. Maharajganj	Secretary, Department of Co-operation	1961
<i>Manipur</i>		
6. Imphal	Manipur Administration	1961

34. So far warehouses have not been set up at any of these centres. These centres have now been included in the list of centres to be considered for opening of general warehouses during the Fourth Five Year Plan period.

35. Although a period of 7 years has elapsed since suggestions for opening of warehouses at these centres were made, no concrete steps have been taken in the matter. Such inordinate delays reflect adversely on the efficiency of the Corporation. The Committee recommend that the Corporation should undertake a review of all the above mentioned centres suggested by various authorities and take steps to open warehouses there if considered economically viable.

### B. Construction of Warehouses

36. The Corporation has stated that all such centres, where survey reports showed a clear potential market, the construction of warehouses was started almost side by side with the hiring of godowns to run the warehouses in the intervening period. In a few cases where there was a clear potential but godowns of suitable type were not available, construction was taken up straightaway. In cases of centres where potential was not firmly indicated, the construction of warehouse was taken up after testing the ground for sometime.

37. Of the 82 general warehouses, the Corporation had completed construction of warehouses of various capacities at 27 centres. Out of these 27 centres only at 14 centres there was no hired accommodation.

38. The capacity added by construction of new warehouses during the last 9 years was as follows:—

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	(Thousand Tons)
1957-58 . . . . .	Nil
1958-59 . . . . .	Nil
1959-60 . . . . .	3·7
1960-61 . . . . .	7·9
1961-62 . . . . .	24·1
1962-63 . . . . .	10·9
1963-64 . . . . .	20·1
1964-65 . . . . .	39·4
1965-66 . . . . .	19·7

39. The capacity of Central Warehouses (constructed and hired) in various States as on 31st May, 1966 was as follows:—

(Tonnes)

State	Const- ructed/ owned	Hired	Total
1. Andhra Pradesh . . . . .	24,762	13,236	37,998
2. Assam . . . . .	5,000	1,158	6,158
3. Bihar . . . . .		3,300	3,300
4. Gujarat	8,000	10,427	18,427
5. Kerala . . . . .	8,160	10,089	18,249
6. Madhya Pradesh . . . . .	10,000	11,697	21,697
7. Madras . . . . .	8,360	8,669	17,029
8. Maharashtra . . . . .	24,200	41,959	66,159
9. Mysore . . . . .	9,900	10,054	19,954
10. Orissa . . . . .	2,000	6,449	8,449
11. Punjab		15,692	15,692
12. Rajasthan . . . . .	15,400	3,005	18,405
13. Uttar Pradesh . . . . .	10,000	6,429	16,429
14. West Bengal . . . . .	..	31,545	31,545
15. Delhi . . . . .	..	4,140	4,140
	<u>1,25,782</u>	<u>1,77,849</u>	<u>3,03,631</u>

40. From the above table, the percentage of owned accommodation to total available capacity works out at 41 per cent at the end of 1965-66 which was the last year of the Third Five Year Plan period.

41. It will be seen that the tempo of construction had been very slow during the 11 years of working of the Corporation. Asked about the reasons the Managing Director stated during evidence that the construction of warehouses at some centres was decided upon after practically working at them for sometime. Besides there was a ban



on construction since October, 1965 due to which the Corporation was unable to go ahead with the construction programme although they had acquired land at some centres. During discussion with the Committee, the Secretary, Department of Food stated that the matter had been taken up for removal of ban on construction. It is, however, noticed that the Corporation added over 1,900 tons of capacity by constructing new warehouses in 1965-66.

42. The Committee note that the Corporation had stated in 1961 that fair expansion of business was not possible in hired accommodation. This was primarily due to the non-availability of suitable hired accommodation at reasonable rents and whatever godowns were available were scattered in an area. Further standard scientific storage normally expected in one's own scientifically constructed godowns could not be achieved in hired godowns.

43. During the Fourth Five Year Plan period, the Corporation expects to construct warehouses at 50 more centres with a total capacity of 2 lakh tonnes at the rate of about 40,000 tonnes at 10 centres in each year of the Plan period. Thus at the end of the Fourth Five Year Plan period, total constructed capacity is expected to be over 368,900 tonnes at 86 centres. In case of Plan holiday for one or two years, the figure should pro-rata increase. This will leave 45,000 tonnes of hired accommodation at 14 centres at the end of the period.

44. In a review of storage costs made on the basis of actual expenditure incurred upto the end of the year 1964-65, the following figures were arrived at:—

	<i>Hired accommodation</i>	<i>Constructed accommodation</i>
Cost of storage per bag per month (bag being standard bag of foodgrain weighing 2½ maunds i.e. 93.30 kgs. and measuring upto 6 cu. ft.) . . . . .	(3,000 tonnes capacity on 65% occupancy). 20.38 paise	5,000 tonnes capacity on 75% occupancy. 14.39 paise
Storage charges proposed . . . . .	22.00 paise	22.00 paise
Margin of profit . . . . .	1.62 paise	7.61 paise

**NOTE:** In the case of hired accommodation the Corporation has, based on past experience, worked out costs on the basis of 3000 tonne capacity, (average) at 65% occupancy (average) because higher occupancy is difficult to achieve.

45. It is, however, seen that in the case of constructed accommodation, the margin of 7.61 paise includes provision for depreciation and repairs on constructed accommodation, but does not include return on capital investment. This margin of 7.61 paise works out to 4.8 per cent on total investment on cost of land, construction and equipment. If cost of construction of warehouses is to be met out of loans given by Government or banks, the return of 4.8 per cent would not be sufficient even to meet the interest charges on capital invested. It follows that the profitability of constructed warehouses after providing for return on capital investment is no better than that of hired warehouses.

46. According to the present proposals of the Corporation, only 14 new warehouses are to be opened during the next five years while existing 50 warehouses using hired accommodation are to be moved into their own buildings which will be constructed during this period. Thus there would be only 14 centres at which addition to the storage capacity of the Corporation will be made. This target is very low considering that several more viable centres exist.

47. Since the return on investments on constructed warehouses is going to be low and also the fact that losses have been incurred in the operation of a large number of warehouses in the past, the Committee suggest that the programme of construction of warehouses should be taken up in a phased way after examining thoroughly the business potential at each centre so that warehouses may not have to be closed down in future due to low occupancy. In view of this the Corporation should concentrate more on opening of new centres where accommodation is hired in the first instance.

### C. Time taken in construction

48. A statement showing the warehouses constructed together with their capacities and time taken in completion is given below:—

Sl. No.	Name of the Centre	Capacity in Tonnes	Time taken in completion	
			Year	Months
1	2	3	4	
1	Adoni . . . . .	5,000	1	4
2	Duggirala . . . . .	2,000	1	6
3	Guntur . . . . .	3,500	1	0
4	Jangaon . . . . .	3,000	1	1
5	Warangal . . . . .	8,362	6	4
6	Gauhati . . . . .	5,000	2	3
7	Ahmedabad . . . . .	5,000	1	6

1	2	3	4
8	Nadiad . . . . .	3,000	I 4
9	Cochin . . . . .	3,000	I 4
10	Kozhikode . . . . .	5,160	I 5
11	Bhatapara . . . . .	5,000	I II
12	Morena . . . . .	5,000	4 8
13	Kumbakenam . . . . .	3,500	I 0
14	Madurai . . . . .	4,860	I 5
15	Amravati . . . . .	5,300	4 0
16	Gondia . . . . .	3,600	2 8
17	Nagpur . . . . .	5,000	I I
18	Sangli . . . . .	5,800	2 IO
19	Davangere . . . . .	4,900	2 3
20	Gadag . . . . .	5,000	2 II
21	Mangalore . . . . .	5,000	2 0
22	Bargarh . . . . .	2,000	I IX
23	Jaipur Road . . . . .	3,000	3 4
24	Hanumangarh . . . . .	5,400	I 6
25	Kota . . . . .	5,000	4 3
26	Sriganganagar . . . . .	5,000	4 3
27	Chandausi . . . . .	10,000	I 3
28	Dubri . . . . .	5,000	2 9
29	Jorhat . . . . .	5,000	2 IO

49. It will be noticed that the time taken in construction of these warehouses has ranged from 1 year to 6 years. The Committee discussed this matter with the Managing Director of the Corporation and were informed that no target dates were laid down in the Project Reports for construction of warehouses. The agency employed for the construction of warehouses was the C.P.W.D. Wing attached to the Food Ministry, who have their own time schedule for execution of works. Asked whether C.P.W.D. adhered to the time schedule drawn by them, the Managing Director stated that by and large there was delay of 6 months to one year beyond the schedule laid down by them. In the case of construction of crash programme warehouses in Madras State, they had deviated from this normal practice and entrusted them to the State P.W.D. The work regarding construction of cold storage at Hyderabad had been given to a private contractor. In both the cases the progress had been much faster as compared to C.P.W.D.

50. Asked as to why the Corporation did not utilize the agency of the National Buildings Construction Corporation, the Engineering Adviser of the Corporation informed the Committee that construction through the National Buildings Construction Corporation would

have been expensive as they undertook the work on cost—plus basis and not on the basis of open competitive tender.

51. The Committee regret to note that while there is not much difference in capacities of the warehouses, the time taken in completion of construction ranges from 1 year 4 months to over 6 years. The reply of the Corporation that the delay in construction was due to the C.P.W.D. who have their own time schedule for execution of works reflects no credit to the Corporation nor on the construction agency. The time taken in the construction of a large number of warehouses is unduly long. Such delays hamper the business of the Corporation. Before construction is taken up target dates should be laid down for completion and adhered to.

52. The Ministry of Works, Housing and Supply should look into the causes of delay from 6 months to one year in the construction of warehouses by C.P.W.D. and lay down suitable remedial measures. The Committee would like to be informed of the measures taken.

53. The Committee understand that National Buildings Construction Corporation go in for open tendering and the information with the Corporation is not upto date. Therefore, before taking up new construction, the Corporation should send tender notices to N.B.C.C. and other parties.

#### D. Warehouses in Bombay City

54. Bombay is one of the most important commercial centres of the country. It is a terminal market where wagons of foodgrains, pulses and oilseeds come from other States and upcountry areas, for consumption in the State as well as for export. In spite of the above factors, which amply establish the necessity of opening general warehouses in Bombay city on high priority, the Central Warehousing Corporation has not yet set up any general warehouse there.

55. The Government of Maharashtra decided to introduce statutory rationing in Greater Bombay with effect from March, 1966 and in November 1965, they invited the Central Warehousing Corporation to set up one organisation for receipt, storage, standardisation and issue of bags on an agency basis for them. The terms and conditions were finally agreed upon in February, 1966. As per agreement, the Government of Maharashtra placed at the disposal of the Corporation the following three godowns in Bombay city:—

	(Capacity in 000 tonnes)
Borivli . . . . .	30·32
J. Shed. . . . .	10·35
New Parel . . . . .	4·80

56. Asked about the reasons for not opening their own warehouses in Bombay, the Corporation has stated that no suitable godowns were available. Efforts were made to get godowns on rent or procure a piece of land from the Port Trust Bombay, but it met with no success. The Corporation was also unable to utilise the godowns of Maharashtra State Government for stocks of other depositors as they were started on agency basis for the benefit of the State Government.

57. The Corporation has, however, stated that it would consider the feasibility of retaining these godowns for the purpose of general warehouses in the event of discontinuance of rationing in Bombay.

58. The Committee are surprised to note that even after a period of 11 years of its establishment, the Corporation has not been able to set up a general warehouse in Bombay, where business potential was assured. The Committee recommend that the Corporation should hire, purchase or construct godowns in suitable centres in the Bombay city for the purpose of opening general warehouses. They should not depend only upon the continuity or otherwise of rationing in Bombay which, being done on an agency basis, stands on a different footing than commercial warehousing facility to be provided for the traders and producers.

#### E. Cold Storages

59. The Corporation at present plans to have two cold storages one at Calcutta and the other at Hyderabad. Both the cold storages were expected to be completed in early 1968.

60. It was noticed that Darbhanga (Bihar), Desssa (Gujarat), Nasik (Maharashtra) and Kharagpur (West Bengal) were selected as centres for opening of cold storages during the Third Five Year Plan period. The Managing Director stated during evidence that these centres were investigated and it was found that it would not be possible to retain them on economic grounds. He, however, added that the Department of Agriculture had suggested some more centres and these were being investigated. In reply to a query, it was stated that wherever cold storages were necessary and financially viable, the private sector had already entered the field. The only places they are not entering is where there would be no profits. The Corporation wants financial guarantee before constructing godowns at such centres as a promotional activity.

61. The opening of cold storages in the public sector should be regarded as an important part of development of warehousing facilities in the country. The business potential of the various centres

should be examined and cold storages opened wherever adequate facilities do not exist.

#### F. Closure of Warehouses

62. It is seen that during the last few years, the Corporation had closed fifteen warehouses. The Corporation has stated that it was rarely that a warehouse was commercially remunerative right from the very beginning. In a rural area a warehouse might take even 10 years in becoming remunerative, while a warehouse in rural area with some commercial bias or a warehouse in an urban area might require five to seven years to become commercially remunerative. If, however, a potentially remunerative warehouse does not become commercially remunerative even after such a period, it has to be closed down unless the Government wanted it to be continued for rendering warehousing facilities to a particular area.

63. The reasons for closure of 15 warehouses are analysed below:—

- (a) Three warehouses which were started at the instance of State Governments had to be closed as the State Governments concerned did not fulfil their commitments.
- (b) One warehouse at Sirsi was started at the instance of Totagarh Co-operative Society. It had to be closed as the Society itself entered into warehousing business.
- (c) \*One warehouse was handed over to the Food Corporation of India.
- (d) One warehouse had been closed because of its proximity with the Sino-Indian border.
- (e) The warehouse (at Saharanpur) had to be closed due to credit curbs imposed by the Reserve Bank of India.
- (f) The following 8 warehouses had been closed because of poor business prospects:
  1. Dalsingsarai.
  2. Kapadwanj.
  3. Fatehpur.
  4. Burdwan.
  5. Purulia.
  6. Annamali.
  7. Darbhanga.
  8. Tenali.

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\*At the time of factual verification, the Corporation had informed as follows :—

“The warehouse has not been handed over to the F.C.I. It has been closed after the construction of crash programme warehouse at Tadepalligudem (A. P.) for the use of Food Corporation of India.”

64. The Committee understand that as a sequel to extremely bad business during the years 1963-64 and 1964-65, the Corporation undertook detailed study of business at each centre, which resulted in closure of 10 centres. It was also then decided that new warehouses were to be set up only after thorough survey of potential in consultation with agricultural marketing and co-operative organisations.

65. During evidence before the Committee, the Managing Director stated that no loss has accrued to the Corporation on account of closure of warehouses as, excepting the one at Cooch Behar, all other godowns were in hired accommodation. The Cooch Behar warehouse purchased by them had been requisitioned by military authorities in 1962 and was still in their occupation.

66. The number of warehouses closed during the last few years would indicate that the surveys conducted by the Corporation were not very realistic. A closure not only entails certain infructuous expenditure but is also a set back to the reputation of the Corporation. The Committee recommend that the setting up of a warehouse at a particular centre should be preceded by a critical examination of the possibility of the centre and it should not merely be taken up because it has been recommended by some authority or society. In case a warehouse is opened at the behest of some authority, a guarantee in writing against losses should be obtained before undertaking the venture.

## IV

### ROLE OF OTHER STORAGE AGENCIES

#### A. Government Warehouses

67. From the information supplied by the Corporation, it is seen that at 33 centres the Central Government/State Governments were also having hired godowns at places where the Central Warehousing Corporation is running warehouses. At 23 centres, the Central/State Governments have constructed godowns after the Central Warehousing Corporation's warehouses were set up there. It is reported that at 9 centres, Government stocks have been gradually withdrawn and stored in their own newly constructed warehouses. (See Appendix I).

68. The Corporation has stated that the occupancy of their warehouses has suffered at practically all the centres where Central/State Governments or even Public Undertakings have constructed godowns after a warehouse had been set up there by the Corporation. In some centres, the development of warehousing capacity to a profitable limit became difficult because of Government procuring the marketable surplus and storing it in their own godowns thus reducing the potential for general warehouses. Particular instances of the centres at Bhavnagar, Rajkot, Ahmedabad, Jeypore, Raipur, Amravati and Gondia have been quoted in this behalf.

69. The Committee enquired the reasons for Central/State Governments making separate arrangements for storage of buffer stocks instead of utilizing the facilities already provided by the Central and State Warehousing Corporations. In their reply the Ministry of Food and Agriculture have stated as follows:—

“In centres like Bhavnagar, Calcutta, Masulipatnam and Madras, the requirements of Food Department are for storage of imported foodgrains and the godowns are essentially hired from Port Trusts which have their godowns near the Wharfs.

In centres like Tadepalliguadem, Cochin and Delhi, the C.W.C. set up its warehouses only from storage godowns made available to it by the Food Department. It would be seen



that there is no case where Food Department had constructed/hired godowns in duplication of facilities already provided by the C.W.C. . . . The Food Corporation have not constructed godowns at any other centres (except Trichur) where the C.W.C. have set up their own warehouses. The Food Corporation of India is utilising the Central and State Warehousing Corporations' godowns to the extent considered operationally convenient in all the States. The hiring of accommodation is generally necessitated on account of non-availability of space with the C.W.C. at the time when the Food Corporation desires to have storage accommodation at the above Centres.

70. Asked as to why the State Governments were not patronising the warehouses of the Central Warehousing Corporation, the Committee were informed that some State Governments considered that storage charges of the Corporation were high. Some of the State Governments had also argued that there was saving on establishment costs to them by utilising the staff for looking after storage along with other duties on procurement. However when the cost of storages on the basis of expenditure actually incurred by them had been worked out, it was found to be higher than the charges fixed by the Central Warehousing Corporation. Some of the instances are given below:—

- (i) The Government of Bihar worked out the costs of storage for three years from 1957-58 to 1959-60 when they were getting storage done through private agencies. It was revealed that at the prevalent rates of storage charges, that Government would have saved nearly Rs. 8 lakhs had they stored with the Warehousing Corporations.
- (ii) The Maharashtra Government worked out their costs for the three centres viz. Gondia, Sangli and Amravati where they are storing departmentally. It was found that the Government costs worked out to 36.60 paise per bag per month in case of Gondia and 56.70 paise in case of Sangli. In comparison to this, the costs of storage in the Central Warehouses worked out to only 22.05 paise for Gondia to 36 paise for Sangli.

71. During evidence the Managing Director stated that the Corporation had not been given monopoly of storage by Government.

The Central/State Governments had given 70 to 80% of storage work to private agencies on account of their rates being cheaper and the Central Warehousing Corporation was not able to compete with them. The quality of storage offered by the private agencies was poor and resulted in loss ranging from 2 per cent to 3 per cent. However, the Departments did not bother about the losses and bad stocks were either written off or issued for consumption.

72. The Committee are of the view that godowns should not be set up by a multiplicity of agencies like the Central Warehousing Corporation, the Central/State Governments and any other public undertaking at the same centre. Unless there is one agency handling the work for all the organisations the average occupancy of warehouses constructed from public funds or hired for public purposes cannot be maintained at a high level. Secondly, the overhead costs, particularly for establishment and inspection, in the operation of multiple agencies for storage at a centre will be higher. Thirdly, the cost of maintenance of fumigation and other services in such warehouses will be high because each agency will have to keep the required equipment and staff for such services. The operation of warehouses at the same centre by different Government agencies is, therefore, uneconomical. It is also desirable that Government Departments/Public Undertakings should increasingly patronise the Central Warehousing Corporation for their storage.

73. The Committee recommend that at places where the Corporation has warehouses, no new ones should be constructed or hired by the Central Government or Food Corporation of India or any public sector organisation unless this becomes necessary due to the inability of the Central Warehousing Corporation to cater to their needs. The question of entrusting the storage of Government Departments/Food Corporation of India to the Central Warehousing Corporation at places where multiple Government storage agencies are functioning also needs to be examined. For the warehouses to be set up in future, the storage requirements of Government Departments etc. should be communicated to the Central Warehousing Corporation, who should take necessary steps to construct or hire warehouses. The Committee hope that the State Governments would also cooperate by entrusting their storage work to the Warehousing Corporations. Since the Central Warehousing Corporation subscribes fifty per cent of the share capital of the State Warehousing Corporation and also the fact that a State Warehousing Corporation cannot acquire or build godowns and warehouses without the approval of the Central Warehousing Corporation, it should not be difficult to make the State Warehousing Corporations fall in line in the interest of efficiency and economy.

## B. Crash Programme Warehouses

74. The Central Warehousing Corporation has constructed four crash programme warehouses with 2 lakh tonnes capacity at 4 centres' in the Madras State and 17 warehouses with capacity of 2.87 lakhs tones in Andhra Pradesh, for the exclusive use of the Food Corporation of India and the State Governments. The total estimated cost of such Crash Programme Warehouses in Madras State is Rs. 280.00 lakhs and in Andhra Pradesh Rs. 499.25 lakhs. This was met out of the funds made available to the Corporation by the Government of India on loan.

75. The Committee understand that the question of ownership of these warehouses had been deferred for a period of two years from the date of completion. Asked about the reasons, the Corporation has stated as follows:—

“..After the Food Corporation of India was established on 1-1-1965, the Department of Food, Government of India took a decision to transfer its own storage accommodation to this new Corporation. It seems that as a result of this decision, the Food Corporation of India considered that the crash programme constructions which were put up mainly for its use should be transferred to its ownership instead of the Warehousing Corporation managing only this accommodation on behalf of the Food Corporation of India. However, as the Central Warehousing Corporation had taken up this construction of its own account, further discussions were held on 4th March, 1965 by the then Minister of of Food and Agriculture and it was then decided that for the initial period of 2 years at least these crash programme godowns should continue to be in the ownership of the Central Warehousing Corporation. However, because of this decision, the question of ownership was not decided but left to be discussed afresh after a period of two years.”

76. The Committee also discussed this matter during evidence. Explaining the reasons for keeping the decision pending for two years, the Secretary, Department of Food stated that these warehouses had been taken up for construction before the Food Corporation of India came into being and as such the Government wanted some time to watch before deciding upon their ownership. He added that it had since been decided to handover the warehouses to the Food Corporation of India.

77. The figures of occupancy of these crash programme warehouses are given below:—

(% of occupancy)

Year	Highest average	Lowest average	(Average)
1965-66	79	19	49
1966-67	76	6	33

78. The occupancy of the above warehouses depends on the procurement programmes and policies of the Food Corporation of India/State Governments. The Central Warehousing Corporation has no control over the occupancies in these centres. In regard to warehouses in Andhra Pradesh, the Corporation has been able to secure payment on the presumed basis of 100 per cent occupancy from the Food Corporation of India. Similar guarantee from the State Government of Madras in respect of warehouses in that State has been sought.

79. The Committee were informed that the estimated expenditure on fixed items of costs involved in running these warehouses in Madras was estimated to be Rs. 42 lakhs annually. This included the costs of establishment, depreciation, repairs, local taxes and insurance of buildings and return on capital investment required to be paid as interest on loans advanced for their construction and costs on items of contingent nature. The actual occupancy of these warehouses during the year 1966-67 had been 33 per cent only. The storage charges that had been proposed for these warehouses were 20 paise per bag per month, out of which 17.58 paise was to cover the expenditure on fixed items of costs. The net loss on 35 per cent occupancy had worked out to Rs. 25 lakhs for the year 1966-67.

80. During evidence, the Managing Director of the Corporation stated that originally when the scheme for crash programme warehouses was framed, the intention was that the Food Corporation of India would give 100 per cent guarantee for both these areas. Subsequently, the Food Corporation of India was not allowed to operate in Madras State and as such it did not give any guarantee for the warehouses opened in that State.

81. On the question of loss on operation of these warehouses, the Secretary, Department of Food stated during evidence that the loss was due to low occupancy and would have been suffered by any

agency which held the warehouses. In the present case, the Warehouses were owned by the Central Warehousing Corporation and so it had to bear the losses.

82. Asked whether these warehouses could be used for storage of other commodities instead of keeping them vacant during idle periods the Managing Director stated that the situation of these warehouses did not offer scope for large custom in commodities other than foodgrains. Fertilizers and seeds could fill up the gap to some extent. Attempt was being made to attract these commodities from various manufacturers and distributors of seeds like National Seeds Corporation of India.

83. Since the occupancy of the warehouses under the crash programme is low, other sources of income, besides foodgrains, will have to be tapped to make them viable. No particular effort seems to have been made in that direction, perhaps due to the reasons that the question of their ownership was left open for two years or because the Corporation desires to be paid on the basis of 100 per cent. occupancy. The Committee feel that the ownership of all the warehouses owned or financed by the Central Government should be with one body i.e. Central Warehousing Corporation, which should work on commercial basis.

#### C. Storage by the Food Corporation of India.

84. The primary function of the Food Corporation of India as prescribed in section 13 (1) of the Food Corporation Act, 1964, is to undertake the purchase, storage, movement, transport, distribution and sale of foodgrains and other foodstuffs. Storage is thus one of the functions of the Corporation. The Corporation started functioning with effect from the 1st January, 1965.

85. The Central Government have during the years 1965 and 1966, transferred their storage depots in most of the States to the Food Corporation of India. The storage capacity at the disposal of the Food Corporation of India at the end of 1966-67 was 11.56 lakh tonnes and 85,500 tonnes was under construction.

86. The Ministry of Food & Agriculture in a communication dated the 10th June, 1959 addressed to all the State Governments had clarified the role of the Warehousing Corporations. It was stated therein that the policy of the Government was that fullest use should be made of the services of the Warehousing Corporations for storage of foodgrains. It was also envisaged that as the volume of internal purchases increased, the Government of India would make

increasing use of the storage facilities available with the Central and State Warehousing Corporations.

87. During evidence the Committee enquired as to why the functions of storage of foodgrains could not wholly be entrusted to the Central Warehousing Corporation. The Chairman of the Food Corporation of India stated that in his view, it was not possible to isolate warehousing from procurement and handling of foodgrains. He felt that entrusting of warehousing operations to any other agency would deprive the F. C. I. of enough control over the operations of storage and movement. Further, the guiding factors determining the location of godowns of the Food Corporation of India and the Central Warehousing Corporation would be different. While the Central Warehousing Corporation would prefer the Centres where multiple custom was available. The F.C.I. would like to locate their godowns at places which were convenient for receipt and despatch, and for long term storage of foodgrains. It was stated that the F.C.I. intended to set up large storage godowns which under ordinary circumstances would not be profitable to the Central Warehousing Corporation. The Food Secretary endorsed the views of the Chairman of the Food Corporation of India and added that entrusting of storage of foodgrains to the Central Warehousing Corporation would hinder the flexibility of operations particularly in emergency conditions.

88. This has been further elaborated in the following reply received from the Department of Food, Government of India:—

“..The Warehousing Corporation were not set up for utilisation of the storage accommodation for Government foodgrains. Their essential purpose is primarily to provide not merely scientific storage accommodation for the producers but also extend thereby through the Warehouse Receipts, a facility of cash credit. Custom from Government or from the Food Corporation of India should be theoretically only incidental and not the main purpose. If the Warehousing Corporations have to depend largely on the custom from the Government/Food Corporation of India they would be proceeding on wrong lines. They are to concentrate on the producers and by suitable propaganda and attractive rates carry the message of scientific storage to the vulnerable sector.”

89. The Committee also enquired about the practice obtaining in foreign countries in regard to the procurement storage and distribution of foodgrains. From the information supplied by the

Corporation, it appears that in U. S. A. warehouses are owned by private warehousemen who act as agents to the Commodity Credit Corporation constituted by the Department of Agriculture for the purpose of storage, handling and despatch of wheat. In Canada, private warehousing companies operate as agents to the Wheat Board for the purpose of storage and handling etc. In Australia also the Wheat trade is handled by a Wheat Board, and all storage and handling on behalf of the Wheat Board is done by another Government sponsored organisation called the Wheat Elevators' Board.

90. It is thus seen that in these countries the function of warehousing has been developed through a separate Government organisation or through private agents. The Committee enquired during evidence whether the same practice could be adopted in India. The Secretary, Department of Food stated that in the context of Indian conditions he was doubtful if the system obtaining in Australia would yield better results.

91. It has been argued by the Central Warehousing Corporation that the storage of foodgrains in between procurement and distribution is a distinct and separate function. Since it is a specialised operation in the chain of marketing operations, the corporation could play the warehouseman's role to the Food Corporation of India and at the same time continue to discharge the function of warehousing for the general public as envisaged under the Act. It has been further stated that the foodgrains constitute 60 per cent of the storage commodity and if the stocks procured by the Food Corporation of India are stored in their own godowns, it is obvious that the potential for warehousing will be reduced.

92. When the question of setting up of the Food Corporation of India was under consideration in Parliament, the Minister incharge had stated that the F.C.I. would be expected to fully utilise the facilities of Central and State Warehousing Corporations. The Committee, therefore, feel that in the interest of overall national economy, utmost co-operation between the two Corporations is called for.

93. They have recommended in para 72 of this Report that with a view to avoid multiplicity of storage agencies, the storage work should be handled by one specialised agency.

94. The Committee are of the view that storage of foodgrains by the Central Warehousing Corporation can be expected to have the following advantages:—

- (i) The average occupancy of the warehouses of the Central Government and the Food Corporation of India is stated

to have been below 40 per cent during the last year. The changes in procurement policy of the Government and the fluctuating agricultural situation in the country do not admit of any guarantee for the continual minimum occupancy for all times. If the warehouses are operated by the Central Warehousing Corporation, it would be possible to store commodities on behalf of State Governments, other Public Sector Undertakings, large producers etc. Central Warehousing Corporation's cost of storage will thus be lower, while on the other hand the Central Government/Food Corporation of India etc. will be paying for the space actually used by them.

- (ii) If the procurement, storage and distribution is done by the same agency, it may not be possible to exercise adequate check to ensure whether the foodgrains brought for storage are of the standard quality or that they have not deteriorated during storage or that infested grains are not issued for consumption.
- (iii) Storage of foodgrains under Departmental management, as in the case of Central Government warehouses, may be a burden on the public exchequer while the Central Warehousing Corporation or any other agency would have to work on commercial basis and give good return.
- (iv) Scientific storage by independent agencies, namely the Central Government, the Food Corporation of India and the Central Warehousing Corporation will add to expense as it would lead to triplication of material and services.

95. The Food Corporation of India should be asked to work out its cost of storage and if it is found to be higher than the cost at which the Central Warehousing Corporation is operating, there is no reason why the storage work should not be entrusted to the Central Warehousing Corporation. This will also result in reduction of the storage charges of the Central Warehousing Corporation. The Committee have no doubt that entrusting of storage work to one agency would result in overall efficiency and economy.



## REORGANISATION OF CENTRAL WAREHOUSING CORPORATION

96. At a meeting held on the 11th November, 1965 to discuss economy measures, the Committee of Secretaries decided that the future of the Warehousing Corporations should be reviewed by the Food Secretary in the light of their working so far and that the possibility of merging their functions with the Food Corporation of India or any other organisation, should be examined.

97. In pursuance of the above decision, a meeting was held on the 19th August, 1966 under the Chairmanship of Food Secretary. The meeting was attended by the representatives of the Department of Food, Ministry of Finance, Planning Commission, Food Corporation of India, Central Warehousing Corporation and National Cooperative Development Corporation. The Minutes of the meeting are at Appendix II. The Deputy Governor, Reserve Bank of India who had been invited to attend the meeting had sent a letter containing their views. The letter is also reproduced at Appendix III.

98. The views expressed at the meeting are summarised below:—

- (i) The Food Secretary who initiated the discussion stated that broad issues for consideration in this context would be (a) the objectives for which the Central Warehousing Corporation had been established (b) whether these objectives were being fulfilled and if not, whether there were prospects of these being achieved in the near future; (c) whether the F.C.I. could take over from Central Warehousing Corporation for achieving these objectives; and (d) if not, whether the State Warehousing Corporations were in a position to do so.
- (ii) The Managing Director of the Central Warehousing Corporation, Shri C. S. Ramachandran, stressed the fact that the scientific storage through the Central Warehousing Corporation and State Warehousing Corporations had greatly helped in the minimisation of losses from damage and deterioration due to pests, moisture etc. and that on

a modest estimate the saving to the nation in the year 1965-66 would not be less than Rs. 6 crores on this account, thus fully justifying the existence of the Corporations.

- (iii) The Deputy Director-General in the Department of Food (Shri K. D. N. Singh) stated that the storage of grain in between procurement and distribution could be conceived of as a separate function, provided it was clearly recognised that the Central Warehousing Corporation or any other storage agency was functioning on behalf of the Food Corporation of India and under its direction. Operationally no difficulties were being experienced in the 'Crash Programme' godowns being operated by the Central Warehousing Corporation on behalf of the Food Corporation of India in Andhra Pradesh and Madras. The Warehouseman role of the Food Corporation of India could as well be discharged by the Central Warehousing Corporation.
- (iv) The view of the Reserve Bank of India as contained in the letter dated the 17th August, 1966 from the Deputy Governor (Shri M. R. Bhide) was that the merger of Central Warehousing Corporation with any other organisation would not result in any economy because some specialised staff for running the Corporations and the Warehouses would still be needed. Further, the object of developing the warehouse receipt as an instrument of credit would have to be given up if the Warehousing Corporations are merged with the Food Corporation of India or the National Cooperative Development Corporation as it would be difficult for these institutions to promote development of warehousing activities in addition to their respective statutory functions. The representative of the Planning Commission (Shri N. K. Bhojwani) and the Managing Director, Central Warehousing Corporation supported the views of the Reserve Bank of India.
- (v) The Chairman, Food Corporation of India (Shri K. T. Chandy) said that the Food Corporation of India was mainly concerned with the acquisition of buffer stocks. It was for them to decide on the location of godowns required for holding stocks, their size and operation and these functions could not be delegated to any other organisation. He said that there was no objection to the present functions of the Central Warehousing Corporation being transferred to the State Warehousing Corporations. The Food Corporation of

India on their part would be willing to take over all Central Warehousing Corporation godowns where more than 60% of the business is in the foodgrains.

- (vi) The Secretary, National Cooperative Development Corporation (Shri S. S. Puri) had no comments to offer regarding the future of Central Warehousing Corporation. He, however, expressed the possibility that in the event of liquidation of Central Warehousing Corporation, National Cooperative Development Corporation could take over some of the functions of Central Warehousing Corporation, such as those which were promotional or financing.
- (vii) The Food Secretary felt that the rural producer had to be assisted in getting a fair price for his produce and easy credit when required. If the State Warehousing Corporations, and Cooperative Societies could ensure this there might not be need for a Central Warehousing Corporation since the storage functions could be taken over by the Food Corporation of India and the State Warehousing Corporations. The issue, therefore, was whether the State Warehousing Corporations were in a position to take over the present promotional and storage functions of Central Warehousing Corporation.

99. The matter was, thereafter discussed by the Board of Directors of the Central Warehousing Corporation on the 17th and 18th October, 1966 under the Chairmanship of Shri A. L. Dias, Secretary, Department of Food. After detailed discussions, it was unanimously considered that the warehousing scheme as a promotional and developmental activity must be continued at any cost. As regards the agency for carrying out this scheme, the consensus was that it was too early to consider abolition or merger of the Central Warehousing Corporation because the State Warehousing Corporations were not in a position to take up this scheme on their own without any Central guidance. Besides, even if it was considered that the Warehousing Scheme should be wholly entrusted to the State Warehousing Corporations in the future and that the State Warehousing Corporations would be in a position to operate the Scheme successfully (which is doubtful), still there would always be a need for some sort of central organisation to coordinate, to control, to regulate and to advise the State Warehousing Corporations in the matter of finance, policy, business and technical activities.

100. During discussion with the Committee, the Secretary, Department of Food stated that the review of the Central Warehousing Corporation entrusted to him by the Economy Committee of Secre-

taries in 1965 related not only to effect improvements in the working of the Corporation, but also to examine whether it was a redundant organisation and whether there was overlapping of functions with other allied agencies such as Food Department, Central/State Governments and the Food Corporation of India. In regard to the improvement in its working he informed the Committee that they had made two or three reviews which had resulted in Central Warehousing Corporation making some profits during 1966-67. In regard to the other point, i.e. future of the Central Warehousing Corporation, the Secretary stated that while the Government was inclined to continue the warehousing facility in the country as provided in the Warehousing Corporations Act, no final decision as to whether to continue the Central Warehousing Corporation in its present form or whether the warehousing functions should be performed by the State Warehousing Corporations had been taken yet.

101. Regarding entrusting all the warehousing functions to the State Warehousing Corporations, the Central Warehousing Corporation has stated that the set up will neither be economic nor effective for the following reasons:—

- “(a) Some central unit either under National Cooperative Development Corporation or under the Department directly will have to coordinate the work of the various State Warehousing Corporations and look after their financing etc. Such a set up cannot be recommended on grounds of economy as its annual budget may well be of the same order as the average losses the Central Warehousing Corporation has incurred. As time progresses, the Central Warehousing Corporation is very likely to cover its losses from commercial operations and run the service for State Warehousing Corporations without any cost to the Nation. The above set up will also have little practical experience as they will not be running any warehouse and their approach is bound to be academic.
- (b) The overhead costs of the Central Warehousing Corporation as compared to the performance of the State Warehousing Corporations for the year 1965-66 for which figures were available, (see Appendix IV) show that in comparison to an expenditure of 0.16 paise per tonne per month for the Central Warehousing Corporation, the expenditure of various State Warehousing Corporations varied from Rs. 0.16 to Rs. 1.25 and Rs. 9.00 per tonne per month in case

of Orissa. In the case of Madhya Pradesh only this cost was 0.14 paise. If the benefit of occupancy of the Central Warehouses in each State was also given to the State Warehousing Corporations assuming that their overhead will not increase with this additional work, their overhead costs still work out to be higher in most of the cases. (See Appendix V). It has, however, to be taken into account that as soon as the technical and commercial guidance of the Central Warehousing Corporation is removed, the State Warehousing Corporations are bound to increase their expenses by employing senior technical and commercial staff at the headquarters.

- (c) The present development of the State Warehousing Corporations also does not justify the step as they have been farther from the achieving of objectives than the Central Warehousing Corporation. Not only the percentage of producers and cooperatives is smaller at their warehouses, their efficiency in storage has been poorer and they have also sustained heavy losses. Their nearness to the warehouses has not been effective in preventing frauds or developing efficient inspection services. The record of Central Warehousing Corporation is much better in these matters.

102. In regard to the National Cooperative Development Corporation taking over promotional role, the Central Warehousing Corporation has stated as follows:

“The Government of India took a decision to wind up the National Co-operative Development and Warehousing Board in 1962 and transferred its financing and promoting function to the Central Warehousing Corporation by enactment of the Warehousing Corporations Act, 1962. Since then the Corporation, in addition to having its own commercial programme, has been practically guiding and developing the facilities through State Warehousing Corporations. To revert back again to the setting up of a mere financing and promoting body either with the National Cooperative Development Corporation or with the Department direct will mean putting the hands of the clock back. Since the National Cooperative Development Corporation did not operate any godowns directly, it may not be appropriate for them to take over a large business organisation.”

**103. Considering all aspects of the matter the Committee are of the view that the abolition of the Central Warehousing Corporation and distribution of its functions between the State Warehousing**

Corporations, National Cooperative Development Corporation, and the Food Corporation of India is not likely to serve the purpose of developing warehousing facilities in the country. It will be seen from para 111 that till 1964-65, all the State Warehousing Corporations, barring the Punjab had shown substantial losses. The progress of business of these Corporations since their inception has also been poor.

104. In view of this background, it is unlikely that the State Warehousing Corporations would be able to take over the Central Warehouses and operate them efficiently. Taking over of some of the functions of the Central Warehousing Corporation by the National Cooperative Development Corporation or Food Corporation of India is also not likely to result in fulfilling the aim of providing credit to agriculturists, traders etc. against warehousing receipts. The Committee feel that there is need to develop warehousing schemes by increasing the scope of operations of the Central Warehousing Corporation and by centralisation of operations in the country.

## VI

### RELATIONSHIP BETWEEN CENTRAL AND STATE WAREHOUSING CORPORATIONS

105. The Agricultural Produce (Development and Warehousing) Corporations Act, 1956 as also the Warehousing Corporations Act, 1962 envisaged a system of central warehouses at places of all India importance and state warehouses at markets of state and district importance.

106. Under the Act of 1962, the Central Warehousing Corporation exercises the following powers over the State Warehousing Corporations:

- (i) The Central Warehousing Corporation nominates five directors on the Board of Directors of a S.W.C. (the remaining five directors are nominated by the State Government).
- (ii) The C.W.C. gives approval to the appointment of Chairman of the Board of Directors of S.W.Cs. (the actual appointment is made by the State Government).
- (iii) The C.W.C. gives approval to the appointment of Managing Directors of S.W.C. (the actual appointment is made by the State Government).
- (iv) The salary and allowances of the Managing Director of a S.W.C. are fixed by the State Government in consultation with the C. W. C.
- (v) The Board of Directors of the S.W.C. is guided by such instructions on questions of policy as may be given to them by the State Government or the CWC.
- (vi) S.W.C. can acquire and build godowns and warehouses with the approval of the C.W.C.

107. Apart from the exercise of these powers, the Central Warehousing Corporation advises the State Warehousing Corporations in respect of fixation of storage charges, grading of stocks, etc. wherever such advice is sought by them. Training of staff employed by

the State Warehousing Corporations is also undertaken by the Central Warehousing Corporation who conducts combined training courses and refresher courses annually.

108. As regards financial participation, section 19 (2) of the Warehousing Corporations Act lays down that the share capital of the State Warehousing Corporations shall be subscribed by the Central Warehousing Corporation and the State Government on 50:50 basis. The Central Warehousing Corporation's investment in the shares of State Warehousing Corporations as on the 31st March, 1967 was Rs. 297.75 lakhs. Besides, under the provisions of section 16 (2) (a) of the Act, the Central Warehousing Corporation had advanced loans to State Governments aggregating Rs. 44.72 lakhs for the purpose of enabling them to subscribe to the share capital of the State Warehousing Corporations.

109. Upto the end of the year 1965-66, the total number of warehouses set up by the 14 State Warehousing Corporations was 570 (including 107 sub-warehouses) with a total storage capacity of 880,500 tonnes. Out of this the total storage capacity in owned godowns as on 31st March, 1966 stood at 176,404 tonnes at 103 centres. The average occupancy of all the State Warehousing Corporations in 1965-66 was 66 per cent.

110. Statewise, the number of warehouses as on 31-3-1966 was as follows:—

	No. of State Warehouses
1. Andhra Pradesh . . . . .	37
2. Assam . . . . .	32
3. Bihar . . . . .	19
4. Gujrat . . . . .	60
5. Kerala . . . . .	23
6. Madras . . . . .	32
7. Madhya Pradesh . . . . .	49
8. Mysore . . . . .	39
9. Maharashtra . . . . .	48
10. Punjab . . . . .	72
11. Orissa . . . . .	13
12. Rajasthan . . . . .	55
13. Uttar Pradesh . . . . .	59
14. West Bengal . . . . .	32
TOTAL . . . . .	570



*Working results of SWC's*

111. A statement showing the net profit and loss account of State Warehousing Corporations from the year 1957-58 onwards is given below:

		(Figures in thousands of Rupees)									
		Profit (+)/Loss (-)									
S. No.	Name of S. W. C.	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65		
1	2	3	4	5	6	7	8	9	10		
1	Andhra Pradesh	No business.	-9.3	-43.9	-59.7	-5.9	+78.1	-48.1	+13.5		
2	Assam	Do.	-4.5	-4.7	+47.9	+52.2	+19.4	+3.9	-43.4		
3	Bihar	+4.5	-4.2	-93.7	-163.7	-211.9	-300.8	-265.9	Not available		
4	Gujarat	No business.	No business.	No business.	-3.7	+13.2	+1.9	-80.7	Do.		
5	Kerala	Do.	Do.	-5.6	-41.5	-44.5	-67.2	-88.8	-91.4		
6	Madhya Pradesh	Do.	-32.3	-82.1	-11.7	+0.5	-128.2	-297.5	-185.0		
7	Madras	Do.	+9.8	-48.0	-89.6	-62.8	-83.0	-126.3	-60.2		
8	Maharashtra	-5.7	-14.4	-51.7	-67.2	+66.6	-91.9	-129.0	-110.3		

1	2	3	4	5	6	7	8	9	10
9	Mysore . . . . .	No busi- ness	-24.7	-45.3	-56.5	-26.1	-87.5	-125.7	-292.4
10	Orissa . . . . .	Do.	+1.5	+11.3	+30.3	+20.8	-29.9	-23.4	Not available.
11	Punjab . . . . .	Do.	-7.8	-2.4	+55.2	+126.2	4.96.9	4.126.9*	Do.
12	Rajasthan . . . . .	Do.	+12.2	-13.7	-101.6	-18.3	+22.1	-8.2	Do.
13	Uttar Pradesh . . . . .	Do.	-18.0	+6.5	+9.7	-20.0	4.39.4	-25.3	Do.
14	West Bengal . . . . .	Do.	+8.7	-48.5	-25.6	-153.3	-153.1	-39.6	Do.

\*Provisional.

112. It will be seen that the performance of the State Warehousing Corporations in general shows only losses, barring the Punjab State Warehousing Corporation which has made profits during the years 1960-61 to 1963-64.

113. The losses have been incurred in spite of the fact that the share of Government deposits in the State Warehousing Corporations has been substantial and the average occupancy was 66 per cent during the year 1965-66. In Bihar, Assam and Madras the percentage of Government deposits with the State Warehouses was 70 per cent at the end of the year 1965-66. In Assam and West Bengal, it was in the range of 90 per cent. In Maharashtra and Madhya Pradesh the cooperatives were the agents for Government and including their deposits the percentage works out to about 70 per cent.

114. The State Warehousing Corporations are autonomous bodies under the administrative control of the respective State Governments. The Warehousing Corporations Act, 1962 envisaged a kind of dual control over the State Warehousing Corporations i.e. by the State Government as well as by the Central Warehousing Corporation as is evident from the provisions in the Act in the matter of appointment of Board of Directors, Chairman, Managing Director, financial participation in equal proportion, approval of budget, programme of activities etc.

115. The Committee have no doubt that the State Warehousing Corporations have an important role to play in the development of warehousing in the country. However, the continual losses incurred by almost all of them year after year call for greater control over the working of these Corporations.

116. The Committee find that under the Warehousing Corporations Act, 1962 sufficient powers have been given to the Central Warehousing Corporation for looking into the progress of the State Warehousing Corporations. However, it appears that beyond subscribing to the share capital of the S.W.Cs., it has not effectively contributed towards improvement in the working of the State Warehousing Corporations. The losses by the S.W.Cs. are indirectly reflected in the accounts of the Central Warehousing Corporation on account of the latter's investment in the shares of the former. The Central Warehousing Corporation should, therefore, exercise greater supervision on their working directly or through its nominees on the Board of Directors of the State Corporations. Besides, only such persons as are able to devote sufficient attention to the work of a State Warehousing Corporation should be nominated on the Board.

of Directors of a State Warehousing Corporation. The Central Warehousing Corporation should also be more vigilant while approving the appointments of Chairmen and Managing Directors of the State Warehousing Corporations.

117. As stated earlier, the performance of the State Warehousing Corporations has not been encouraging. The Committee hope that these Corporations would take energetic steps to spread warehousing in markets of local importance in their respective States.

118. The Committee find that out of about Rs. 3·00 crores invested by the State Governments in the share capital of the State Warehousing Corporation, the loans granted by the Central Warehousing Corporation to State Governments for subscribing to the share capital of the State Warehousing Corporations under Section 16 (2) (a) of the Warehousing Corporations Act, 1962 constituted as much as Rs. 44·72 lakhs.

119. The Committee feel that when the Act envisaged share of equity capital in equal proportion, the State Governments should be able to provide funds from their own resources instead of taking loans from the Central Warehousing Corporation. In the view of the Committee, except in exceptional cases, the Central Warehousing Corporation should not be normally required to advance loans to State Governments for the purpose of investing in the State Warehousing Corporations, so that the Central Warehousing Corporation is not put to this additional financial burden. The Committee hope that the Central Warehousing Corporation will keep this in view while considering future requests for loans from the State Governments.

120. Section 19 of the Warehousing Corporations Act, 1962 provides that the Share Capital of the State Warehousing Corporations is to be subscribed by the Central Warehousing Corporation and respective State Government on 50:50 basis.

121. The total amount subscribed as on 31-3-1967 by the Central Warehousing Corporation was Rs. 299·75 lakhs as under:

S. No.	Name of State Warehousing Corporation	Amount (Rs. in lakhs)
1	2	3
1	Andhra Pradesh	14·85
2	Assam	21·00
3	Bihar	13·00
4	Gujarat	10·00

1	2	3
5	Kerala . . . . .	20.90
6	Madras . . . . .	32.00
7	Mysore . . . . .	38.00
8	Madhya Pradesh . . . . .	20.00
9	Maharashtra . . . . .	34.50
10	Orissa . . . . .	11.00
11	Punjab . . . . .	21.50
12	Rajasthan . . . . .	16.50
13	Uttar Pradesh . . . . .	15.50
14	West Bengal . . . . .	29.00
TOTAL		297.75

122. The amount of the share capital is disbursed to the State Warehousing Corporation in a lump sum as and when approved. The Committee enquired how the Corporation ensured that the share capital subscribed towards the State Corporations was utilized by them on the warehousing activities. In reply the Committee were informed as follows:

“The funds are allotted for warehousing activities only and the auditors audit their accounts. The auditors’ reports are received by the Central Warehousing Corporation and put up to its Board of Directors/Executive Committee after proper examination. So far there has been no instance of funds having been utilized for any purpose or activity which is not permitted under the provisions of the Warehousing Corporations Act, 1962 or Rules framed thereunder by the respective State Governments.”

123. It was noted by the Committee that the Orissa State Warehousing Corporation, in which the Central Warehousing Corporation’s share is Rs. 11 lakhs, had been investing substantial amount of its paid-up capital in banks ever since its inception in 1958-59. The amount invested as on 31st March, 1967 amounted to Rs. 10.70 lakhs. On an enquiry, the Central Warehousing Corporation stated that this fact had come to their notice as far back as 1961-62 and since then no further share capital has been contributed to the share capital of Orissa State Warehousing Corporation. There is no provision in the Act for refund of capital once subscribed. It was further stated that the Bihar State Warehousing Corporation had also

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invested a sum of Rs. 1·66 lakhs, in 4½ per cent Bihar State Development Loan, 1972. Such investments were permitted under Section 29 of the Warehousing Corporations Act, 1962, which states—

“A Warehousing Corporation may invest its funds in the securities of the Central and State Government or in such other manner as may be prescribed by the appropriate Government”.

**124. The Committee feel that there is hardly any justification in accumulation of funds with the State Warehousing Corporation, when these are actually not required by them. In the absence of any phased programme of warehousing activity, the capital provided to these Corporations would find its way to the banks or get invested on long term basis in the State Government schemes. Moreover, since most of the State Corporations are running at a loss, the Central Warehousing Corporation does not get any return on its investment although it is required to pay guaranteed dividend to the Central Government.**

**125. The Committee would, therefore, recommend that the Corporation should review the procedure regarding subscribing towards the share capital of the State Warehousing Corporations with a view to releasing the same according to actual requirements.**

## VII

### FINANCIAL POSITION

#### A. Working Results

126. The working results of the Corporation since its inception are given below:

Year	Net loss(—) profit (+) (excluding guaranteed dividend) (thousand rupees)
1957-58	—121·5
1958-59	—430·5
1959-60	—269·3
1960-61	—219·9
	<hr/>
	1041·2
1961-62	—203·3
1962-63	—220·2
1963-64	—612·2
1964-65	—1379·0
1965-66	—409·5
	<hr/>
	2824·0
1966-67	(+)135·1
	<hr/>
	(—)2689·1

127. It will be seen that a loss aggregating Rs. 10·41 lakhs was incurred from the years 1957-58 to 1960-61. This loss was covered by the grant of subsidy of an equivalent amount from the National Cooperative Development and Warehousing Board. A loss aggregating Rs. 28·24 lakhs has been incurred by the Corporation from 1961-62 to 1965-66. The total loss incurred during a period of nine years was thus Rs. 38·65 lakhs.

128. The table below indicates the receipts and expenditure of the Corporation for the last four years:

Receipts	(Rs. in lakhs)			
	1963-64	1964-65	1965-66	1966-67
(a) Warehousing Receipts . . . . .	20.67	20.39	54.65	105.20
(b) Interest on Bank Account . . . . .	1.34	1.63	1.58	6.93
(c) Dividends on shares held in the State Warehousing Corporations . . . . .	0.11			0.17
(d) Miscellaneous receipts (including profit on sale of assets) . . . . .	0.40	0.75	0.65	5.27
<b>TOTAL</b>	<b>22.52</b>	<b>22.77</b>	<b>56.88</b>	<b>117.57</b>
<i>Expenditure</i>				
(a) Warehouses . . . . .	21.72	27.42	49.86	105.04
(b) Headquarters . . . . .	6.92	9.14	11.11	11.18
<b>TOTAL</b> . . . . .	<b>28.64</b>	<b>36.56</b>	<b>60.97</b>	<b>116.22</b>
Net loss (—)/Profit (+) Total receipts minus Total expenditure.	(—)6.12	(—)13.79	(—)4.09	(+)1.35

129. The following table shows the number of warehouses showing profits and the number of warehouses showing losses for the last three years:—

Year	No. of general warehou- ses at the end of the year	No. of general ware- houses	
		Earning Profit	Showing loss
1963-64 . . . . .	85	18	67
1964-65 . . . . .	85	17	68
1965-66 . . . . .	82	36	46
1966-67 (Provisional) . . . . .	80	56	24

130. Asked about the reasons for a large number of warehouses still sustaining losses, the Committee were informed that it was only rarely that a warehouse was commercially remunerative from



the very beginning and it took a period of 5 to 10 years before becoming commercially remunerative. A general warehouse of the Central Warehousing Corporation normally covered its expenditure in the field at a capacity of 1,500 tonnes provided an average occupancy of about 75 per cent was achieved for the whole year. At some potential centres suitable godowns were not available to bring the capacity to a profitable level. The warehouses that had not functioned for sufficiently long periods had to pass through the phase of losses. Even some centres which showed profits might in an odd year show loss due to general agricultural situation and certain other factors beyond the control of the Corporation.

131. During evidence, the Managing Director of the Corporation stated that recently a review of all the 24 warehouses showing losses had been made which showed that 14 out of these had started earning profits. Two of them had been recommended for closure. In the case of remaining eight centres there were difficulties in obtaining additional accommodation and unless their capacity was developed to viable units, they would not prove economical.

#### B. Subventions from Government

132. Under Section 5(1) of the Warehousing Corporations Act, 1962, the shares of the Central Warehousing Corporation have been guaranteed by the Central Government as to the payment of annual dividend at such minimum rate as may be fixed by the Central Government. The rate of dividend so fixed has been 3½ per cent per annum. Since the Corporation has not earned sufficient profits, it could not declare any dividend so far out of its profits. As a result the Central Government have paid to the Corporation subventions as mentioned below to meet the guaranteed dividend:—

(Rs. lakhs)

Year	Amount paid on account of guaranteed dividend
1959-60	4.0
1960-61	7.1
1961-62	6.7
1962-63	8.8
1963-64	11.4
1964-65	15.3
1965-66	19.2
1966-67	26.1
<b>TOTAL</b>	<b>98.6</b>

133. The total subvention drawn till the 31st March, 1967 comes to Rs. 98·63 lakhs. As these subventions are repayable under section 30(2) of the Warehousing Corporations Act, 1962 the aggregate amount of loss incurred by the Corporation so far comes to Rs. 125·52 lakhs (Rs. 28·89 lakhs and Rs. 98·63 lakhs). These dues do not include a loss of Rs. 10·41 lakhs incurred from the years 1957-58 to 1960-61 which was met from subsidy given by the National Co-operative Development and Warehousing Board.

134. Asked about the reasons for incurring losses continuously for 9 years, the Corporation has stated that in a competitive enterprise playing promotional and developmental role, losses in the initial years were inevitable. The slow pace of construction also set a limit to developing an economic capacity quickly. Out of the total losses incurred, losses for the years 1963-64 and 1964-65 amounted to Rs. 19·91 lakhs. These years happened to be particularly bad years for warehousing due to scarcity conditions and high prices resulting in withdrawal of stocks by depositors as well as Government which reduced the storage potential considerably. Besides, the credit curbs imposed by the Reserve Bank of India from January, 1963 also affected the business of the Corporation.

135. During evidence, the Committee discussed with the Ministry the question of losses sustained by the Corporation since its inception. The Secretary, Department of Food stated that the warehousing was originally conceived as a promotional activity for the benefit of producers and farmers. Further there was drought in the country in the last few years and the State was engaged in the procurement of foodgrains. These factors had prevented the producers and agriculturists from availing of the facilities offered by the Central Warehousing Corporation. Regarding the steps taken by the Government to check the losses, the Secretary informed the Committee that in pursuance of the directive issued by the Secretaries Committee, they undertook a review in 1965 and introduced certain measures to improve the working of the Corporation. This initial review helped in enabling the Central Warehousing Corporation to attract larger volume of business. Further the Central Warehousing Corporation was given certain portion of the foodgrains trade which was handled by the Government and the Food Corporation of India. These steps as also the general improvement in business have resulted in a marginal profit to the Corporation during the year 1966-67.

136. The financial position that emerges from the working of the Corporation is far from satisfactory. Although it has shown a small profit during the year 1966-67, under the existing provisions of the Warehousing Corporations Act, 1962, the Corporation will have to wipe off the existing losses of the order of Rs. 27 lakhs and then make sufficient profits to repay the subventions received from the Government which stood at about Rs. 99 lakhs at the end of 1966-67 and would increase from year to year. After meeting these liabilities, the Corporation will be expected to pay dividend out of its own profits.

137. It is seen that the receipts from warehouse charges during the years 1965-66 and 1966-67 also include receipts from crash programme warehouses operated by the Corporation on behalf of the Food Corporation of India and the State Government. Mainly due to these operations, the total receipts from warehouse charges/increased from Rs. 20.39 lakhs in 1964-65 to Rs. 54.65 lakhs in 1965-66 and Rs. 105.20 lakhs in 1966-67. The Committee were informed during the evidence that a decision had been taken to transfer the ownership of the crash programme warehouses to the Food Corporation of India. When this decision is implemented, annual receipt from warehouses would be reduced accordingly.

138. The Committee feel that with the present uneconomic scale of operations of the Central Warehousing Corporation coupled with its responsibility to subscribe to the share capital of the State Warehousing Corporations, without any expectations of satisfactory return from them, the Central Warehousing Corporation may not be able to reach break-even stage in the foreseeable future. There are obvious limits to earnings from storage charges because of competition from private storage agencies. It follows that if the Corporation is to make profits or pay dividends envisaged in the Act, its operations would have to be broadbased so that with a large turnover the element of profit also increases. The Committee hope that with the increase in its business and avoidance of unnecessary duplication of warehouses by multiple governmental agencies as recommended by them, this would be achieved.

### C. Outstandings

139. It was noticed that in regard to warehousing facilities extended to Government organisations, including Public Undertakings and State Governments, there were heavy amounts outstanding against

them. A statement showing the amounts outstanding against Government Departments, Cooperative Societies and private organisations is given below:—

*Value of bills outstanding*

	(Rupees)		
	As on 31-3-65	As on 31-3-66	As on 31-3-67
			(Provisional)
1. Government Departments (including Government undertakings and Commercial concerns . . . . .)	8,73,689·10	11,32,909·25	54,04,450·50*
2. Co-operative Societies . . . . .	4,042·35	6,851·89	35,846·79*
3. Private organisations . . . . .	..	..	..
	8,77,731·45	11,39,761·14	54,40,297·29

(i) Bills outstanding for less than six months—Rs. 22,56,393.73.

(ii) Bills outstanding for more than six months—Rs. 22,52,881.35.

(iii) Bills outstanding for more than one year—Rs. 9,31,022.21.

140. The Corporation has stated that credit facility is afforded to Government Departments and Public Sector Undertakings. Such facility is not usually allowed to Co-operative societies. In the case of traders or a private depositor, storage charges are realised in cash at the time of withdrawals of stocks whether in part or in full against a warehouse receipt.

141. It will be seen that the outstandings from the Government and Public Undertakings had increased from Rs. 11·33 lakhs as on 31st March, 1966 to Rs. 54 lakhs as on 31st March, 1967. The Committee desired to know the names of defaulters and reasons for such heavy outstandings. The Managing Director informed the Committee that the position was easing now as the Food Corporation of India which owed as much as Rs. 29 lakhs had passed their bills. The other major defaulter was Civil Supplies Department, Madras State, which owed Rs. 9 lakhs. The West Bengal Government had to pay Rs. 4.85 lakhs. The Corporation was pursuing the matter with the State Governments of Madras and West Bengal.

\*These figures are provisional since annual accounts for the year 1966-67, have not so far been compiled.

142. The Committee were informed that normally all storage charges were required to be paid within a month of presentation of bills. As against this the Government had been taking not less than 3 months and in some cases bills were pending for even three years.

143. The Committee feel that a credit limit of 30 days or a maximum of 45 days whichever is considered proper, should be fixed for all the Government Departments, Public Undertakings and cooperative societies. All outstanding beyond this period should carry interest at the Bank Rate. The Committee are of the view that charging of interest will make the defaulting departments more vigilant in making payments promptly. In cases where delays take place on account of disputed bills, the Storage and Inspection Officers might be entrusted with the job of chasing claims in areas within their jurisdiction.

#### D. Bank Advances

144. One of the fundamental objectives for the setting up of the Warehousing Corporations was to expand commercial credit by creation of a negotiable paper, i.e. Warehouse Receipt on the pledge of which credit could be given by commercial banks. In the year 1958, taking the above background into consideration, the Reserve Bank of India agreed to exempt the warehouse receipts from the purview of credit control then prevailing. The State Bank of India also agreed to charge preferential rates of interest which were  $\frac{1}{2}$  per cent to 1 per cent less than their usual rates of advances.

145. From the year 1963-64, the Reserve Bank of India imposed credit curbs on advances against warehouse receipts, particularly in respect of foodgrains. The Corporation has stated that as a result of these restrictions, the percentage of advances on foodgrains taken against warehouse receipts declined progressively.

146. The matter was taken up with the Reserve Bank of India who then agreed to exempt from purview of credit control the warehouses established on or after the 1st January, 1961. This exemption was given in the month of February, 1964. However, during the months of March—August, 1964 further directives were issued according to which the margin to be retained against warehouse receipts was increased from 25 per cent to 40 per cent in the case of foodgrains and 50 per cent in the case of oilseeds. The matter was again taken up with the Reserve Bank of India for reducing the margins and exempting all warehouses for at least a period of five

years from their inception, from all credit controls so that the warehouses have a reasonable chance to develop. The Reserve Bank of India, however, could not agree to these relaxations.

147. The Committee were informed that the State Bank of India had also been following a policy of severe credit squeeze. As a result, the State Bank of India's percentage share of advances in the total advances against warehouse receipts by scheduled banks declined from 33 per cent in April, 1964 to 11 per cent in April, 1966. This credit squeeze by the State Bank of India had largely been due to malpractices at certain warehouses of the State Warehousing Corporations. Because the Corporations did not make good the losses when the advances were defaulted and there were no adequate stocks to cover the advances, the State Bank of India had sought a written guarantee from the Corporation in respect of quality and quantity of goods covered by the Warehouse receipts or return of value thereof in the event of any mishap. The Corporation has agreed to the guarantee being given subject to the approval of Government.

148. The Corporation has represented to the Committee that unless remedial measures are adopted to improve this position, the Warehousing Scheme may experience a severe set-back and it may be difficult to bring the Corporations to stable economic level. To build up a stable business, it was therefore, essential to attract private deposits into warehouses to the maximum extent and this depends on availability of institutional credit against warehouse receipts.

149. The Corporation has also stated that storage of surplus produce is done after the harvest. Imposition of curbs against warehouse receipts indirectly gives incentive to private and underground storage which results in increased storage losses on the one hand and becomes an easy instrument for the hoarders to create circumstances of artificial scarcity in the country on the other, because such storage is not open to public eye. The following suggestions have been made by the Corporation in this respect:

- (a) Warehouses may be exempted for a period of at least 5 years from their inception from all credit curbs so that the warehouses have a reasonable chance to develop.
- (b) Even if certain overall limits on advances have to be kept, their level for key loans should be progressively reduced and level of advances against warehouse receipts correspondingly increased year after year.

- (c) The scheduled banks could be induced to provide credit against warehouse receipts at preferential rates of interest if the Reserve Bank of India agrees to discount their bills of advances against warehouse receipts at lower rates of interest than charged by the Reserve Bank of India from scheduled banks on other forms of credit as is being done in the case of co-operative banks.

**150. The Committee hope that while reviewing its credit policy, Government and the Reserve Bank of India would give due consideration to the suggestions of the Corporation for relaxation of credit curbs, for liberalisation of limits on advances and for provision of credit at lower rates of interest against warehouse receipts.**

## ORGANISATION AND PERSONNEL

151. The Head Office of the Central Warehousing Corporation is situated in New Delhi. During the period from March to June, 1967, the Corporation has created five Zonal Offices at Madras, Nagpur, Bombay, Calcutta and Delhi. Besides there are Branch Offices at Bombay and Hyderabad functioning since March and October, 1966 respectively. These Zonal Offices inspect the warehouses in their zones, act as a liaison between the Superintendents and the headquarters, help settling rent of warehouses and develop the business of the various centres. The Branch Office at Bombay attends to the work of storage and handling of ration foodgrains in the Bombay city rationing area on behalf of the Government of Maharashtra on agency basis. The Branch Office at Hyderabad attends to the work of Crash Programme Warehouses operated on behalf of the Food Corporation of India in the States of Andhra Pradesh and Madras.

## A. Chairman

152. Section 7(4) of the Warehousing Corporations Act, 1962 provides that the Board of Directors shall have a Chairman who shall be appointed by the Central Government from among the Directors. The Secretary, Ministry of Food and Agriculture (Department of Food) is one of the six directors nominated by the Central Government under rule 3 of the Central Warehousing Corporation Rules, 1963. The rules do not specifically provide that the Secretary, Department of Food shall be the Chairman of the Corporation, but being the senior most officer of the Ministry, he has always been the Chairman of the Corporation.

153. The Estimates Committee have on several occasions expressed the inadvisability of associating senior most Secretariat Officer on the Board of Directors of Public Undertakings. They have pointed out that (1) the practice leads to blurring of responsibilities of the Secretary of the Ministry who has to advise the Minister on matters of policy while at the same time, as a member of the Board, he has to share responsibility for the execution of those policies and (ii) it is not possible for such an official to give sufficient attention to the affairs of the undertakings in addition to performing this normal duties.



154. The Committee on Public Undertakings have in para 183 of their 23rd Report on Indian Airlines Corporation, presented in April, 1966, made the following observation:

“ . . . However hard a person works objectively and balances the two interests, when interests conflict, it is not possible to take a detached view. In fact in the formulation of a decision within the Ministry, the officials of the Ministry are likely to assume that the views of the Corporation have the approval of the senior most executive of the Ministry and as such their views are likely to be biased. Another drawback in such an arrangement is that if the presence of a senior most officer of the Ministry on the Board hampers the autonomous functioning of the Corporation and does not provide sufficient incentive to its Chief Executive to take independent decision, howsoever he may try to do so.”

155. The Committee also drew attention to the decision taken by the Government in 1961 that “no Secretary of a Ministry Department shall be a member of any Board” and desired to know the specific reasons which necessitated the continued appointment of the Food Secretary as Chairman of the Corporation. The reply furnished to the Committee is reproduced below:—

“Under the Warehousing Corporations Act, 1962 the C.W.C. is to have a Managing Director who is the chief executive of the Corporation to carry out the policies approved by the Board of Directors. The Chairman of the Corporation is thus not burdened with the day to day activities of the Corporation. The Chairman presides over the meetings of the Board of Directors. It is considered that it would be advantageous for the Corporation, specially in the initial periods, to have the benefit of official association in the person of the Food Secretary as Chairman for guidance”.

156. During evidence the Food Secretary stated that official association with the Corporation provided him an opportunity to bring about coordination between the various agencies dealing with storage, procurement and distribution of foodgrains. When asked whether after a lapse of ten years, the Government still felt the necessity of associating Food Secretary with the Corporation, it was stated that as the Corporation had not made much headway, the official association was necessary and would have to be continued till such time as the Corporation was able to stand on its own legs.

157. From the information available, it appears that barring a few exceptions, all the public undertakings have either combined the

post of Chairman and Managing Director or are having Chairman who is not the head of the administrative Ministry.

158. The Committee feel that there is no reason why an exception should be made in the case of the Central Warehousing Corporation. Under the present arrangement neither the Corporation can take independent decisions on matters coming within its purview nor the Secretary of the Ministry can take an objective view of the proposals emanating from the Corporation. In the opinion of the Committee, the purpose of associating the Food Secretary in the Corporation for bringing about coordination between the various agencies engaged on storage work namely the Department of Food and Food Corporation of India has not been achieved to any perceptible extent. The Committee recommend that the practice of appointing the Secretary as the Chairman of the Corporation should be discontinued. They also suggest that the desirability of combining the posts of Chairman and Managing Director, as recommended by the Estimates Committee in their 52nd Report on Personnel Policies of Public Undertakings (para 12), should be examined.

159. The Committee are also not much impressed with the suggestion that Food Secretary should be associated with the Corporation till it is able to stand on its own legs. The Food Secretary has been Chairman of the Corporation since its inception i.e. 11 years. It is a time long enough for Food Secretary to have put the Corporation on its legs.

#### B. Managing Director

160. The present Managing Director of the Corporation (Shri C. S. Ramachandran) was appointed in August, 1964. In April, 1966 he was transferred as Adviser to the Planning Commission and is drawing his salary from the Commission. He, however, continues to hold additional charge of the post of Managing Director of the Corporation.

161. During evidence, the Managing Director admitted that he was not able to devote full attention to the affairs of the Corporation. The Committee discussed this matter with the Secretary, Department of Food and desired to know the difficulties in appointing a full time Managing Director. The Food Secretary admitted the delay, but added that Government intended to appoint a full-time officer as Managing Director soon. The Committee hope that this would be done without further delay.

#### C. Financial Adviser

162. The Committee learnt that the present Financial Adviser of the Corporation is a retired Government Official. He was employed by the Corporation about 6 years ago.

163. The Estimates Committee in their 52nd Report (1963-64) discussed the question of re-employment of the retired personnel in the Public Undertakings and observed as follows:

“The Committee agree that there might be cases where it is inevitable to re-employ retired technical personnel, in the national interest to isolated specialised posts for a specific period, if persons of requisite knowledge and experience are not otherwise available. But they do not approve of this practice being followed indiscriminately and retired personnel being employed even for non-technical secretarial jobs. The Committee hope that Government would keep this aspect in view while laying down broad principles to be followed by public undertakings in the employment of retired personnel”.

164. In view of the above recommendation, the continuation of a retired person for over six years as Financial Adviser of the Corporation should be reviewed.

#### D. Staff

165. The strength of the staff at the Head Office Branch Offices and warehouses has been as follows during the last four years:

	31-3-1964	31-3-1965	31-3-1966	31-3-1967
<i>Headquarters</i>				
Officers . . . . .	14	16	16	17
Staff (Ministerial & Technical) . . . . .	96	108	115	121
Subordinates . . . . .	23	29	31	27
	<hr/>	<hr/>	<hr/>	<hr/>
	133	153	162	165
<i>Branch Offices</i>				
Officers . . . . .	—	—	—	6
Staff (Ministerial & Technical) . . . . .	—	—	—	17
Subordinate . . . . .	—	—	—	6
				<hr/>
				29
<i>Warehouses</i>				
Warehousemen/Superintendents . . . . .	84	90	89	94
Jr. Superintendents . . . . .	—	—	—	2
Staff (Ministerial & Technical) . . . . .	—	—	2	—
Subordinate Staff . . . . .	135	131	200	401
	233	252	339	488
	<hr/>	<hr/>	<hr/>	<hr/>
GRAND TOTAL . . . . .	452	473	630	985

### E. Advisory Committees

166. In pursuance of the decision taken in January, 1961, the Corporation has set up an Advisory Committee at each of the general warehouses for suggesting ways and means to the Superintendents for (i) increasing custom at warehouses (ii) removing difficulties of depositors regarding facilities from banks (iii) popularising grading of agricultural commodities being done at warehouses and (iv) reviewing the publicity arrangements at the warehouses and to suggest measures for stepping up publicity. These Committees consist of representatives of the Regulated Market Committees, the Cooperative Marketing Societies, influential agriculturists, local bodies and leading scheduled banks functioning at the centre.

167. A statement showing the number of warehouses and the Advisory Committees set up during the last six years is given below:

Year	No. of general Warehouses.	No. of Advisory Committees
1961-62	60	30
1962-63	77	53
1963-64	83	72
1964-65	85	77
1965-66	82	77
1966-67	80	75

168. The Committee are informed that of the 75 Advisory Committees functioning at various centres during the year 1966-67, 45 Committees never met during the year. Of the remaining 30 Advisory Committees, 23 Committees met only once and the remaining 7 Committees met twice or thrice during the year. The Corporation has given the following reply explaining the reasons why these Committees have not held meetings regularly:—

“Advisory Committees are informal bodies and their recommendations are not binding on the Corporation. The

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
27.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27	33.	Bookwell, 4, Sant Narakari Colony, Kingsway Camp, Delhi-9.	96
28.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66	MANIPUR		
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68	34.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annex, Imphal.	77
30.	People's Publishing House, Rani Jhansi Road, New Delhi.	76	AGENTS IN FOREIGN COUNTRIES		
31.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88	35.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C.—2.	
32.	Hind Book House, 82, Janpath, New Delhi.	95			

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