

COMMITTEE ON PUBLIC UNDERTAKINGS (1969-70)

(FOURTH LOK SABHA)

SIXTIETH REPORT

**Action taken by Government on the recommendations
contained in the Eighth Report of the Committee on
Public Undertakings (Fourth Lok Sabha) on
Hindustan Aeronautics Ltd.**

MINISTRY OF DEFENCE

(DEPARTMENT OF DEFENCE PRODUCTION)



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to

The Sixtieth Report of the Committee
on Public Undertakings.

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1969-70)

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*Appointed Chairman from 10th December, 1969.

STUDY GROUP VI ON ACTION TAKEN REPORTS (1969-70)

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3. Shri T. A. Patil—*Member*.
4. Shri G. S. Reddi „
5. Shri N. K. Bhatt „

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Sixtieth Report on the action taken by Government on the recommendations contained in the Eighth Report of the Committee on Public Undertakings (Fourth Lok Sabha) on Hindustan Aeronautics Ltd.

2. The Eighth Report of the Committee on Public Undertakings was presented to Lok Sabha on the 28th March, 1968. Government furnished their replies indicating the action taken on the recommendations contained in the Report by the 23rd August, 1969. Certain further information called for by the Committee was received on the 8th December, 1969.

3. The replies of Government to the recommendations in the aforesaid Report were considered and approved by the Committee on the 24th January, 1970. The Committee authorised the Chairman to finalise the Report on the basis of the decision of the Committee and present it to Parliament.

4. The Report has been divided in the following five chapters:—

- (i) Report.
- (ii) Recommendations that have been accepted by Government;
- (iii) Recommendations which the Committee do not desire to pursue in view of Government's reply;
- (iv) Recommendations in respect of which replies of Government have not been accepted by the Committee;
- (v) Recommendations in respect of which final replies of Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Eighth Report of the Committee on Public Undertakings (Fourth Lok Sabha) is given in Appendix III. It would be observed therefrom that out of 66 recommendations

made in the Report, 72·73 per cent have been accepted by Government, the Committee do not desire to pursue 24|24 per cent of the recommendations in view of Government's replies and replies to 3·03 per cent of the recommendations have not been accepted by the Committee.

NEW DELHI;
February 24, 1970.
Phalgunā 5, 1891 (S).

M. B. RANA,
Chairman,
Committee on Public Undertakings.

CHAPTER I

A. Civil Construction

Recommendation (Serial No. 7)

The civil construction works at Nasik and Koraput were entrusted to the Maharashtra and Orissa Governments respectively for the following reasons:

- (i) It was necessary to complete the civil works on an urgent basis consistent with the production programme envisaged.
- (ii) The M.E.S. could not undertake the construction work as they were already fully strained in relation to additional commitments after the emergency, and CPWD had other important assignments on hand.
- (iii) It was impractical to build up a suitable civil engineering organisation for this purpose within HAL.

1.2. In respect of Nasik, the Maharashtra P.W.D. executed the job and the Accountant General, Maharashtra audited all expenditure incurred by the project authorities with reference to sanctions accorded by the Ministry of Defence and acted as sub-audit officer of the Defence Accounts authorities.

1.3. As the Accountant General, Maharashtra acted as sub-audit officer in respect of expenditure on civil works, H.A.L. did not get any copies of contracts, etc. nor the bills of the contractors duly supported by the measurement books as those records were maintained by the Maharashtra Government and subject to audit by Accountant General, Maharashtra. So far as HAL was concerned, in the absence of contracts and measurement books it was not possible to ensure that the expenditure shown by the Maharashtra Government against various works was really in keeping with the physical progress of the work. Nor was it possible for HAL to exercise a scrutiny in this respect as the expenditure booked against works covered not only payments in respect of works done by the contractors but also covered on account payments in respect of stores collected by the contractors for the works. In view of this, it was not possible for HAL to adjudge the payments made to contractors|expenditure booked to works with reference to a visual estimate of physical progress of work. The scope of inspection by

HAL was restricted only to visual inspection at the stage of taking over of the buildings. At that stage, many defects had been noticed, most of which were minor in nature, but amongst which were the three main categories of major defects:—

- (i) Inadequate water-proofing of buildings;
- (ii) Cracks in floor slabs; and
- (iii) Concreting of the runway was improperly done.

1.4. The Committee had expressed surprise that H.A.L. did not keep any watch over the quality of buildings and that the scope of inspection by HAL was limited only to visual inspection at the time of taking over the buildings and the defects noticed at the time of taking over the buildings could have been avoided if HAL had an opportunity to point them out during construction.

1.5. The Government have replied as follows:—

“When the works were entrusted to the Public Works Departments of Maharashtra and Orissa Governments, it was expected that these Governments would exercise the same scrutiny over these works as they did for construction undertaken for them. This applies not only to the quality of work but also to the payments made by them to the contractors. The payments were, in fact, subject to scrutiny by A.G., Maharashtra and arrangements were made for the rendition of monthly statements of accounts. It is, therefore, considered that sufficient safeguards were provided to protect the interests of HAL. There is also no reason to believe that payments at any time had been made much in excess of the requirements.”

“As regards the quality, it was arranged that at the time of taking over the building, HAL will point out the defects and action will be taken to rectify them by the State Public Works Department to the satisfaction of HAL. The works were subject to scrutiny by the Technical Examiner of the Maharashtra Government during construction and at a later stage it was agreed that copies of his reports would be made available to the Ministry of Defence. Thus in the matter of quality also, such safeguards as are normally taken for Government works were provided for, though the responsibility for ensuring proper construction was that of the State Government.”

1.6. The Committee are not convinced of the arguments put forward and would reiterate their stand that many of the defects found in the civil construction work at Nasik could have been avoided had HAL got an opportunity to point them out during the construction period.

B. Pricing

Recommendation (Serial No. 52)

1.7. The majority of jobs are done by HAL on cost plus—basis. On jobs like overhaul, repair of airframes, engines and accessories, and supply of spares the basis of payments is cost plus 10 per cent profit. On maintenance jobs in out-stations, the pay and allowances of HAL staff posted there and overhead on direct labour are reimbursed to HAL. Jobs for civil customers are undertaken on fixed quotations.

1.8. On the manufacturing projects the quantum of profit is being fixed in each case by the Government. The Ministry of Defence, Department of Defence Production, has considered the possibility of having a uniform formula for allowing profit to HAL manufacturing programme and suggested a profit margin of 15 per cent on HAL effort, subject to maximum of $7\frac{1}{2}$ per cent of unit cost. But HAL are of the view that no uniform formula for allowing profit to HAL as a whole should be applied. It has desired that the quantum of profit on each individual manufacturing project should be decided on its merit.

1.9. The system of costs plus basis was also the subject of comment by the Estimates Committee (1960-61) in their Hundred and Twenty Fourth Report on Hindustan Aircraft Ltd. The reply of the Government to the recommendation was as follows:—

“As regards repair/overhaul it is possible for HAL to give fixed quotation only for specified schedules of work and that too in respect of such projects where HAL has gained sufficient experience. But, by and large due to the diversity of the jobs and inherent difficulty in adopting fixed rates, the substitution of the ‘Cost-plus-profit’ by a system of fixed quotations is not generally feasible. Government, however, would examine each individual case, as and when fixed quotations are proposed by HAL and consider such proposals on merits. As regards manufacture of aircraft engines HAL have proposed the prices of the first few aircraft engines may be on ‘cost-plus’ profit basis and thereafter it might be possible to work

out fixed quotations. In this connection it may be noted that the Government decides the basis of pricing in each case in consultation with HAL."

1.10. The Committee held the view that an undertaking cannot have a proper commercial approach if it runs on "cost plus" basis. Firstly it gave no incentive to reduce costs by cutting out idle time, overtime, wastage of machines, etc. Secondly, this system was likely to prove a heavy burden on the Government because ultimately they were responsible for all the expenditure. Thirdly, the management did not remain cost-conscious and as such was apt to be inefficient. The Committee recommended that this principle of cost-plus basis should be done away with as early as possible. In items where the manufacture was well established or where the orders were sufficient to undertake large scale production, there should be little difficulty in quoting prices. A system should be evolved whereby after the manufacture of a certain number of aircraft engines, fixed prices might be quoted for subsequent production, the prices being revised periodically as might be warranted by changes in the cost.

1.11 The Government have noted the views of the Committee and have stated that although there were certain difficulties in giving fixed quotations, an attempt was being made to overcome them. The switch over to the system of fixed quotation would, however, be gradual process.

1.12. The Committee reiterate that the stand taken by the Estimates Committee (1960-61) and by its predecessor Committee in 1967-68 and would recommend that the principle of cost plus basis be done away with as early as possible.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 2)

The Committee feel that in spite of laying down uniform service conditions for HAL employees, the practicability of utilisation of surplus personnel of one division in another division with varying technological requirements of trade appears to be limited. The Committee hope that the Management keeping in view the size and complexity of the problem would devise an efficient procedure which would enable one unit to draw upon the surplus personnel of the other units in time of need and to ensure that no bottle-necks in production are caused on this score. (Paragraph 17).

Reply of Government

HAL is fully alive to the importance of the utilisation of surplus personnel of one Division in another Division.

2. Transfer, promotion and orientation training are the recognised methods of effecting work-force flexibility and movement of personnel and these have been provided for in our Recruitment and Promotion Rules. A recent instance of absorption of surplus personnel is appointment of 21 out of 85 employees of Begumpet base of Bangalore Division in Hyderabad Division.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 3)

The Committee find that the nature of work required to be done by the MIG Complex is different from that done at the Kanpur and the Bangalore Divisions. The collaboration arrangements are with different parties and the procedure followed by them is different, although the responsibility in each case is being shared by the Government and HAL at different levels. The instrumentation, equipment and techniques are different for each type of aircraft. The Committee, therefore, feel that it would have been better, at least in the initial stages, if the MIG complex had remained a separate entity and

the Bangalore and the Kanpur Divisions had only been merged into one unit as suggested by the Estimates Committee. The Committee are not convinced with the argument that the amalgamation would have been difficult at a later stage. [Paragraph 20].

Reply of Government

The matter is under consideration. A further reply will follow.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Further Reply of Government

Please see reply against paragraphs 22 and 23 (Serial No. 4).

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 26-12-1968.]

Recommendation (Serial No. 4)

The Committee agree that instead of one company, existence of separate public undertakings for aircraft production, under the same Ministry would have been helpful in correlating the achievements of one unit against the other. This would also have created a sense of competition between these units where one unit would have *vide* with the other in showing better results. The amalgamation has however precluded these advantages and has led to the development of a monopolistic attitude of mind in HAL which is contrary to commercial attitude.

Considering all aspects of the question, the Committee would suggest that the Government should carefully assess the results of amalgamation during the next four or five years and if the contemplated benefits of amalgamation do not emerge the matter might be reviewed and, if necessary, the Company may be reorganised on a more practical and efficient basis. [Paragraphs 22 and 23].

Reply of Government

The matter is under consideration. A further reply will follow.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Further Reply of Government

The question of an appropriate organisational set up for HAL has been reconsidered, and it has been decided to divide the existing HAL organisation into three units, viz., Bangalore Division, MIG

Complex and Kanpur Division. The Bangalore Division and the MIG Complex will each have a Managing Director in charge and the Kanpur Division will have a General Manager. The two Managing Directors and the General Manager will be given increased authority and initiative. It is also proposed to have whole time Chairman for proper coordination of the three units.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 26-12-1968.]

Recommendation (Serial No. 5)

The Committee do not agree that distance between the airframe and aero-engine factories does not make any difference to defence production. The distance between the components and engine manufacturing plants and the Assembly plant does play a very important role. The entire programme and schedule of construction is affected by distance. Existence of a long and difficult supply line from the point of manufacture of engine to the aircraft assembly point has its own financial, functional, and time-consuming disadvantages. The Committee feel that the selection of Koraput as a site for aero-engine factory appears to have been decided more on strategic and other considerations than those of economy and efficiency. Although there is no question of changing the decision now, it would have been more advantageous to have had both the factories nearer to each other. They hope that the management would ensure that these factories now function efficiently and that the disadvantages of distant locations are reduced to the minimum.

The Committee hope that unless strategic considerations are overwhelming Government will pay due attention to economic considerations in future so as to lighten the financial burdens of an undertaking. [Paragraphs 35 and 36].

Reply of Government

As desired by the Committee, every effort will be made to ensure that the Factory functions efficiently and the disadvantage of distant location reduced to the minimum. The observations of the Committee in sub-para 2 above have been noted. The Government is following this policy.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 6)

The Committee note that rail and posts and telegraph facilities are being developed in this region. There is, however, need for

expeditious completion of railway link and provision of prompt and extensive posts and telegraph facilities in this area. It is probably due to this reason that development of the area around Koraput, as a sequel to the location of the Aero-engine factory has not come about. The Committee feel that vigorous efforts should be made both by the Central Government and the Government of Orissa to carry out the policy of economic development of the area around Koraput. [Paragraph 37].

Reply of Government

Noted. A copy of the recommendations of the Committee has been forwarded to the Government of Orissa and the Ministries of Central Government concerned (Railways and Communications).

[Ministry of Defence O.M. No. 58(3)/68:D(HAL-I), dated 7-9-68.]

Further information called for by the Committee

Steps taken towards the economic development of Koraput area may please be stated.

Further Reply of Government

The P & T Deptt. have already taken some measures to improve the telecommunication facilities in the Koraput area. These facilities are:—

- (i) Vishakapatnam has been provided direct telephone outlets to Delhi and Bombay.
- (ii) Koraput has been provided a direct telephone circuit to Vishakapatnam.
- (iii) Koraput has been provided a direct teleprinter circuit to Vishakapatnam. ..
- (iv) A direct teleprinter circuit for HAL Sunabeda and HAL Hyderabad has been ordered to be provided. The work is in progress.

As a long term measure, more reliable circuits are being provided to Vishakapatnam on Calcutta-Madras route by installing broad-band coaxial systems. Calcutta-Madras Coaxial Project is an approved project for the Fourth Plan. Once cable circuits are available to Vishakapatnam, communication to Koraput will improve considerably.

2. As regards development of railway communication, the Kottavasalasa-Kirandul line, on which Koraput is located, has been constructed by the D.B.K. Railway Organisation mainly for transport of iron ore from Bailadilla Mines for export through Vishakapatnam Port. HAL's factory located in the area near Koraput is served by a railway siding taking off from the site of the proposed station Suku, 11-20 Kms from Koraput towards Waltair.

3. A report on the development of the Koraput area is awaited from the State Government.

[Min. of Defence O.M. No. 58 (3) /68/D (HAL-I), dated 8th Dec. 1969.]

Recommendation (Serial No. 9)

The Committee desire that the payments made by HAL to the Maharashtra Government should be settled as early as possible in consultation with the A.G. Maharashtra. It is hoped that the dispute over cracks in floor slabs, which has been referred to the Maharashtra Engineering Research Institute, Nasik will be promptly settled. [Paragraph 57]

Reply of Government

The observations have been noted. Every effort is being made to obtain final bills from the Maharashtra Government.

[Ministry of Defence O.M. No. 58(3) |68|D(HAL-I) dated 7-9-68.]

Further information called for by the Committee

What is the latest position with regard to payments by HAL to the Maharashtra Government?

Further reply of Government

The Ministry of Defence have been pursuing the question of finalisation of bills in respect of construction work done by Maharashtra P.W.D. at Nasik with the State Government and H.A.L. The following programme was suggested to the State Government for the condition of completion reports:

Works handed over to HAL by 30.9.1967—December 1968.

Works handed over between October 1967 and December 1968—Mid. 1969.

Balance—End 1969.

The Maharashtra Government have, however, not been able to adhere to this programme. The difficulty of the Maharashtra Government has been that completion reports can be finalised only after the accounts of the works are closed in all respects. Even where the works have been physically completed and handed over to HAL, the accounts cannot be closed until the final bills from contractors are settled. Moreover, accounts cannot be closed until the guarantee period is over. In view of this, a long time lag between completion of works and completion of accounts and hence the final clearance of the advances is unavoidable. The Maharashtra Government have, however, assured that they are making every effort to finalise the accounts as early as possible.

[Min. of Defence O.M. No. 58 (3) /68/D (HAL-I), dated 8th Dec. 1969.]

Recommendation (Serial No. 10)

As the work of civil construction is nearing completion, it will be desirable that a nucleus maintenance organisation of HAL is set up, so that it is ready to take over as soon as the work is completed by the Orissa Government. They also hope that while recruiting staff for the maintenance organisation preference will be given to the personnel at present working in the construction work. [Paragraph 61.]

Reply of Government

Necessary nucleus maintenance organisation has already been set up by HAL at Koraput Division. Recruitment of staff is being made through open competition, due preference being given to candidates engaged in construction work at present.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7th September, 1968.]

Recommendation (Serial No. 12)

The Committee are surprised to note that an essential item like the cost of production was omitted from the project Report, with the result that HAL which took over the project at a later stage had no idea about the cost of production of this aircraft. The Committee recommend that the cost of production of the aircraft at various stages should be worked out without delay. In future it should be ensured that the cost of production is always included in the Detailed Project Report of a Project. (Paragraph 69).

Reply of Government

Estimates of unit costs of production at various stages have since been worked out and submitted to the Board of Directors at the meeting held on 11th May, 1968. At this stage, however, the estimates are very tentative.

2. The recommendation that the cost of production should always be included in the detailed project report of a project has been noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated the 7th September, 1968.]

Recommendation (Serial No. 13)

The Committee hope that the delays in receipt of equipment will be reduced to the minimum possible limit so that production programme is not affected. [Paragraph 71.]

Reply of Government

All possible measures are being taken to reduce delays in the receipt of equipment.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated the 7th September, 1968.]

Recommendation (Serial No. 14)

The reply of HAL shows that the complexities of producing a sophisticated aircraft like the HF-24 had not been properly visualised either by the German engineers or HAL. The Committee are unable to understand as to what were the factors that contributed to the formulation of such unrealistic targets. The lack of experience in production planning must have been all too apparent to the management when they formulated such optimistic estimates initially. Preparing optimistic estimates of production and then not being able to adhere to such schedules creates disappointment and disillusionment regarding the competence and efficiency of the organisation. The Committee therefore cannot but emphasize the need for realistic planning and formulation of realizable targets in such matters. [Paragraph 84.]

Reply of Government

The observations of the Committee have been noted and every effort is being made to ensure that HAL's proposals are framed on a realistic basis in future.

Measures are in hand to reorganise the Production Engineering, Tooling and Factory departments to cut down the time taken for development, tool fabrication and productionising for quantity manufacture. A scheme for detailed scheduling for purposes of production control is being developed with the assistance of consultants from the Administrative Staff College of Hyderabad. Posts have been created to attract qualified and experienced engineers. A training programme has been initiated, both within HAL (*viz.*, the Graduate Engineers Training Scheme) and the educational institutions (including the Indian Institute of Science, Bangalore and the Indian Institutes of Technology at Bombay, Madras and Kanpur), to train Engineers for the specialised requirements of the aircraft industry. These measures are expected to yield significant results in the future.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated the 7th September, 1968.]

Recommendation (Serial No. 15)

The Committee do agree that productionising an indigenously designed aircraft is by no means an easy task, especially when the aircraft manufacturing industry in India is still in its infancy. They however, feel that much of the time and money lost in prototype tooling production engineering, tool designs, etc., could have been saved by proper planning and synchronisation of development in these different fields. The Committee earnestly hope that production planning organisation will now be suitably geared up so that the future production of this aircraft is streamlined, and the difficulties experienced in the initial stages of manufacture of this aircraft are not encountered again. [Paragraph 85]

Reply of Government

Please see reply against paragraph 84 (Serial No. 14).

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 16)

HAL had not fully realised the complexities of production of HF-24 MK II aircraft and made optimistic estimates. HAL's production planning organisation needed to be changed. The needful was being done but it would still take four or five years to fulfil their demands for Mark I. The Committee hope and trust that the efforts of HAL in developing the aircraft will be successful. [Paragraph 86]

Reply of Government

Noted.

The reference was to Mk. I which is being developed with reheat as Mk. IR.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 17)

The Committee are surprised to note that an aircraft (HJT-16), the prototypes of which had been successfully test flown as early as 1964 and 1965 should have run into problems of flight characteristics in 1968 at the pre-production stage. This appears to be indicative of the fact that design and production engineering wings of HAL have certain handicaps to overcome. The Committee hope that HAL would now be able to streamline their production engineering department and make good the delay. [Paragraph 89]

Reply of Government

As stated against paras 84 and 85, necessary action is being taken to streamline the production engineering department.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 18)

The Committee feel that efforts should be made to explore the market for HJT-16 (Kiran) aircraft in South East Asian and African countries. A trainer aircraft which has proved its utility in India is likely to be of use to other countries in these regions. [Paragraph 90.]

Reply of Government

The present capacity is being fully utilised to meet the requirements of the IAF. After HAL has established series production, efforts will be made to obtain export orders for this aircraft in the neighbouring countries, as recommended by the Committee.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 19)

The Committee feel that there is not much force in the arguments advanced, for shortfall in production of Gnat aircraft to a number of technical difficulties, as many of these difficulties could have been foreseen in the initial stages. As this aircraft is vital for

the Defence needs of the country the Committee hope that HAL would take necessary steps to streamline their production methods to ensure delivery of aircraft according to schedule. [Paragraph 93]

Reply of Government

A major obstacle to the fulfilment of the first order of Gnats has been the recurring difficulty with parts of the imported flying control equipment. Considerable development work has been undertaken in India and the results of HAL's trials have led to some improvement of this equipment. A solution is now in sight. As regards the further orders for Gnats, difficulties have been encountered in obtaining imported forgings and castings. These items have been taken up for development at the HAL Foundry and Forge. The first set of castings and forgings are expected to be completed in 1968.

2. Action is already underway for streamlining the production and planning departments, *vide* comments against paras 84 and 85.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 20)

The Committee are surprised to note that HAL have taken up the development of this aircraft without any firm orders from the Government and that the whole effort and expenditure will go waste if for any reason the Ministry of Food and Agriculture fails to place an order for the indicated number of agricultural aircraft. HAL have had a sad experience in the case of HS-748 aircraft and gliders where the IAF did not honour the indications they had given. The Committee have examined these cases in a subsequent chapter of this Report. Such drastic cut in orders results in enormous extra expenditure, and loss of manpower and time which could be utilised in more useful production. In fact if the actual requirements of the Govt. were known in the beginning it might not have been economically viable at all to launch these projects for such a small number of aircraft. The Committee therefore feel that the Ministry of Food and Agriculture should place firm orders with HAL for the number of aircraft required by them. There should also be a formal agreement regarding the financial burden of designing and developing the Agricultural aircraft with a provision for financial indemnity for either of the parties not being able to fulfil the terms. HAL has to sustain a strong and efficient aircraft industry and as such it is necessary for it to keep its financial commitments limited. The Committee feel that this should have been done before the project was taken on hand. [Paragraph 98.]

Reply of Government

The Board of Directors sanctioned development expenditure without obtaining any firm orders for this aircraft because it had been indicated by the Ministry of Food and Agriculture that orders could be placed on HAL only if the aircraft was developed successfully to meet their requirements. The considerations put forward by the Committee are generally kept in view by the Board before sanctioning such expenditure. However, it should be noted that unless HAL is prepared to commit its own funds to projects which do not involve a very large outlay its ability to meet the possible requirements of small private operators will be severely curtailed. The expenditure incurred on the prototype under construction should be accepted as a justifiable commercial risk.

It may be mentioned that the bulk of the orders for this aircraft would be placed by private operators and by the Ministry of Food and Agriculture.

[Ministry of Defence O.M. No. 58(3)/68]D (HAL-I) dated 7-9-68].

Further information called for by the Committee

(a) What is the present stage of development of the Agricultural aircraft?

(b) Has any agreement been entered into by now with the Ministry of Food and Agriculture?

Further reply of Government

The construction of the prototype of the agricultural aircraft is in an advanced stage. The structural components have been completed, except for assembly of under carriage which is expected to be completed shortly on receipt of certain components on order. The prototype is expected to fly by March 1970.*

The Ministry of Food and Agriculture have placed at the disposal of HAL an amount of Rs. 8.40 lakhs representing the foreign exchange element for the import of materials required for the first six pre-production aircraft, subject to the condition that in case the prototype trials reveal that the aircraft does not meet the operational

*At the time of factual verification, the Ministry of Defence furnished the following information (*vide* O.M. No. 58 (3)/68—D(HAL-I) dated 7-2-1970):—

“According to latest indications given by HAL, the prototype of the agricultural aircraft will need to be re-designed because of an increase in its weight. This is being examined.”

requirements of the Ministry of Food and Agriculture, the amount will be refunded to them. Placing of firm orders for the aircraft will be considered by that Ministry on the basis of evaluation of the prototype trials. According to present programme, the pre-production aircraft are expected to be delivered in 1972-73.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 8th Dec. 1969.]

Recommendation (Serial No. 21)

It is quite clear that the management of the Bangalore Division must accept responsibility for arbitrary reduction of the manufacturing time-cycle recommended by the Planning Team, which led to early promise of unrealistic deliveries. This initial error has been aggravated through delays in procurement of raw materials, and more particularly, delays in tooling for which the management is accountable. The Committee feel that the tooling activity is poorly planned and controlled, and calls for re-organisation and strengthening of both the Tool and Production Planning Departments. The Committee hope that this would be looked into and the situation remedied soon. [Paragraph 109]

Reply of Government

As already indicated in the comments on paras 84 & 85, action has been initiated for the streamlining of the production planning, tooling and other departments of the Bangalore Division and it is anticipated that the shortcomings in planning, tool design and manufacture etc. would soon be overcome. Every attempt is also being made to reduce delays in the procurements of raw-materials.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 22)

The Committee recommend that HAL should make sustained efforts to develop and manufacture jet engine indigenously with Mach 2 capabilities to obviate our dependence on aero-engines of foreign manufacture. They also urge that efforts should be made to get more work for the engine factory by way of over-hauling jet engines of the IAF, the IAC or of foreign airlines operating in India. That might go to some extent in utilising the surplus capacity of the aero-engine factory. [Paragraph 116].

Reply of Government

At present no proven engine is readily available with Mach II capabilities for the HF-24 project. The recommendation of the Committee for developing and manufacturing such an engine will, however, be kept in view consistent with the financial and other resources available with H.A.L.

The Engine Factory is overhauling the Avon series engines and the orpheus engines for the IAF. The overhaul of Turboprop engine, viz., Dart, for the Air Force and IAC is also being carried out in the Engine Factory. The Avon engines used for Caravelle aircraft are also being overhauled. Every effort will be made to secure more work for the Engine Factory.

[Ministry of Defence O.M. No. 58(3) |68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 23)

There is some imbalance in the production capacities of the Bangalore plants for aero-engine manufacture and that of airframes. The engine plant is currently working at a faster rate. It might be faced with lack of work unless more orders are received and production of airframes is speeded up. [Paragraph 117]

Reply of Government

Please see reply against paragraph 116. (Serial No. 22).

[Ministry of Defence O.M. No. 58(3) |68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 24)

The Committee would suggest that manufacture of all important component and accessories should be taken up early. The Committee on Aircraft Parts, set up by the Department of Defence Production in September 1965, having completed standardisation of simple items could now take up more complicated items. [Paragraph 128].

Reply of Government

HAL is alive to the need for the manufacture of important components and accessories in the country. Proposals for the manufacture of certain ranges of aircraft accessories are already under the consideration of its Board of Directors and a Project Report in this

regard is expected to be finalised soon. It is the intention to make a modest beginning with the manufacture of a few related items and add other items later.

2. The recommendation regarding the Committee on Aircraft Parts has been noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 25)

The Committee hope that HAL will be able to make a major break-through on this project and will be able to meet its requirements of raw materials from its own Foundry and Forge Shop. [Paragraph 130].

Reply of Government

The recommendation has been noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 27)

The Committee are surprised to note that the Government did not pay any attention to this essential aspect of preparing a Detailed Project Report while undertaking the project. No satisfactory reasons were advanced by the Ministry during evidence for not preparing the Detailed Project Report. The Government cannot plead ignorance of this procedure as by that time a number of Public Undertakings had already been set up and preparation of DPR had become an established practice. [Paragraph 142].

Reply of Government

The Committee's observations have been noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 28)

The very fact that the IAF had to reduce their demand of HS-748 aircraft so drastically shows that they did not find it suitable for their requirements as originally envisaged. The Tata Committee also did not commend the aircraft. The Committee doubt the wisdom of setting up this project. However, now that huge invest-

ments have been made in the project and having come this far, they feel that some methods should be devised to make the most of this venture. IAC should also be made to rely more on the indigenous aircraft industry and to gradually standardise its fleet. [Paragraph 144].

Reply of Government

The Government has agreed to place orders for 18 more HS-748 aircraft for the IAF. The question of placing further orders by the IAC is under consideration.*

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 29)

The designing and developing an aircraft and an engine is a long drawn out process and involves very high costs. Perhaps the only alternative open to HAL would be to enter into collaboration agreements with other countries to manufacture tried and proven designs. However, the aim in the civil programme, as in the military, should be to concentrate on a project for which the potential market is large in relation to the development cost. Unfortunately, the prospects for export are bleak in the face of fierce competition abroad. Perhaps the Committee on Aeronautics constituted by the Government will go into this question for the aeronautics industry as a whole and suggest some specific steps in this direction. [Paragraph 146]

Reply of Government

A copy of this paragraph has been sent to Aeronautics Committee.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Further information called for by the Committee

What is the recommendation of the Committee on Aeronautics in this regard?

Further reply of Government

The Aeronautics Committee have *inter alia* examined the need

*At the time of factual verification, the Ministry of Defence furnished the following information (*vide* O.M. No. 58(3)/68—D(HAL-I) dated 7.2.1970):—

“Indian Airlines have since placed an additional order for 10 HS-748 aircraft on HAL.”

of the country for commercial and passenger aircraft. The main points of their recommendations are as follows:—

The aircraft requirements of Air India and Indian Airlines with a capacity to carry over 100 passengers have to be met only by import for a number of years. Given long-term planning and close association between HAL and the Indian Airlines, there would be scope for the manufacture of the medium type of aircraft which would, in due course, replace the F-27 and HS-748. The future of the transport aircraft factory at Kanpur, would depend, to a large extent, on such a programme of manufacture.

The Indian Airlines have since decided to place an additional order for 10 HS-748 aircraft on the H.A.L.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dt. 8th Dec. 1969.]

Recommendation (Serial No. 31)

The Committee regret to note that the management responsible for initiating the project did not start the work in a planned and phased manner. It is surprising that tooling was taken up at random without keeping in mind the stages and families of tools. This clearly shows that there was no proper planning in regard to manufacture of tooling and the managerial staff also failed in their duty. The Committee recommend that remedial measures should be taken to minimise the loss. [Paragraph 156].

Reply of Government

The Committee's observations have been noted. Increased use of indigenous tools appears unlikely for the orders now foreseen. However, every effort will be made to use as many tools as possible.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 32)

The target of production of gliders had to be restricted to 105 gliders as against 300 in December 1965. Till that date HAL had manufactured only 57 gliders and out of these delivered only 37. The Committee cannot escape the conclusion that the then management at the Kanpur Division made no serious efforts to keep up the schedule of delivery for the gliders. [Paragraph 164].

Reply of Government

The observations of the Committee have been noted. The question of disposal of surplus stores is under consideration.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 33)

It is regrettable that even after three successive revisions the estimates of cost of a glider were unrealistic. Equally disappointing is the fact that machinery, stores, tools, etc. worth Rs. 26.30 lakhs had to become surplus to the requirements of HAL consequent on the reduction in demand from 300 to 105 gliders only. [Paragraph 165.]

Reply of Government

Please see reply against paragraph 164. (Serial No. 32).

[Ministry of Defence O.M. No. 58(3)|68|D(HAL)-I, dated 7th September, 1968.]

Further information called for by the Committee

Has any decision been taken with regard to the disposal of surplus stores?

Further Reply of Government

In regard to the disposal of surplus stores, it was decided that these stores should be disposed of after ascertaining such items and quantities as would be needed by the Director General NCC|Air HQs to meet their requirements in the next 3 years. DG NCC|Air HQ have recently intimated their requirements to HAL. HAL will now prepare lists of surplus stores after taking these requirements into account. Authority for disposal of residual stores will be given when the lists are finalised by HAL and the value intimated to Government.

[Ministry of Defence O. M. No. 58(3)|68|D(HAL-I), dated the 8th December, 1969.]

Recommendation (Serial No. 35)

The need for close coordination, particularly between the three Divisions of MIG Project, cannot be over-emphasised. The periodical meetings of the General Managers is a step in the right direction and the Committee hope that no effort will be spared to achieve this objective. [Paragraph 172.]

Reply of Government

The recommendation of the Committee has been noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Recommendation (Serial No. 36)

The Committee hope that with the passage of time and accumulation of experience, HAL will be more intimately connected with the formation and approval of project reports as it is their responsibility to ensure the execution of such projects. The Ministry should pay more attention to policy matters which come within their orbit of activity. [Paragraph 179.]

Reply of Government

Noted. The Government is already following the policy recommended by the Committee.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Recommendation (Serial No. 37)

The Committee feel that when the Chairman has no executive functions and is simply required to preside over the meetings of the Board there is no point in having one such in addition to a Managing Director. This makes the organisation top heavy without any attendant advantages. It leads to quality of control and clash of personalities. The Committee are, therefore, of the view that it will be better to combine the posts of Managing Director and Chairman. [Paragraph 182.]

Reply of Government

A reply will follow.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Further Reply of Government

As stated in the reply to the recommendations, Serial Nos. 3 and 4 (Paragraphs 20, 22 and 23), it has been decided to divide the existing organisation of HAL into three Divisions, viz., Bangalore Division, MIG Complex and Kanpur Division, with a Managing Director each in charge of MIG factories and Bangalore Division and a General

Manager in charge of Kanpur Division and to give them increased authority and initiative. For the proper coordination of the three units, it is now proposed to have a wholetime Chairman for HAL as a whole.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 26th December, 1968.]

Recommendation (Serial No. 38)

The Committee appreciate that HAL would need officers on deputation from the Indian Air Force. In the long run the expertise of an IAF officer in HAL and his stay in HAL is in the interest both of HAL and the IAF. The position is not irreconcilable and the Government should evolve an arrangement by which all the interests are protected to the best advantage. The Committee are of the view that too frequent changes in the top positions are not conducive to efficiency. They, therefore, recommend that whenever necessary, deputationist should be taken for at least 4 to 6 years. There should also be no objection to their absorption in HAL if they are willing and are found suitable. [Paragraph 189].

Reply of Government

A scheme for the absorption of IAF officers in HAL has been finalised and orders issued.

The officers on deputation are initially sent to HAL for a period of three years, but the deputations are extended where necessary. Most of the officers have served for more than four years and in some case for even more than six years.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Recommendation (Serial No. 39)

The Committee hope that the steps being taken by HAL will prove useful in tackling this problem. They feel that a reasonable percentage of top technicians must have practical experience of the job. Arrangements should however, be made to see that these technical personnel are able to obtain professional qualifications, which would entitle them to go up to the next grade. [Paragraph 193].

Reply of Government

HAL's Recruitment and Promotion Rules lay adequate emphasis on job experience for appointment to posts of top technicians. Em-

loyees desirous of acquiring higher qualifications are granted permission to attend courses without interference with their work. Those wishing to join educational institutions in India or abroad to acquire further qualifications connected with their work are granted Study Leave for the purpose. Selected personnel are also given specialised training in technical and general management courses run by recognised institutions.

A scheme is now in operation for the recruitment and training of graduate engineers. It is hoped that they will, in time, greatly strengthen and improve the quality of engineering, technical planning and production management in HAL.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Recommendation (Serial No. 40)

The Committee understand that the delegation of powers to the Managing Director|General Managers is not adequate. It has been stated that certain specific powers based on the model code for public sector undertakings have been given to the Managing Director|General Managers whereas residuary powers are left in the Board of Directors. This results in frequent references being made necessary to the Board on a large number of points. The Committee would suggest that feasibility of enhancing the powers of the Managing Director|General Managers might be examined by the Government. [Paragraph 197].

Reply of Government

The purchase powers have been recently enhanced. The question of further enhancement of powers of Managing Director|General Managers is being examined by the HAL.*

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Recommendation (Serial No. 42)

A great responsibility lies on the shoulders of the workers of HAL as the success or failure of HAL would depend upon their performance. The Committee suggest that the management should examine

*At the time of factual verification, the Ministry of Defence furnished the following information (vide O.M. No. 58(3)/68-D(HAL-1) dated 7-2-1970):—

"Enhanced powers have since been delegated to the Chairman, HAL/Managing Directors/General Managers."

the causes of absenteeism in detail and try to find solutions for them. The management should also endeavour to establish a rapport with labour and labour union leaders in order to discourage abuse of ESI facilities. [Paragraph 207.]

Reply of Government

In order to curtail the rate of absenteeism and also to encourage regular attendance of the employees, the existing Attendance Bonus Scheme is being reviewed. The causes of absenteeism will be studied in detail and the co-operation of the labour unions sought in reducing absenteeism and abuse of ESI facilities.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Further reply of Government

With a view to improving the attendance of employees a Revised Attendance Bonus Scheme has been drawn up and sent to the General Managers for circulation to Labour Unions, of their Divisions and obtaining their formal acceptance of the Scheme.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 26th December, 1968.]

Recommendation (Serial No. 43)

The Ministry of Labour and Employment admit that the abuse will gradually disappear when the employment of the workers outside on casual basis does not give them more advantage than remaining on duty. In view of the above facts the Committee are of the opinion that the working of the ESI Scheme needs a thorough re-examination in the light of the experience of the undertakings in Bangalore. [Paragraph 209.]

Reply of Government

There is need to review the working of the ESI Scheme. The Ministry of Defence has already taken up this matter with the Ministry of Labour and Employment.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7th September, 1968.]

Further Reply of Government

Please see reply against Serial No. 41 (Para 206).

[Ministry of Defence O.M. No. 58(3)68]D(HAL-I), dated 26-12-68].

Recommendation (Serial No. 44)

It is needless for the Committee to emphasise the necessity of avoiding wastage of food. As for the second helping, the Committee do not see any reason why it should not be raised to the level of the price of the first meal. A facility given at one place and denied at another does cause resentment among the workers. The Committee feel that the canteen facilities are meant for the workers on duty and not for their families at home. The practice of carrying food home is, therefore, unreasonable and should be discouraged. One way of doing it would be to prohibit the bringing of tiffin boxes etc. into the canteens. [Paragraph 222].

Reply of Government

Noted. Close security is being maintained to prevent food being taken out of canteens.

[Ministry of Defence O.M. No. 58(3)68]D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 45)

The Committee are of the opinion that as there are a number of Public Undertakings in Hyderabad, there is justification for similar Coordination Committee to function in Hyderabad where problems common to the Public Undertakings could be discussed in order to arrive at a satisfactory solution. Necessary steps should be taken towards this direction.

The Committee feel that matters relating to the working conditions of workers in Public Undertakings need an all India approach and unless there is coordination throughout India these difficulties would persist. The Government should, therefore, examine this issue on a broader perspective. [Paragraphs 226 and 227].

Reply of Government

Heads of Public Sector Undertakings of Hyderabad are meeting every month since the last four months. The object is to avoid dissimilarities in facilities amenities given to workers wherever possible, and to discuss common problems.

The general question of an all India approach, has been referred to the Bureau of Public Enterprises for consideration.

[Ministry of Defence O.M. No. 58|3|D(HAL-I), dated 7-9-68.]

Further Reply of Government

The question of evolving a common policy for the wages and salaries and other terms and conditions of service for various Public Sector Enterprises has been considered in the light of the recommendation of the Administrative Reforms Commission and the following decision has been taken:—

“Owing to the differing terms and conditions in various Public Enterprises, it would be useful to get complete information about the working conditions in different enterprises. After this some thought should be given to evolving similar terms and conditions in various Public Enterprises engaged in similar activities.

While it may not be practicable to work out a uniform pattern for all Public Sector Undertakings, yet where rationalisation is possible, this should be effected. For this purpose it may also help to have Coordinating Committees formed of undertakings engaged in similar activities.”

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 26-12-68.]

Recommendation (Serial No. 50)

The Committee understand that in some of the western countries, the ground for maintenance of a Design Organisation in an aeronautical undertaking is the technical benefits which might be derived out of it by other industries as well. For instance the demands of aviation have led to the development of materials with high strength|weight properties often coupled with resistance to high temperatures. These have found applications in other branches of engineering. The hydraulic systems of aircraft were developed during the Second World War but now they find use in tractors, earth moving machines, etc. Similarly the aviation provided an initial impetus to electronics, radar and radio. Most of the modern developments in this field have arisen from aviation demand. The experience of the foreign countries would suggest that the fruits of research which can be utilised by other industries in India should be made available to them.

[Paragraph 249]

Reply of Government

Noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 51)

The Committee have noted that HAL has been concentrating increasingly on utilising its own design skills. This has been amply demonstrated with the HF-24, the HJT-16, HJE-2500 engine. HAL has also taken in hand design of a new combat aircraft. To the extent that this encourages the building up of indigenous designing capability and lowers dependence on foreign countries, it is certainly a most laudable effort. [Paragraph 250].

Reply of Government

Noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 53)

The solution of the problem lies not in subsidising the cost of production but in making earnest efforts to reduce it. The Committee would suggest that Government should not let this matter linger on indefinitely. [Paragraph 259].

Reply of Government

A further communication will follow.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Further Reply of Government

The cost of HS-748 is comparable to the present price of HS-748 manufactured in U.K. This is despite the fact that we would be producing much smaller number of aircraft than in U.K. Every effort is, however, being made to bring down the cost of production and it is expected that on the basis of the present performance, the cost of aircraft yet to be manufactured (i.e. after the 17th aircraft) would be about Rs. 5 lakhs per aircraft less than the present estimate due to reduction in labour cost.

The quantum of subsidy to be paid to HAL in respect of the aircraft already delivered and to be delivered to IAC is under consideration and a decision is expected to be taken shortly.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 25-4-69.]

Final Reply of Government

The subsidy to be paid in respect of HS-748 aircraft delivered to Indian Airlines was examined by a Committee of Secretaries and a decision has been taken fixing the quantum of subsidy at Rs. 13.73 lakhs per aircraft.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 2-12-69.]

Recommendation (Serial No. 54)

Though the debt equity ratio is an improvement over the previous years, it is still not in conformity with the Government of India's policy of debt and equity ratio being 1:1. There is still over-capitalisation in HAL and the Committee hope that Government will keep this in mind while giving further funds to the undertaking.

[Paragraph 260].

Reply of Government

The loan capital as on 31st March 1968 was Rs. 33.60 crores, as against the paid up share capital of Rs. 38.53 crores. During the year 1967-68, there was no addition to the paid-up share capital and all the capital requirements were met by loans obtained from Government. As further loans are obtained from Government during the current year (1968-69) debt equity ratio of HAL will soon reach 1:1.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 55)

The increase in the amount of sundry debtors appears unjustified particularly in view of the fact that the sales are only to Government departments or undertakings. The outstanding amounts increase the working capital requirements and reduce the profitability of the undertakings. The Committee, therefore, urge that vigorous steps should be taken to realise the outstandings.

[Paragraph 264].

Reply of Government

The figure of Rs. 16.62 crores shown as outstanding debts on 31st March, 1967 in the balance sheet includes a sum of Rs. 10.17 crores in respect of sales of Nasik Division. Of this, Rs. 9.61 crores represent cost of components in respect of which either on account payments were received from IAF or deferred credit facility to pay over a period of 9 years existed. Out of the said sale of Rs. 10.17 crores, only an amount of Rs. 56.00 lakhs was recoverable on 31st March, 1967 from IAF. In view of this, the figure of Rs. 16.62 crores shown as Sundry Debtors needs to be revised. The correct position is that outstanding debts amounted to Rs. 7.01 crores as per details below:—

Figures as shown in the balance sheet	..	Rs. 16.62 crores
Less: Sundry Debtors: Nasik Division	..	Rs. 10.17 crores
		Rs. 6.45 crores
Add Amount receivable by Nasik Division on 31st March 1967	..	Rs. 0.56 crores
		Rs. 7.01 crores
		Rs. 7.01 crores

The question of realising outstanding debts is being pursued.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 59)

The loss on account of retendering could have been avoided, had action been taken by the persons concerned in accordance with a predetermined schedule or programme of work. The samples were received in the Receiving and Shipping Department of the Company on 20th February, 1963 and were sent by Purchase Department to the Inspection Department on the 18th March, 1963. The Inspection Department intimated the suitability of the samples to the Purchase Department on the 26th April, 1963—nearly 40 days after, and the actual order was placed by the Purchase Department on the 10th July, 1963—after a gap of 2½ months. The delay and the consequent loss are regrettable. The Committee suggest that a thorough enquiry should be made in this matter to fix responsibility and the persons found guilty should be suitably dealt with. The procedure should also be streamlined to eliminate recurrence of such delay.

[Paragraph 277].

Reply of Government

Necessary action is being taken to inquire into the reasons for the delays pointed out by the Committee and also to fix responsibility therefor. Purchase procedures are also being streamlined to avoid recurrence of such delays.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I), dated 7-9-68.]

Further information called for by the Committee

Please state the result of the enquiry, if held by now.

Further Reply of Government

A detailed enquiry was held into the causes for the delay at various stages.

The Enquiry Officer has found that though there had been delay in the Inspection Department, the failure was mainly on the part of the Purchase Department, who not only took inordinately long time in processing the case at various stages but also failed to indicate the urgency of the matter to the Inspection Department and to take timely follow-up action. According to the Report of the Enquiry Officer, the then Assistant Purchase Manager was mainly responsible for the failure. He is not at present in HAL service.

The Enquiry Report has recommended measures for improving the procedures and avoiding such delays. These include a systematic review of pending purchase requests at various officer levels and a system of priority marking to enable the service departments to clear higher priority items expeditiously.

The findings of the Enquiry have been accepted by the HAL Management and necessary action has been taken to give effect to the procedural changes recommended therein.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I), dt. 8th Dec. 1969]

Recommendation (Serial No. 59)

The Committee regret to note that HAL acted with undue haste and in a most unbusiness like manner. HAL had earlier had experience of reduction of orders for certain aircraft/aero-engines by the IAF and should have drawn a lesson therefrom. Technically, the IAF may be right. If the results of the evaluation trials had been

fully assessed before placing an indent on ISM, London, an extra expenditure of £ 13,789 (£ 13,374 being cost of items already supplied but not required and £ 415 being cancellation charges of one item) could have been avoided. In addition, HAL incurred a further liability in respect of £ 12,485 for the balance of stores now being held by the firm, besides spending a sum of Rs. 19,585 on freight, customs duty, insurance charges, etc. It is a pity that the firm itself is not prepared to take back the equipment. The firm had in fact advised HAL against inclusion of certain components in the equipment. It has been argued that the intention of the firm was to substitute them with some other components which were stated to be costlier and these too would not have been useful in the circumstances. The Committee are unable to appreciate the anxiety of HAL to avail of an offer within a specified period without assessing the utility of the equipment in question. The whole episode has certain disquieting ramifications specially in the field of planning and coordination between the IAF and HAL.

The Committee would again emphasise that HAL should as far as feasible, always insist on customers entering into formal agreements before entering into any commitments or incurring any expenditure on their behalf.

[Paragraphs 284 to 286].

Reply of Government

The observations and recommendation of the Committee are noted.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I) dated 7-9-68].

Recommendation (Serial No. 60)

The Committee feel that there is need for reduction in the expenditure on townships at the three Divisions of the MIG complex and all efforts should be made in that direction. [Paragraph 290].

Reply of Government

Every possible effort will be made to reduce the expenditure on townships at Nasik, Koraput and Hyderabad Divisions consistent with the actual requirements and basic amenities to be provided. The need for utmost economy is always kept in view while planning townships.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I) dated 7-9-68.]

Recommendation (Serial No. 61)

The Committee would suggest that Subsidised Housing Scheme for industrial workers should be taken advantage of in other divisions of HAL, particularly in Nasik and Hyderabad. This would go a long way in reducing expenditure that is being incurred by HAL on townships. [Paragraph 294].

Reply of Government

The suggestion has been noted for suitable action.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 64)

There is a tendency to go to the original manufacturer rather than to some one who is manufacturing the product under licence. This is one of the disadvantages against HAL. HAL will have to strive hard to export. [Paragraph 303].

Reply of Government

The recommendation of the Committee is noted. After meeting the domestic requirements, it would be the endeavour of HAL to promote the export of its products, wherever possible, consistent with its resources.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 65)

The Committee feel that it should be possible for HAL to get some prospective buyers interested in aircraft like the agricultural aircraft and others which are at the design and development stage. In case HAL can procure an advance order, it would be in a better position to plan production. Several of the civil and military aircrafts in western countries are being ordered at the development stage. This has been so as a result of hard work, improved techniques, meticulous industrial planning and aggressive search for markets abroad. The Committee find no reason why HAL should not

be able to do so and would recommend that energetic steps should be taken to explore the possibilities of exporting products of HAL.
[Paragraph 304].

Reply of Government

Please see reply against Paragraph 303. (Serial No. 64).

[Ministry of Defence O.M. No. 58(3)/68/D (HAL-I) dated 7-9-68.]

CHAPTER III

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

Recommendation (Serial No. 1)

The Committee feel that as the various divisions of HAL are dealing with manufacture of aircraft which differ from each other in design, scope, jigs and tooling, it would not be easy to divert the surplus capacity of one unit to the aid of other units. The Committee recommend that an expert Committee should examine the question of utilisation of surplus capacity of one unit by other units. [Paragraph 15].

Reply of Government

The plant and machinery installed for airframe manufacture at Nasik and Bangalore Divisions are such that they can with equal facility manufacture parts for other fighter and advanced aircraft. Similar comments apply in respect of Aero-engine plant at Koraput and Bangalore Divisions. The plant at Kanpur Division for the manufacture of transport aircraft can also make executive, trainer and other such aircraft. The MIG Complex Divisions have, however, not yet reached the full production stage and the Kanpur Division has also not reached its rated capacity. Once production at all Divisions is stabilised, and the personnel gain sufficient skill and experience to fully exploit the capacity being built up, it would be possible to use the plant capacity of each unit in a balanced fashion so as to yield optimum results.

The Aeronautics Committee is expected to make recommendation on this Question. A more detailed examination by an expert Committee can be considered after all the units have gone into full production and in the light of the circumstances then existing.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 8)

The project was planned to commence assembly of aircraft more or less simultaneously with construction of buildings. Therefore, the speed with which the works were to be completed was of great

importance. The Committee regret to note that the time schedule, which was the essence of the matter, had not been kept up.

[Paragraph 56].

Reply of Government

The original time schedule was indicated to Maharashtra Government in September, 1965. During the course of construction this was reviewed a number of times by the Secretary, Defence Production in the co-ordination meetings held with Officers of HAL and Maharashtra Government and revised dates were fixed taking into consideration the progress of works and the difficulties experienced by the State P.W.D. In general, there has been a delay of about 6 months in the construction schedule. This is not excessive taking into account the magnitude of Civil Construction work entrusted to State P.W.D., which is of the order of about Rs. 12 crores.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 11)

The Committee regret to note that the target dates for the delivery of engines are not being adhered to although the scheduled programme was liberal. They hope that the Koraput Division would try to make up the lost time so that schedules of other Divisions are not adversely affected. The Committee feel that the time schedule for producing an engine indigenously is rather long in view of HAL's experience in this line.

[Paragraph 65].

Reply of Government

All possible efforts are being made to adhere to the target dates but there has been some slippage due to various factors such as delay in receipt of materials and equipment particularly for the Test House, from the USSR, delay in the construction of shops and dearth of experienced technicians of the right calibre. The management of HAL is keeping the matter under constant review, with a view to improving the position and every attempt will be made to ensure that engines are delivered to Nasik Division in accordance with their production schedules.

2. Having regard to the complex technology involved in the manufacture of engines, the proposed time schedule for producing the engine indigenously cannot be considered too long.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 26)

The Accessories factory when set up would call upon both private and public sector to produce many of the goods and components, which will be finally assembled and sent out from the factory. The Committee feel that enough attention has not been paid to this aspect of the problem. There is a need to develop indigenous sources of supply of raw materials. The Committee would suggest that HAL| Government should provide necessary facilities to such private undertakings, which are anxious to do their bit to feed this factory, by way of raw materials, dyes, capital goods, etc. An independent agency could explore this aspect of the aeronautical industry as a whole. [Paragraph 131].

Reply of Government

The suggestion has been noted.

The Accessories factory proposal includes maximum reliance on existing indigenous facilities for the manufacture of piece parts. The Factory proposes to provide material, tooling and know-how to facilitate such manufacture. HAL is now in a position to obtain indigenous supplies of raw materials such as light alloy sheets, bar-stock extrusions etc., the less complex steel alloys. Private Sector factories are commencing manufacture of rivets from materials fabricated indigenously, as also the less complex electrical goods including cables, switching units relays etc. The Department of Defence Production has already set up machinery for the development of raw materials. There would appear to be no need for another agency for this purpose.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 26-12-68].

Recommendation (Serial No. 30)

A suggestion has been received by the Committee that installation of 532 engine on HS-748 aircraft instead of 531 engine might lead to reduced operating cost, besides standardising the engines in IAC. It has also been observed that the noise level of HS-748 aircraft needs to be reduced and airconditioning and pressurisation also need improvement. It is understood that a slight modification of the existing engine would be necessary to make the change from 531 to 532 and that a new type of sound absorbent material could reduce the noise level of the aircraft. The Committee hope that these suggestions will be considered by HAL. [Paragraph 147].

Reply of Government

Committee's suggestion is being considered by HAL.

[Ministry of Defence O.M. No. 58(3)|68|D (HAL-I), dated 7-9-68].

Further Reply of Government

The conversion of Dart 531 to 532 standard, which calls for a number of important changes, is a fairly extensive process, including complete replacement of turbine blades. The question of introducing Dart 532 engines for IAC aircraft is under examination.

Regarding airconditioning and pressurisation, agreement has been reached between Indian Airlines and HAL regarding incorporation of improvement mods on production aircraft as soon as possible. All modifications are scheduled to be introduced from Indian Airlines eighth aircraft onwards.

It is the view of Hawker Siddeley Aviation Ltd. and HAL that the noise level in HS-748 is comparable to that of other aircraft with similar engines.* However, Indian Airlines have been requested to provide figures for their F-27-200 series aircraft which have the same Dart Da 7 engines as are fitted on the HS-748.

[Ministry of Defence O.M. No. 58(3)|68|D (HAL-I), dated 26-12-1968].

Recommendation (Serial No. 34)

The Committee fail to understand why a scheme drawn up in 1962-63 by the Defence authorities, which on account of certain set-backs could not be put into effective operation then, should not be

*At the time of factual verification, the Ministry of Defence furnished the following information (vide O.M. No. 58(3)/68-D(HAL-I) dated 7-2-1970):—

"The Technical Centre, Civil Aviation, New Delhi, have carried out a comparative study of cabin noise in HS-748 Series II & F-27-200" aircraft. Their conclusions are as follows:

- (a) The overall noise pressure intensities and loudness levels (Phons) in the cockpit and cabin of the HS-748 are approximately of the same order as in the F-27 aircraft.
- (b) The Speech Interference noise levels of the HS-748 aircraft are uniformly higher than those of the F-27 aircraft at all stations."

pursued now, so as to make use of at least those gliders which have been manufactured and delivered or awaiting delivery at Kanpur. [Paragraph 167].

Reply of Government

A reply will follow.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dt. 7-9-1968.]

Further Reply of Government

The non-utilization of the gliders has been due to a variety of reasons such as lack of suitable Instructors, facilities for repairs, lack of hangar accommodation, etc. Govt. have taken various steps as indicated below to activate gliding in the NCC Air Wing Squadrons:—

- (i) The pay scale of Glider Instructors has been raised from Rs. 250—575 to Rs. 500—700 with a view to attracting more applicants;
- (ii) The qualification for recruitment to the post of Glider Instructor has been lowered;
- (iii) Due to shortage of trained Glider Instructors, Air Force Pilots have been given special (conversion) training in gliding, to be able to serve as Glider Instructors;
- (iv) Gliders have been loaned to Civil Gliding Clubs so that facilities available there could be utilised in training of NCC Cadets;
- (v) Procedure for repair of Gliders has been streamlined. It has been possible to activate gliding at 22 places, where 46 gliders are now being utilized.

At six more centres, viz. Secundrabad, Warangal, Udaipur, Calcutta, Mysore and Patiala, 13 gliders are in position, but these are not being utilized at present for reasons such as non-completion of hangars, repairs to operating surface, etc. At most of these places, gliding is expected to commence shortly. It is also intended to construct hangers for gliders at 10 places, viz. Vijayawada, Waltair,

Jammu, Tiruchirapali, Belgaum, Mangalore, Hissar, Karnal, Agra and Varanasi, so as to activate gliding at these centres. The blue prints for the construction of hangars at these places are under preparation.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 25-4-69].

Recommendation (Serial No. 41)

It is seen that there is recognition of the fact that the doctors are somewhat lax in recommending sick leave to employees. The Committee feel that in order to control absenteeism resulting from the working of the ESI Scheme, HAL should take up the matter with the Ministry of Labour and Employment in order to plug the loopholes leading to misuse of ESI Scheme facilities on medical grounds.

[Paragraph 206].

Reply of Government

The Ministry of Defence has taken up this matter with the Ministry of Labour and Employment.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68].

Further Reply of Government

The comparative incidence of sickness under the Employees State Insurance Corporation Scheme has been studied in detail by the Employees State Insurance Corporation and a copy of their report is attached. (See Appendix I) The result of this study shows that the incidence of certification as well as incidence of sickness benefit days in HAL and other public undertakings in Bangalore compares favourably with the figures for Mysore Region as well as the all-Indian average.

It has already been stated that the E.S.I.S. Review Committee after a study of the scheme's working in the country came to the conclusion that there was no evidence to show that absenteeism has shown a significant increase after the introduction of ESI Scheme. The Environmental Sanitation and Health Education Committee set up by the Madras Government which also studied this matter has also come to the same conclusion.

However, a proposal to have a sample survey of the incidence of absenteeism in factories covered under the ESIS scheme and those not so covered is under consideration of the Ministry of Labour and Employment.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), 26-12-1968]

Recommendation (Serial No. 46)

The Engineering Wage Board was considering the question as to whether the aeronautical industry should be treated separately. Since the Engineering Wage Board is already seized of the matter, the Committee do not wish to make any comments on the subject. [Paragraph 229].

Reply of Government

Noted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68].

Further information called for by the Committee

Has the Engineering Wage Board submitted its report? If so, has aeronautics industry been treated separately?

Further reply of Government

The Engineering Wage Board submitted its report to the Government in December, 1968. No special treatment has been given to the aeronautics industry. The Wage Board considered the demands of the HAL workers for a special Wage structure, but did not grant it as the Board was appointed for the Engineering Industry as whole and it would be wrong in principle to give any special status to any particular unit or class of units like the aeronautics industry or the ship building industry. The Board, however, recommended to Government the appointment of a suitable machinery to examine the question of prescribing special scales of pay for certain categories of jobs in HAL, etc.

The Management of HAL started negotiations with the workers Unions and as a result of joint deliberations, an agreement was finally reached on 27th November, 1969, on the revision of the Wage structure of the various trade groups in HAL. The minimum wage for an unskilled worker in HAL will now be Rs. 195/- and all the trade

groups have benefited. With this settlement all outstanding disputes relating to pay, dearness allowance, house rent allowance, CCA and other payments have been finally settled. The settlement is valid for a period of 4 years with effect from 1st January, 1969.

[Ministry of Defence O.M. No. 58(3) |68|D(HAL-I), dated 8-12-69.]

Recommendation (Serial No. 47)

In order to enable HAL to shoulder their responsibilities in designing and development of aircrafts and engines in future the Committee feel that it is imperative that the Design Organisation is brought on a proper functional footing. The Committee recommend that the design organisations in HAL should be strengthened and rationalised as soon as possible. HAL should also not hesitate to attract persons trained abroad for this purpose either on temporary or permanent basis in order to keep abreast with the latest developments. [Paragraph 241]

Reply of Government

While it is true that certain aircraft design organisations functioning in the United States etc. have upto 20 per cent of their total work force in their design offices, it must be borne in mind that they also support a very large work force at the works of their sub-contractors etc. This figure is applicable to firms working on the most advanced and complex aircraft and aero space projects. In India, the prime aircraft manufacture undertakes manufacture over a far wider range than is normal in other countries with a developed industrial infrastructure; thus for comparison the work force working on sub-contract orders should also be included. Consequently the ratio of 20 per cent design staff of the total work force may not be fully representative for Indian conditions. Moreover, a considerable proportion of the total effort put in by the work force of 20,000 is directed towards overhaul activity, manufacture under licence and the manufacture of simple aircraft such as the Pushpak and Krishak etc. (this is of the order of 50 per cent). Taking the foregoing into account and recognising the importance of rationalising the design organisation schemes for reorganising it are in hand. Their implementation and the ultimate size of the design staff is dependent upon the allocation of additional major projects to HAL.

If persons trained abroad are found suitable for employment in HAL and are willing to accept such employment, HAL will gladly avail of their services.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 48)

The Committee regret to note that the potentialities of the RD 9F engine to reach Mach 2 capabilities were not properly assessed by HAL Authorities before entering into an agreement for its modification. The Committee are also unhappy to note that HAL did not properly assess its own technical know-how for development of this engine with the result that a huge expenditure of Rs. 2.39 crores was incurred which ultimately proved to be infructuous. Much of this loss could have been avoided if HAL had listened to the Soviet authorities that they could not guarantee the performance of this engine beyond Mach 1.4. [Paragraph 247.]

Reply of Government

The Contract for RD 9F engine figured in the Audit Report for 1966 at para 10 and a detailed examination has been conducted by the P.A.C. It is presumed that a fresh examination is not proposed to be conducted.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I), dated 7-9-68.]

Recommendation (Serial No. 49)

The Committee, while agreeing that development of engines and project of this nature does involve risks, feel that HAL should have exercised caution when it came to know that the Soviet authorities were going to cease production of this engine in 1962. [Paragraph 248.]

Reply of Government

Please see reply against Paragraph 247. (Serial No. 48).

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68].

Recommendation (Serial No. 56)

The Committee are not aware at what level this decision to write off the amount as irrecoverable loss arising out of the India Supply

Mission's contract was taken, whether the Ministry of Defence did their best to get ISM to accept this debit, and whether they tried to find out who was responsible for this lapse which resulted in this loss. The Committee desire that these points might be looked into. [Paragraph 270].

Reply of Government

..

The matter has been taken up with the Department of Supplies. A further reply will follow.

[Ministry of Defence O.M. No. 58(3)|68|D(HAL-I) dated 7-9-68].

Further Reply of Government

The manufacturers had offered a model which was different from what was required by M/s. Hindustan Aeronautics Ltd. The surplus stockist had offered a model which, according to them was indented for by HAL. However, the difference in price between the two models was substantial. Hindustan Aeronautics Ltd., in their letter dated 6th March, 1958 (copy sent to the Lok Sabha Secretariat under the Department of Supply O.M. No. P II-7(12)|62, dated 28th March, 1968) had stated as follows:—

“...We have gone through the Bulletin HA-100 on Greer Hydraulic. The equipment Model HA-7B with optional equipment codes 1, 2, 3, 5, 6, 7, 8, mentioned in Bulletin HA-100 meets with our requirements provided the same is suitable for operation on 220|440 volts A.C. 50 Cycles 3 Phase. It may be noted in this connection that in our indent we had mentioned the recommended type as 10 SE 5V-20 VBP. The manufacturer may please be requested to supply the equipment exactly as per our requirement namely type 10 SE5V-20 VBP.

This model HA-7B 1, 2, 3, 5, 6, 7, 8, will cost us approximately 1800 dollars based on the quotation whereas it is felt that it may be possible for you to obtain the Universal Hydraulic Test Rig at an approximate cost of 14,000 dollars by going in for the model 10 SE5V-20 VBP as fur-

nished in our indent. However, if M|s. Greer Hydraulic Inc. confirm that the model we want is no longer in production or at least give an assurance to the effect that the model 10 SE5V-20 VBP is replaced or superceded by their model HA-7B series, you may finalise contract accordingly. However, it is requested that one more effort may please be made to contact the supplier with a view to procure the model which we have recommended procurement in our indent, failing which, we have no other option but to accept the model HA-7B 1, 2, 3, 5, 6, 7, 8. Please acknowledge."

This letter apparently influenced the Purchase Officer's decision to accept the offer of the surplus stockist, even though it was a late tender. It is, however, admitted that he should have obtained the orders of the Director General, as he lacked the power to accept a late tender. The question, whether any disciplinary action should be taken for this lapse against the Purchase Officer concerned is being examined.*

2. As regards the point why the machine (Hydraulic Test Stand) was not inspected before despatch, it appears that the Mission took the usual precautionary measures while purchasing the stores from the surplus stockist in terms of the then instructions contained in the Ministry of Works, Housing & Supply Memo. No. PII-215(27), dated 8th February 1956 (See Appendix I). The Mission have no Inspection Cell or specially qualified officers to carry out inspection of various stores and generally accept stores on the warranty of the firms. The surplus stockist with whom the order was placed in the case had satisfactorily completed nine contracts prior to this particular one and their *bona-fides* were not suspected. Hence, the Purchase Officer apparently did not consider it necessary to deviate from the established procedure and arrange for inspection through an independent inspection agency, which might have cost about \$ 500.00 as stated in note sent to the Lok Sabha Secretariat by the Department of Supply under O.M. No. PII-7(12)|62, dated 28th March, 1968.

*At the time of factual verification, the Ministry of Defence furnished the following information (*vide* O.M. No. 58(3)/68-D(HAL-I) dated 7-2-1970:—

In regard to the question of disciplinary action (mentioned in para 1 of Governments reply dated 3-6-69), the Department of Supply have Stated that the mater has been examined and it had been decided that no actions is called for against the purchase officer who accepted than late tender in this case."

3. The surplus stockist had offered the very model indented. Therefore, their offer was in accordance with the specification stipulated in the indent. In addition, the Purchase officer also obtained confirmation from them over the telephone that the machine would be complete with the optional equipments and accessories required by the indenter before placing the order, which was followed by a written confirmation from the supplier. Thereafter, the contract was placed by the Mission for the model stipulated in the indent. The firm, however, committed a breach of the contract in respect of the specification of the machine and subsequently became insolvent and ultimately ceased to exist.

4. From the above, it will be observed that there was a misunderstanding regarding the requirement of HAL, but the Mission's action to place a contract on the surplus stockist was motivated by *bona-fide* intention of meeting the indenter's requirement. The Committee on Public Undertakings have accepted the general principle enunciated by the Secretary of the Department of Defence Production that when an agent acts for an indenter and acts *bona-fide* then the indenter has to accept the credit as well as the debit side of the transaction; but on the other hand when the agent does not fulfil all the conditions of the indenter then the agent should be responsible. In order to settle this case, an inter-departmental meeting was held by the Department of Supply with the Ministries of Defence, Finance and Law and it was decided, in the light of the general principle mentioned above, that the loss would be Borne by M/s. Hindustan Aeronautics Ltd.

5. This has been seen by the Ministry of Foreign Trade and Supply (Department of Supply).

[Ministry of Defence O.M. No. 58 (3) |68|D (HAL-I), dated 3rd June, 1969].

Recommendation (Serial No. 57)

The Committee after examination of the whole issue feel that the deal suffered from the following defects:—

- (i) ISM accepted the tender after the expiry of the stipulated date. This was a procedural lapse.
- (ii) The inspection of the machine was not carried out by ISM in spite of a specific stipulation to that effect. The purchase of the machine was made in 1958 and the

settlement of the question whether the inspection of purchased item should or should not be made in USA was decided in 1964 only. Thus in 1958, there was no agreement that inspection should not be carried out in USA.

- (iii) The officer of ISM who accepted the machine without ascertaining whether it was in accordance with specifications or not was at fault. He further failed to refer the matter to his higher officer before accepting the machine. The plea of the representative of the Ministry of W.H. & S. that the higher officer would also in all probability have accepted the machine and therefore, no responsibility could be fixed on the junior officer appears to be a mere hypothesis.
- (iv) There was hardly any advantage in an officer of ISM accepting the machine if he could not carry out a technical inspection of the same. ISM could have got the machine inspected by technical experts in USA before accepting the machine. The plea of high inspection cost is untenable as the ISM or the Ministry of W.H. & S. do not appear to have obtained any estimates of cost of inspection. These were not made available to the Committee when the Committee sought information on these points.
- (v) The failure to carry out inspection resulted in acceptance of not merely an obsolete model but also a defective and reconditioned machine which also entailed additional loss by way of transportation charges.

The net result of all these shortcomings was that HAL was supplied a machine which was not according to the specifications it had laid down in its indent on ISM.

The Committee accept the general principle enunciated by the Secretary of the Department of Defence Production that when an agent acts for an indenter and acts *bonafide* then the indenter has to accept the credit as well as the debit side of the transaction. But on the other hand when the agent does not fulfil all the conditions of the indenter then the agent should be responsible. The Committee, therefore, feel that the responsibility in this case rests with ISM. The Committee recommend that the question should be settled without any further delay. [Paragraphs 271 to 273].

Reply of Government

Please see reply against Paragraph 270 (Serial No. 56).

[Ministry of Defence O.M. No. 58 (3) |68|D (HAL-I), dated 7th September, 1968 and 3rd June, 1969.]

Recommendation (Serial No. 62)

The Committee would like to reiterate the views of the Estimates Committee expressed in their 50th Report (Third Lok Sabha, 1963-64) that the provision of the facility of cars/station wagons/jeeps to officers of an undertaking for journeys from residence to place of work and back on payment of monthly charges seems to be neither economical nor desirable. The Committee would like HAL to examine this issue afresh in the light of experience gained during the last few years. If the actual expenditure on this facility provided to officers is more than the income from cars, then there appears to be no justification for continuing such a losing service. [Paragraph 300].

Reply of Government

The recommendation is being considered by the management of HAL.

[Ministry of Defence O.M. No. 58 (3) |68|D (HAL-I), dated 7-9-1968.]

Further Reply of Government

The recommendation has been examined in detail by the Management of HAL who have come to the conclusion that it would not be practicable to discontinue the existing facilities till such time as adequate public transport facilities are available, as it would not only cause hardship to the officers concerned, but is also likely to affect the efficient working of the Company.

Considering that no separate transport has been acquired for the purpose of providing transport facilities to the officers and only the transport already acquired for other duties and which can be spared is being used, and that the net loss to HAL for providing this essential facility is only about Rs. 1.5 lakhs per annum. Government feel that it would be extremely worthwhile not only from the point of view of avoiding hardship to the employees but also from the point of view of the efficient working of the company to continue to provide the existing facility in the present circumstances.

[Min. of Defence O.M. No. 68 (3)/68/D (HAL-I), dated 22-8-1969.]

Recommendation (Serial No. 63)

The Committee feel that there is enough scope to economise and reduce expenditure on transport vehicles. The Committee would suggest that any acquisition of vehicles for future use should be restricted to the minimum possible requirements. [Paragraph 301].

Reply of Government

As about 14,000 workers in the general shift and 160 officers are to be transported daily to and from different parts of Bangalore, the number of vehicles at the Bangalore Division cannot be considered to be high. Purchase of additional vehicles will, however, be sanctioned only if inescapable.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I), dated 7-9-1968].

Recommendation (Serial No. 66)

The kinds of risks, the scale of investments and commitments and other features of the aircraft industry call for such an assessment. With the passage of time, the need has become urgent. It is necessary for HAL to know the forward plans of the different users of HAL's products. In the past HAL had been proceeding in a somewhat *ad hoc* manner with frequent short run and peripatic orders and this was inevitably reflected in the unit costs of HAL's products, besides making it difficult to make the necessary preparations for manufacture. As Government are almost the sole customers of HAL, the Committee hope they will pay serious attention to this matter. It is seen that, an Aeronautical Committee was set up by Government in November, 1967 to go into this question and their report is expected in the second or third quarter of 1968. The Committee hope that they would make recommendations regarding forward planning, so that HAL can programme their production with some certainty. [Paragraph 306].

Reply of Government

Noted. The report of the Aeronautics Committee is awaited.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I), dated 7-9-1968].

Further information called for by the Committee

What are the salient recommendations of the Committee on Aeronautics constituted in November, 1967, in this regard? Please intimate the composition of the Committee.

Further Reply of Government

A summary of important recommendations of the Aeronautics Committee, placed before the Parliament, is enclosed. [Placed in Library. See LT No. 1164/69.]

The composition of the Committee is also given therein.

[Ministry of Defence O.M. No. 58(3)/68/D(HAL-I), dated 8-12-1969.]

CHAPTER IV

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

Recommendation (Serial No. 7)

The Committee note that the work of civil construction had been handed over to the Public Works Departments of Maharashtra and Orissa Governments before the projects were taken over by HAL, and the arrangements were such that the management had no say in this matter. It was therefore not possible for HAL to adjudge the payments made to contractors/expenditure booked to works with reference to an estimate of physical progress of work. It is, however, surprising that HAL did not keep any watch over the quality of the buildings and that the scope of inspection by HAL had been limited only to visual inspection at the time of taking over the buildings. A number of defects had been noticed at the time of taking over the buildings which could have been avoided if HAL had an opportunity to point them out during construction. [Paragraph 55.]

Reply of Government

When the works were entrusted to the Public Works Departments of Maharashtra and Orissa Governments, it was expected that these Governments would exercise the same scrutiny over these works as they did for construction undertaken for them. This applies not only to the quality of work but also to the payments made by them to the contractors. The payments were, in fact, subject to scrutiny by A.G., Maharashtra and arrangements were made for the rendition of monthly statements of accounts. It is, therefore, considered that sufficient safeguards were provided to protect the interests of HAL. There is also no reason to believe that payments at any time had been made much in excess of the requirements.

As regards the quality, it was arranged that at the time of taking over the building, HAL will point out the defects and action will be taken to rectify them by the State Public Works Department to the satisfaction of HAL. The works were subject to scrutiny by the

Technical Examiner of the Maharashtra Government during construction and at a later stage it was agreed that copies of his reports would be made available to the Ministry of Defence. Thus in the matter of quality also, such safeguards as are normally taken for Government works were provided for, though the responsibility for ensuring proper construction was that of the State Government.

[Min. of Defence O.M. No. 58 (3) |68|D (HAL-I), dated 7-9-1968.]

Comments of the Committee

Please see paras 1.1 to 1.6 of Chapter I of the Report.

Recommendation (Serial No. 52)

The Committee are of the view that an undertaking cannot have a proper commercial approach if it runs on "cost plus" basis. Firstly it gives no incentive to reduce costs by cutting out idle time, over-time, wastage of machines, etc. Secondly, this system is likely to prove a heavy burden on the Government because ultimately they are responsible for all the expenditure. Thirdly, the management do not remain cost-conscious and as such are apt to be inefficient. The Committee would recommend that this principle of cost-plus basis should be done away with as early as possible. In items where the manufacture is well established or where the orders are sufficient to undertake large-scale production, there should be little difficulty in quoting prices. A system should be evolved whereby after the manufacture of a certain number of aircraft|engines, fixed prices may be quoted for subsequent production the prices being revised periodically as might be warranted by changes in the cost. [Paragraph 256].

Reply of Government

The views of the Committee are noted. Although there are certain difficulties in giving fixed quotations, an attempt is being made to overcome them. The switch over to the system of fixed quotation would, however, be a gradual process.

[Min. of Defence O.M. No. 58 (3) |68|D (HAL-I), dated 7-9-1968.]

Comments of the Committee

Please see paras 1.7 to 1.12 of Chapter I of the Report.

CHAPTER V

**RECOMMENDATION IN RESPECT OF WHICH FINAL REPLIES
OF GOVERNMENT ARE STILL AWAITED**

Nil

NEW DELHI;
February 24, 1970
Phalguna 5, 1891 (S.)

M. B. RANA,
Chairman.
Committee on Public Undertakings.

APPENDIX I

[Vide reply to Recommendation at Serial No. 41]

EMPLOYEES STATE INSURANCE CORPORATION

Report of Employees State Insurance Corporation

The comparative incidence of sickness under the Employees' State Insurance Scheme has since been studied in detail. The incidence of number of certificates per annum per employee and the incidence of sickness benefit days per annum per employee in the Hindustan Aeronautics has also been compared with the incidence in Public Undertakings in Bangalore as well as in Mysore Region and the All India figures. As a result of the study, it appears that the incidence of certification as well as incidence of sickness benefit days in Hindustan Aeronautics and the Public Undertakings in Bangalore compares very favourably with the figures for the Mysore Region as well as All India figures which are given below:—

	Incidence of certification per employee per year			Incidence of Sickness benefit days per employee per year		
	65-66	66-67	67-68	65-66	66-67	67-68
1. H.A.L.	1 26	1 55	1 63	2 43	2 35	3 35
2. Public Undertakings in Bangalore	1 35	1 37	1 51	3 87	5 25	4 41
3. Mysore Region	2 58	2 70	2 47	7 3	7 9	6 6
4. All India Average	3 05	2 79	2 8	7 9	7 7	8 2

From the above figures it will be seen that the incidence of absenteeism on account of certification under the Employees' State Insurance Scheme in Hindustan Aeronautics Ltd. is much less than the incidence in Public Undertakings in Bangalore which is itself lower than the figures for Mysore Region as a whole. The figures of Mysore Region, except for a very small rise in the year 1966-67 are considerably lower than the All India figures and the gap for the year 1967-68 is quite appreciable. As such it will be seen that the observations made by the Committee on Public Undertakings in the 8th Report for year 1967-68 are not supported by the data cited.

It has also been observed by the Committee that in many cases of the Public Undertakings in Bangalore, there is not a single workman who does not fall ill for 56 days, for which the benefits are granted under the Employees' State Insurance Scheme. This observation seems to be based on some highly exaggerated and erroneous

report. From the figures given above it will be seen that the average incidence of sickness benefit days, per annum per employee in Public Undertakings in Bangalore is less than 6 days and therefore the average absence per annum per employee even after including the waiting period of 2 days will be near about 8 only. In this connection, it may not be out of place to mention that in para 27 dealing with certification-absenteeism of Chapter XI relating to medical benefits—General, of their Report the Employees' State Insurance Scheme Review Committee, after a close study of the working of the scheme throughout the country observed that there was nothing to justify any general conclusion regarding the seriousness of the problem of absenteeism due to certification under the Employees' State Insurance Scheme and even the Millowners' Association, Bombay stated definitely before the Committee that they have no ground to suggest that the Employees' State Insurance Scheme had led to increased absenteeism. This question was also studied in detail by the Environmental Sanitation and Health Committee, Madras and in their Report, published in May, 1968, the Committee has answered the question whether the Employees' State Insurance Scheme had led to an increase in absenteeism in industry in the negative.

Regarding the observation made by the Committee on Public Undertakings that the doctors of the Employees' State Insurance Scheme are somewhat lax in recommending the sick leave to employees resulting in high rate of absenteeism, it may be stated that this observation also does not seem to be factually correct on the basis of the data given above. It is understandable, though it cannot be reduced to a generalisation, that with easy availability of medical care, the insured persons are naturally tempted to avail of medical care more readily and to absent themselves from work probably on a day when they would have otherwise worked but this cannot be termed as 'lax certification'. The tendency could more appropriately be considered as a sign of better "health Consciousness". In a few marginal cases the Insurance Medical Officer cannot, in the circumstances decline to issue a medical certificate when he has no strong reason to disbelieve the insured person's version of his ailment.

The Employees' State Insurance Scheme has built in deterrents to guards against laxity in certification and absenteeism in as much as the Scheme does not normally provide for payment of any cash benefit for the first two days of waiting period in a spell of sickness, and further the rate of sickness cash benefit has been kept well below the daily wages viz., about 7/12 of the average wage only. In addition to the above provisions in the Employees' State Insurance-

Act, Medical Referees have also been appointed under the Employees' State Insurance Scheme to whom cases of doubtful certification by Insurance Medical Officers|Insurance Medical Practitioners or prolongation of incapacity are referred, and once a case of malingering is detected by the Medical Referee, the insured person is issued a fit certificate, and payment of further cash benefit is stopped.

Sd/- G.L. SHARMA,
Asstt. Insurance Commissioner.

Department of Labour and Employment.

D.G. ESIC U.O. No. 5-1(9)|62(R)(INS. II), dated 5-9-1968.

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APPENDIX II

(Copy of Ministry of Works, Housing and Supply letter No. PII-215 (27), dated 8th February, 1956 from Shri J. S. Mongia, Under Secretary to the Government of India, to The Director General, India Store Department, Government Building, Bromyard Avenue, Acton, London W-3; The Director, India Supply Mission, 2536, Massachusetts Avenue, N.W., Washington-8 D.C. and The Director General, Supplies and Disposals, New Delhi regarding Procurement of Aircraft Spares & Parts for Indian Air Force—Manufacturers versus Surplus Stockists—Procedure for.

I am directed to say that in the matter of purchase of aircraft spares and parts, the safety factor is of paramount importance and supply of incorrect or non-standard parts may lead to accidents and or immobilisation of aircraft. The method of procurement of these stores has been under consideration of Government for some time past and with a view to obtaining the correct type of stores, the following procedure has been laid down for purchase of these stores.

2. All aircraft parts and spares in current production should be purchased only from the primary or subsidiary manufacturers as the case may be. Purchases of such parts should not be made from Surplus Stockists.

3. Where a subsidiary manufacturer produces spares and parts under licence from the primary manufacturer, the order should normally be placed on the one whose quotation is cheaper. If, however, it is known that the store offered by the primary manufacturer includes improvements over those offered by his licensee the advice of the primary manufacturer should be obtained.

4. For parts not in current production (e.g., obsolete obsolescent stores), enquiries should be issued to manufacturers as well as surplus stockists. It is possible that in some such cases the former would also quote for supply ex-surplus stock. The question as to what degree of price preference, if any, should be given to manufacturers over surplus stockists in such cases should be decided on the merits of each case.

5. In cases in which purchases are made from surplus stockists, the usual precautionary measures viz., (a) obtaining of CAA certificates, (b) warranty that the stores are new, unused and have not deteriorated owing to long storage or for any other reason, (c) they will be and/or are adequately and securely packed so as to ensure safe arrival in India, and (d) any other undertaking which the Purchase Officer may consider desirable in the circumstances, will invariably be taken.

Wherever necessary prior concurrence of the indenter should be obtained before placing an order on surplus stockists, and such references should be regarding technical matters.

6. The question of procuring aircrafts spares and parts from Agents in India will normally arise only if the Agents have been appointed directly by the original manufacturers, where such authorised Agents represent original manufacturers, orders may be placed on them provided Government can get after sale services through them. The question of procuring surplus stocks through Indian Agents does not arise.

7. The India Supply Mission, Washington, and the India Store Department, London may also enter into Price Agreement with an approved source of supply so that orders can be placed straightaway on that source on the agreed price basis without having to obtain a quotation each time. Such price agreements will be concluded only with the manufacturers and not with the surplus stockists, and in consultation with and approval of the Financial Adviser. Government should reserve the right to go out to tender or to purchase the "bought out" components from the primary manufacturers. Reservation of such right does not necessarily imply that the normal system of inviting tenders should be resorted to in all cases despite the existence of a price agreement or that the lowest tender must invariably be accepted regardless of whether it is for the correct part or not. In coming to a decision as to whether or not tenders should be invited. Purchase Officers should examine whether the parts required are likely to be available from subsidiary manufacturers and if so whether any better rates are likely to be obtained by going out on tender. Similarly in deciding whether an offer received from a subsidiary manufacturer should be accepted they should be guided by the considerations set out in para 3 above.

8. These orders will come into force with immediate effect.

APPENDIX III

(Vide para 5 of Introduction)³

Analysis of the action taken by Government on the recommendations contained in the Eighth Report of the Committee on Public Undertakings (Fourth Lok Sabha) on Hindustan Aeronautics Ltd.

I	Total number of recommendations	66
II	Recommendations that have been accepted by Government (<i>vide</i> recommendations at S. Nos. 2, 3, 4, 5, 6, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 27, 28, 29, 31, 32, 33, 35, 36, 37, 38, 39, 40, 42, 43, 44, 45, 50, 51, 53, 54, 55, 58, 59, 60, 61, 64, and 65).	
	Number	48
	Percentage	72.73 per cent.
III	Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendations at S. Nos. 1, 8, 11, 26, 30, 34, 41, 46, 47, 48, 49, 56, 57, 62, 63 and 66)	
	Number	16
	Percentage	24.24 per cent.
IV	Recommendations in respect of which final replies of Government have not been accepted by the Committee (<i>vide</i> recommendations at S. Nos. 7 and 52)	
	Number	2
	Percentage	3.03 per cent.

**V Recommendations in respect of which final
replies of Government are still awaited****Number****Nil****Percentage****Nil**

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI					
24.	Jain Book Agency, Connaught Place, New Delhi.	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
26.	Atma Ram & Sons, Kashmir Gate, Delhi-6.	9	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
27.	J. M. Jains & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sant Narakari Colony, Kingsway Camp, Delhi-9.	96
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	MANIPUR		
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri N. Chaocha Singh, News Agent, Ramlal Paul High School Annex, Imphal.	77
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27	AGENTS IN FOREIGN-COUNTRIES		
32.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON W.C.—2.	59

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