C.P.U. No. 150

COMMITTEE ON PUBLIC UNDERTAKINGS (1969-70)

(FOURTH LOK SABHA)

FIFTY-FIFTH REPORT

Action taken by Government on the Recommendations contained in the Eleventh Report of the Committee on Public Undertakings (Fourth Lok Sabha)

On

National Mineral Development Corporation Ltd.

(MINISTRY OF PETROLEIUM, CHEMICALS, MINES & METALS)

(DEPARTMENT OF MINES & METALS)

LOK SABHA SECRETARIAT
NEW DELHI

December, 1969
Agrahayna, 1891 (S)

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Page	Para	Line	For	Read
[illegible]	1	10	(Delete)	
10	3	Last	Para	Paras
18	1	Last	delete 'No. 92-93'	
15	-	3 (from bottom)	soon	seen
16	1	9	Paras No.	Para
16	3	10	(Delete the line)	
16	3	11	Delete "The Comm."	
16	3	12	Add "The Committee suggest that preference should be given to Indian Institutions"	
28	-	-	Under Column Ship against 1964-65 for 1.83 read .18 and against total for 46.11 read 44.85 and in bottom line for 53.23 read 51.97	
28	-	-	Under column Foreign Exchange earned and against total for 2387 read 2386 and in bottom line for 2793 read 2792	
35	1	8	Operation	Operations
35	1	13	ore	are
43	2	2	Omit 'a'	
51	-	5 (from top)	1969-69	1968-69
6	II	1	acceyted	accepted

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Fifty-fifth Report on the action taken by Government on the recommendations contained in the Eleventh Report of the Committee on Public Undertaings (Fourth Lok Sabha) on the National Mineral Development Corporation Ltd.

2. The Eleventh Report of the Committee on Public Undertakings was presented to Lok Sabha on the 11th April, 1968. Government furnished their replies indicating the action taken on the recommendations contained in the Report on the 7th January, 1969. Further replies were received on the 29th January, 27th February, 13th and 31st March and 7th April, 1969.

3. The replies of Government to the recommendations contained in the aforesaid reply were considered and approved by the Committee on the 15th and 25th November, 1969. 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 Eleventh Report of the Committee on Public Undertakings (Fourth Lok Sabha) is given in Appendix V. It would be observed therefrom that out of 62 recommendations made in the Report, 58 per cent have been accepted by Government, the

Committee do not desire to pursue 31 per cent of the recommendations in view of Government's replies. 3 per cent replies of Government have not been accepted by the Committee and replies to 8 per cent of the recommendations are still awaited.

NEW DELHI;
December 12, 1969.
Agrahayana 21, 1891 (*S*).

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

CHAPTER I

REPORT

A. Inclusion of a clause in the agreement with a foreign firm preventing feasibility study being made from other sources—Para 125 of Eleventh Report (Fourth Lok Sabha).

Recommendation No. 30

In their recommendation in para 125 of the Eleventh Report (Fourth Lok Sabha) the Committee expressed their unhappiness at the inclusion of an unfavourable clause in the agreement which prevented N.M.D.C. from getting a feasibility study made by other sources. The Committee pointed out that the existence of such a clause restricted the autonomy of N.M.D.C. for a specific period of time and made it wholly dependent for that purpose on one foreign agency. The Committee recommended that the Undertaking should ensure that one-sided and unfavourable clauses are not allowed to ensure that one-sided and unfavourable clauses are not allowed to be inserted in the agreements.

2. In reply, the Ministry has stated that the entire question of engaging consultants for conducting feasibility studies on pelletisation has been reviewed and it has been decided that to the maximum extent possible, the services of Indian agencies available in the field should be utilised.

3. The Committee welcome the decision taken by the Ministry to utilise the services of Indian agencies but at the same time they would emphasise the need for proper scrutiny of all agreements at the time of their drafting so that the powers of the Government are not curtailed to secure the services of Indian agencies for conducting feasibility study. Such lacuna should not be allowed to exist in such agreements.

B. Enhancement of Consultants fee by Rs. 63,533 per year—Para 155 of Eleventh Report (Fourth Lok Sabha).

Recommendation No. 36

4. In their recommendation in para 155 of the Eleventh Report (Fourth Lok Sabha) the Committee had observed that the sum of Rs. 1,30,000 to be paid to the Consultants in Indian rupees, was utilised by them for salaries, leave pay, passages and incidental expenses. All these items were required to be paid by the Consultants

to their staff in rupees in India and the question of increased costs of these items did not arise. According to the terms of the contract there was no scope for increased payments on these items due to devaluation. The Committee were therefore not convinced that there was any valid ground for the enhancement of the fees by Rs. 63,533 per year.

5. In reply, the Ministry have stated that the enhancement in the Rupee fee of the Consultants was made taking into account the impact of devaluation of Rupee on certain elements of the fee like passages. However, with effect from 19th November, 1967 i.e. the date of devaluation of £ Sterling, a reduction of Rs. 10,000 per annum in the fee has been secured.

6. The reasons given by the Ministry for enhanced payment do not appear to be convincing. The Committee thus reiterate their earlier observation that "according to the terms of the contract there was no scope for increased payments on these items due to devaluation". The Committee would emphasise that the payments should be made strictly in accordance with the terms of the contract and other extraneous consideration should not weigh with the Undertaking in coming to a decision in such matters.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

The Committee are of the view that the Ministry should have had detailed prospecting done of the Kiriburu area before asking the Japan Consulting Institute to prepare a Detailed Project Report on the basis of the IBM Scheme. It is also regrettable that the management of NMDC knowing that the scheme prepared by the IBM was only an indicative one took no initiative to have a more detailed survey conducted. As subsequent events proved, the nature of the geological strata was not correctly worked out in the IBM scheme. This resulted in an excess generation of fines which has affected the whole economics of the project to a large extent, besides necessitating the purchase of extra machinery. (Para 9).

Reply of Government

The practice in the past has been that N.M.D.C. has been depending on the geological surveys conducted by IBM/GSI although some evaluation of the work done by them is made by N.M.D.C. to determine whether further detailed survey should be necessary. In case of the projects taken up by the N.M.D.C. subsequently, the Company has been associating itself with the G.S.I. at the prospecting stage with a view to obviating the possibility of in-sufficient interpretation of geological strata. Coordination of this nature will be sought to a greater degree in the case of future projects.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 4)

The Committee have time and again come across defective agreements which have resulted in excessive or over payments to consultants or failure to protect our interests. As already recommended the government have to strengthen their agreement scrutinizing agency. (Para 26)

Reply of Government

An agreement scrutinizing cell is being organised by the National Mineral Development Corporation Ltd., for proper examination of the agreements that N.M.D.C. may have to enter into. Detailed procedure has been spelled out in an order of the Corporation to be followed by the officers concerned with the execution of leases, agreements, bonds and other contract documents.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated the 7th April, 1969].

Recommendation (Serial No. 5)

The Committee regret to note that although the production started in April, 1964, excess generation of fines came to the notice only at the time of shipment in July, 1964 which implies that there was no test-check on the plant site. They take a serious view of the failure of the management to notice such faulty performance of the machinery and trust that such omissions will not recur in future. (Para 27)

Reply of Government

Noted.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 6)

It will be observed from paras 17-18 that the consultants were to carry out the performance test within a period of two months either immediately after the erection of the plant or as soon as the consultants desired them to be carried out. Owing to the failure of the management of N.M.D.C. to carry out the performance test within the period of five years of the consultancy period, a supplementary agreement with the consultants for a period of one year was concluded with the sole object of getting the performance test carried out in their presence. But the performance test could not be carried out within the extended period of the agreement due to reasons well foreseeable. The agreement was further extended for two months without carrying out performance test. In the circumstances the Committee cannot help but conclude that the management lacked foresight. They also feel that after engaging the consultants, the project authorities depended entirely on them in the matter of erection and performance of the plant and did not exercise any control over the progress of their work. This resulted in further extensions of the consultancy periods and payments of further amounts to the consultants without achieving the desired benefits. (Para 28)

Reply of Government

While it is true that it was not possible to conduct the performance tests within the given period, the plant actually functioned properly when worked which is amply proved by the fact that there has been no default in the performance of the contract entered into with the Japanese Steel Mills for supply of ore from the Kiriburu mines.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 7)

From the foregoing it will appear that the Consultants, because of their inexperience, failed to prepare a satisfactory project report and the management of N.M.D.C. on its part did not take care to examine the Project Report. The Committee fail to understand how so many important aspects of the project were omitted from the Project Report. They hope that in view of long experience such omission would not recur in future. (Para 33)

Reply of Government

The Government have since laid down details in connection with the preparation of Feasibility Studies and Project Reports. These have been brought to the notice of the National Mineral Development Corporation for guidance. After the reports are prepared in such details, these are placed for consideration before a panel of experts in the field.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 8)

The Committee regret to note that even though the project estimates prepared by the Japan Consulting Institute were unrealistic and suffered from many defects, there is no evidence to show that the management of N.M.D.C. or the administrative Ministry took any steps to locate and rectify the deficiencies with the result that the project estimates have increased over 33 per cent. Such under estimates not only mislead the Cabinet but also the Parliament and do no credit to the executing Ministry. (Para 37)

Reply of Government

As stated in reply to recommendation No. 7, instructions have been issued to the effect that the estimates forming part of the feasibility study or detailed project report should be comprehensive and cover all details.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 9)

The Committee appreciate that NMDC had never before taken up for execution a project of this size and type. It is also true that Kiriburu area was inaccessible and extremely under-developed and therefore a good deal of developmental expenditure had to be incurred there. But it was for these very reasons that an expert foreign firm of consultants was engaged to develop the mine and it should have been their first task to study the local conditions fully before preparing the estimates. The management at least should have known the under-developed nature of the area. It should have pointed out the essential ommissions from the project estimates. It is also surprising how the administrative Ministry, failed to make a proper assessment in the beginning. The Committee can only express regrets at this stage at such failure of the management of NMDC and the administrative Ministry. (Para 41).

Reply of Government

As already stated, this was the first project taken up for execution by the N.M.D.C. The omissions and inadequacies could be known only after the project was taken up for actual execution.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 10)

The Committee are not convinced with the reply of the representatives of NMDC. They feel that the management must accept the responsibility for not including in the project estimates expenditure incurred on Establishment charges prior to 1960. The increase in the staff strength to 112 instead of the original provision of 25 also led to increase of establishment charges from Rs. 10 lakhs to 49 lakhs, which appears to be an excessive increase from all standards. The Committee are of the view that considering the economics of the project, expenditure under this head should have been kept to the minimum. The management should effect reduction in this respect at an early date. (Para 43)

Reply of Government

Some reduction had already been effected through a Voluntary Retirement Scheme and 120 workers have availed of this. 6 persons have been transferred from Kiriburu to other projects and feasibility areas and the resultant vacancies in Kiriburu have been kept unfilled. In the Kiriburu Expansion Scheme, which has been cleared recently by the Committee of Secretaries, the balance of surplus staff as determined on the basis of the recommendations of the Administrative Staff College, Hyderabad will be absorbed. Instructions have been issued that no new recruitment should be made and manpower needed for the expansion programme should be met as far as possible from within the existing personnel.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67, MVI, dated 7th January, 1969].

Recommendation (Serial No. 11)

In fact, the main factor responsible for up-setting the completion schedule of the project was the non-completion of the iron ore handling plant at the Visakhapatnam Port. It would, however, be seen that the Ministry of Mines and Metals was unaware of this factor, till the trial production at full rated capacity could not take place immediately after completion of the Project in July, 1963. It has been stated that the matter was discussed in the Secretaries' Committee and the progress of the project reviewed every now and then but there is no evidence to show that non-completion of mechanical

Ore Handling Plant at the port was taken up with the Visakhapatnam Port Authority. Taking all these into account, the Committee regret to observe that neither the management of N.M.D.C. nor the administrative Ministry took any timely action to complete the project expeditiously. (Para 48)

Reply of Government

The completion of the Mechanical Ore Handling Plant was the responsibility of the Vizag Port Trust under the Ministry of Transport. However, the non-completion of the Mechanised Ore Handling Plant at the port was taken up at the Minister's level and a D.O. letter from Shri P. C. Sethi to the Minister of Transport was sent on 24th June, 1964, stressing the urgency and importance of the completion of this Plant by November, 1964. The need to take timely action on the part of the Vizag Port Trust to complete the project expeditiously was discussed on 30th July/4th August, 1964 at the meetings of the Committee of Secretaries constituted to review from time to time the iron ore export programme. The Port Development Adviser was present in the meeting and while reporting the latest position of construction works, gave the completion date as April, 1965. The Committee considering the uncertainty in the case of past commitments about a firm date of completion, indicated that the Japanese may be told that the Port would be ready in the 2nd quarter of 1965. In implementing the new projects care is being taken to assess and fix the capacity to be developed in respect of each of the sectors involved in the integrated iron ore export project and to tie up the schedules of progress of these sectors.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals, O.M. No. 4(9)/67 MVI, dated 31st March, 1969].

Recommendation (Serial No. 15)

The Committee feel that to a considerable extent economics of the project depends on the commercial utilisation of the fines. They consider it unfortunate that no provision was made in the beginning either for beneficiation of the fines or for their sale. The Committee suggest that immediate steps should be taken for the beneficiation of the fines and their sale. (Para 57)

Reply of Government

The Committee's valuable recommendation has been pursued with the Bokaro Steel Plant who have agreed to take the entire washed/beneficiated fines now stacked as well as those which will be produced in future.

To start with, the Project would be supplying, to Bokaro Steel Plant, washed fines. The need or otherwise of the beneficiation plant for beneficiating the fines would be decided after further beneficiation studies which are being undertaken.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 16)

It will thus be seen that the operating cost which was estimated to be Rs. 5.15 per tonne in 1961 had increased to Rs. 10.11 per tonne in 1967. It appears to the Committee that merely because the Government were aware about the uneconomic nature of the project, the management has been indifferent towards controlling the operating cost. As costs are still continuing to rise the Committee urge that all efforts should be made to bring down the operating cost. The Committee also hope that vigorous efforts will be made by the management to raise the production to the stipulated level of 2 million tonnes per annum as early as possible so that the overhead cost per tonne is minimised. (Para 63)

Reply of Government

In the Expenditure Finance Committee memorandum which was prepared on the basis of the report of the Japan Consulting Institute and other factors, the operating cost was indicated as Rs. 5.71 per tonne. However, in the budget for 1961, the figure of Rs. 5.15 per tonne was adopted. At the time of devaluation of £ sterling in November 1967, it was anticipated that the operating cost might increase to Rs. 10.11 per tonne. However, as a result of efforts made to control the operating cost, the actual figure for 1967-68 was Rs. 8.74 per tonne. Efforts to reduce the cost further are being continued.

The level of production during the last three years has been as follows:

1966-67	..	18.86 lakh tonnes.
1967-68		19.23 lakh tonnes.
1968-69 (upto 31.8.68)		7.61 lakh tonnes.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 17)

The Committee hope that the suggestion of the Administrative Staff College regarding cost reduction would be carefully implemented and all possible measures would be taken to reduce the cost of production without further delay. (Para 64)

Reply of Government

In pursuance of the suggestions of the Administrative Staff College, action has been initiated for the establishment of efficiency norms in respect of various activities and operations involved for determining the standard cost of production. While evolving these norms, attention is also being paid to reduce the surplus manpower, as indicated in the reply to Recommendation No. 10 as also the present level of inventory.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 18)

It will be seen that during the pre-devaluation period NMDC suffered losses on its sale because its cost of production was much higher than the price received by it from MMTC. After devaluation the Corporation could have earned some profit but owing to imposition of export duty it failed to do so. With the devaluation of £ Sterling the sales realisation of NMDC from Japan has been reduced by about Rs. 8 per tonne. The execution of the Kiriburu Iron Ore Project has been taken up for the mutual advantage of both India and Japan, but under the existing terms of the contract, NMDC cannot make any profit out of this deal unless it lowers its cost of production. It is pertinent to mention here that even after knowing the uneconomic nature of the project, the Kiriburu Iron Ore Project was assigned to NMDC in pursuance of an agreement entered into between the Government of India and the Japanese Steel Mission in 1958. The Committee feel that if the Government want NMDC to function as a commercial undertaking they should devise ways and means so that the earnings of the Corporation from sale of iron ore do not fall below its cost of production. (Para 72 & 73)

Reply of Government

The rate of export duty for certain grades of ore have been reduced by Government w.e.f. 31st August, 1968. However, it has been worked out that the reduction in case of exports of Kiriburu ore would be only to the extent of Rs. 2.50 per tonne. This would reduce the loss from Rs. 9.56 per tonne to Rs. 7.06 per tonne. Proposals are under consideration to allow financial reliefs to the N.M.D.C. so that the export operations could be undertaken on normal commercial principles.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 20)

This goes to prove that NMDC itself was not vigilant and anxious to realise its dues from MMTC. Had the management made serious efforts to realise the outstandings the payment of which MMTC made in March 1966 could have been obtained earlier.

This regrettable lapse on the part of NMDC to realise its outstandings from MMTC had serious repercussions on its finances. On the one hand it had to divert its capital loans to meet its revenue operations and on the other it had to default in the repayment of the loans. Had this outstanding amount been obtained earlier, NMDC would have been able to meet its revenue operations and pay back its own liabilities towards Government loans drawn by it.

It is curious that even the administrative Ministry, although it was aware of the financial difficulties of NMDC did not take any action to solve this financial tangle. The Committee regret to note that in this case, NMDC was too complacent to look after its own good and the Ministry also failed to give proper advice and direction at the appropriate time. (Paras 85 & 87).

Reply of Government

Concerted efforts have been made not only to obtain outstanding dues from MMTC, but also to ensure that the payments due to NMDC for the current shipments are made adequately and regularly. As a result of these efforts it was possible to obtain from MMTC outstanding dues to the extent of Rs. 1.5 crores during January—March 1968. The realisation are now being secured on a regular basis.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. o. 4(9)/67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 21)

N.M.D.C. has been passing through period of acute financial stringency. Non-receipt of sale proceeds in time has compelled

N.M.D.C. to divert its capital funds to meet the increasing working capital requirements which ultimately result in increased interest charges. Due to incurring heavy losses and the difficult ways and means position, in the past the Corporation has not been able to pay interest charges on the capital loans from the Government resulting in the payment of penal rate of interest. In view of this position the Committee recommend that the Goverment should take immediate steps to ensure that NMDC gets its full dues realised without any further delay. (Para 89).

Reply of Government

The position of realisation of dues from M.M.T.C. is indicated below :-

		Quantity shipped (Lakh tonnes)	Amount received from M.M.T.C. (Rs. in lakhs)
1964-65	—	1.44	nil
1965-66	—	7.98	100.00
1966-67	—	17.68	189.00
1967-68	—	19.02	245.00
1968-69 (1-4-68 to 26-10-68)		16.96	181.49

Out of amount of Rs. 245 lakhs received during 1967-68, a sum of Rs. 150 lakhs was received during the period January|March 1968. As soon as this amount was received, the outstanding interest charges on the capital loans from the Government accrued upto 31st March, 1968 were cleared and re-payment of first instalment of the loan also made, thereby bringing the position in this regard up to date.

As a result of improvement in the procedure, it has been possible to secure from M.M.T.C. payments amounting to Rs. 181.49 lakhs during the current financial year upto 26th October, 1968. The position of payment is being progressively quickened and efforts are being made to further streamline the procedure.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 22)

From the analysis of the figures it has been observed that while the devaluation of the £ Sterling has certainly had an adverse effect on the profitability of the project, the other factors such as imposition of export duty at the rate of Rs. 10.50 per tonne and increased cost of production to the extent of Rs. 6 per tonne are equally responsible for making the project an uneconomical one.

The wisdom of taking up a losing commercial venture is in itself questionable. But having launched the project and invested huge funds therein the Government and management should have taken all steps to keep the losses to the minimum. The Committee are not sure whether there is any hope of the project becoming profitable in the near future. They can only urge that no efforts should be spared to reduce costs and increase production so that losses can be minimised to the extent possible, if they cannot be eliminated (Paras. 92-93 No. 92-93).

Reply of Government

As regards the impact of the devaluation of £ Sterling it may be mentioned that it has been possible to obtain from the Japanese buyers the corresponding mark-up in the price of Kiriburu iron ore from 15th February 1968 onwards; the period between 19th November 1967 (the date of devaluation of £ Sterling) and 14th February 1968 being covered because of the forward purchase of Sterling by the MMTC.

As stated in reply to Recommendation No. 16 Government have recently modified the rate of export duty in respect of grades upto 63% iron content. This would give to the Kiriburu iron ore mine operations a relief of about Rs. 2.50 per tonne.

As regards the cost of production, it may incidentally be mentioned that as compared with the earlier figure of Rs. 11.61 per tonne, the latest figure as Rs. 16.50 per tonne i.e. an increase of Rs. 4.89 per tonne. The main reason, for increase in the cost of production is general escalation in prices. It may, however, be reiterated that NMDC will continue to take all the steps to reduce the controlable elements of the cost of production and to maintain production at the optimum level.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 23)

The Committee feel that as a major reason for the Project's inability to reach full production in time was the delay in the completion of the ore handling plant at Visakhapatnam, the Port authorities cannot be absolved of bearing some part of the initial losses.

The Committee were informed that the whole question of distribution of losses being incurred by the Kiriburu Project right from the beginning was being reviewed comprehensively. Negotiations were also taking place with the Japanese whether to some extent the adverse effects of the devaluation of the £ sterling could be made up. The Committee hope that some settlement on this matter will be reached in the near future. (Paras. 89 & 90).

Reply of Government

The principle of sharing the losses on the Kiriburu iron ore export operations was accepted by the Cabinet, in 1958, while approving the project. In pursuance of this decision, the Committee of Secretaries on Iron Ore Export considered the matter from time to time and fixed Railway freight and port charges from time to time. However, the Railway freight and port charges continued to be revised upwards periodically. Therefore the N.M.D.C. and the Department of Mines and Metals have again, during this year, requested the Committee of Secretaries to consider the matter in all its prospective and suggest ways and means for sharing the losses incurred by N.M.D.C. so far and in the future. The Committee felt that the Finance Ministry might separately consider the possibility of giving relief to the N.M.D.C. by granting a morotorium of interest on Government loans. In pursuance of this, detailed proposals were made to the Finance Ministry in March, 1968. That Ministry has constituted a Committee to go into this matter and a final decision is awaited.

Necessary mark-up in the sale price of iron ore has been obtained from the Japanese buyers as a result of the devaluation of £ sterling.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67 MVI, dated 7th January, 1969].

Recommendation (Serial No. 25)

Performance of N.M.D.C. in regard to exploitation of iron ore at Kiriburu has not been very happy. This was so primarily because it started the work there on the basis of a defective Project Report. While it is satisfying to note that certain changes have been included in the revised Project Report to remove the doubts expressed by the Japanese firm in raising 4 million tonnes of ores per annum from Deposit No. 14, the Committee cannot be sure about the outcome till the project goes into full production. The Committee hope that the management will exercise utmost care and promptitude and make concerted efforts in executing the project and avoid the repetition of sad performance in Kiriburu. (Para 105).

Reply of Government

Noted.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 26)

The Committee regret to note that the capital estimates have not been finalised up till now even though the project is nearing completion. There has been increase of about 50 per cent in the provisional revised estimates over the original estimates. The failure of NMDC to finalise the estimates indicates that the management has not been able to assess the project requirements up till now. The Committee takes a serious view of this lapse and urge that the capital estimates for Bailadila Deposit No. 14 should be finalised without any further loss of time.

It will be observed that there has been an increase of Rs. 146.00 lakhs due to increase in the scope of work; an increase of Rs. 123.00 lakhs for delay in completion of the work including Rs. 63 lakh interest charges and an increase of Rs. 215.00 lakhs for inadequacies in provision for various works. These upward revisions in estimates are bound to reflect adversely in the cost of production. The Committee consider such upward revisions most undesirable from the point of view of economics of the project. They regret to note that the management of NMDC even after its initial failure in making a correct estimate for the Kiriburu Project and an experience of 10 years has not learnt from its past mistakes and again failed to prepare a satisfactory project estimate for the Bailadila Project. (Paras. 109-110).

Reply of Government

The revised estimate based on actual figures indicating the reasons for variations, have since been prepared and are under scrutiny.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 28)

It will be soon that the construction of the project has been delayed by more than one year and an additional expenditure of Rs. 123.00 lakhs had to be incurred due to this reason. The Committee are constrained to note that NMDC has not been able to complete its second iron ore project even according to the latest revised schedule drawn less than a year ago. Constant revision of the schedules indicates lack of coordinated planning on the part of the management. Even now commencement of the initial trial production depends upon getting the power supply. The Committee would urge upon the Management to take all steps to ensure that there is no delay on the part of the M.P. Electricity Board to supply the power by the end of April as promised. (Paras. No. 119).

Reply of Government

As a result of concerted efforts at the highest level, the M.P. Electricity Board completed the power lines and energised them in the third week of March, 1968. Immediately thereafter the trial runs of the mine and the Plant were commenced.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 29)

The Committee regret to note that the decision to engage M|s Mitsubishi Shoji Kaisha for preparing the feasibility report on the pellestisation and beneficiation of iron ore fines and blue dust at Bailadila was taken more on the consideration of export market rather than on the merit of the firm. It is surprising that on the plea of creating conviction in the export market, an Indian laboratory like National Metallurgical Laboratory was ignored and denied any opportunity of consultation. If Indian institutions of standing are not given chance to take up advance projects in their line the pros-
not given chance to take up advance projects in their line the pros-
pects of developing indigenous know-how are very bleak. The Com-
(Para. 123).

Reply of Government

The entire question of engaging consultants for conducting feasibility studies on pelletisation has been reviewed and it is agreed that, to the maximum extent possible, the services of Indian agencies available in the field should be utilised. As a measure in this direction, M|s. M. N. Dastur and Co. (P) Ltd. have been engaged as Consultants for feasibility studies on pelletisation of iron ore fines from the mines to be set up by the NMDC at Donimalai in the Bellary Hospet area. It is envisaged that tests on the iron ore from Donimalai would be conducted at the National Metallurgical Laboratory with the assistance of the consultants.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 32)

The Committee feel that it is the duty of the Government of India to see that the Bailadila Iron Ore Project does not suffer losses for reasons beyond its control. They hope that the Government of India will consider the advisability of giving necessary relief to the project by way of providing rebate on the export duty, reducing the railway freight and port charges, etc. so that the project may give a reasonable return on the huge investment made therein. (Para 133).

Reply of Government

Proposals for affording necessary reliefs to N.M.D.C. in the context of the losses on Kiriburu and Bailadila Iron Ore export operations are already under consideration of Government.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 37)

The Committee feel that the project estimates which are so frequently revised—four times in this case since 1961—have no utility. Moreover, economic viability and profitability of a project cannot be judged if its capital estimates are revised so often. The Committee hope that NMDC in consultation with the Government of India will draw up a realistic project estimates for Panna Diamond Mining Project and then make every effort not to exceed them. (Para 159).

Reply of Government

The present scheme, sanctioned by the Government in December, 1967, for development of Majhgawan and Ramkheria mines to achieve a rated capacity of 23,250 carats per annum is estimated to cost Rs. 336 lakhs (Rs. 173 lakhs net) out of which Government have provided Rs. 171 lakhs and the balance is to be met by sales of diamonds. Every effort will be made to see that this estimate is not exceeded.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 38)

The Committee feel that the execution of the project has been inordinately delayed. Principal reasons for delay were that NMDC at the beginning started working on a project report based on incomplete data and later the Ministry did not sanction the projects promptly. The Committee while regretting the past delay, hope that the projects as sanctioned now will be completed expeditiously. (Para 165).

Reply of Government

Every endeavour is being made to ensure that the scheme being currently implemented is completed as expeditiously as possible.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 39)

The Committee fail to understand how the project could be deferred for reasons of economy without working out the economics of deferring the project. They regret to observe that the Government's decision regarding deferment of the project was taken without taking into account the financial implications of the deferment. The Committee desire that in future before taking any such decision the Government should have the financial implications of deferring a project in midstream worked out. (Para. 167).

Reply of Government

Noted.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th April, 1969].

Recommendation (Serial No. 40)

The Committee agree that the scheme based on the Hungarian plant involved higher capital cost including some foreign exchange but it cannot be denied that the scheme would have given five times more profit than the present sanctioned scheme. Moreover, the Hungarian plant was a new plant with a longer life. The Committee feel that the sanction of the scheme based on the second hand plant was not a wise step in view of the fact that the plant will have to be replaced after four or five years and NMDC will again be faced with the difficulty of procuring another treatment plant, which would involve much greater capital outlay owing to increase in price during the intervening years.

As regards the Government's plea for cautious approach it may be observed that NMDC has spent more than eight years in the exploration work and it is high time for the Government to decide whether the exploitation of diamond deposits at Majhgawan at the envisaged scale is feasible on a commercial basis or not. (Paras 171 & 172).

Reply of Government

Keeping in view the availability of financial resources as well as foreign exchange, it was decided after careful consideration to go in for the second hand plant.

The commercial feasibility of exploitation of the diamond deposits in Majhgawan based on the underground mine would be established when the underground sampling operations are completed.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 41)

It would thus be seen that the Majhgawan Scheme based on the Hungarian Plant involved an additional expenditure of about Rs. 1 crore including foreign exchange content of Rs. 58.36 lakhs but the anticipated profit of the Majhgawan Scheme based on the Hungarian plant would have worked out to more than Rs. 25 lakhs, *i.e.* five times more than that of the present sanctioned scheme. Thus if this scheme had been sanctioned, the additional investment required for the purpose could have been made up within a period of 5 years by enhanced income. The argument about scarcity of foreign exchange is not very convincing. The plant required rupee foreign exchange of only Rs. 58 lakhs and the plant was proposed to be obtained against the Trade Plan with Hungary. Moreover, the Majhgawan mine has been designed and developed for the production of 22,500 carats of diamond per annum whereas the production capacity of the second hand plant is only 12,000 carats per annum and the plant has to be replaced after 4 or 5 years.

The Committee are not convinced of the wisdom of the Government's decision in not sanctioning the Majhgawan Scheme based on the Hungarian Plant. They feel that the decision of the Government in sanctioning the scheme based on the second hand plant was taken on consideration other than those of the profitability of the scheme. (Paras 176-77).

Reply of Government

As already stated in reply to recommendation No. 40, it was decided to go in for the second hand plant after keeping in view the availability of financial resources as well as foreign exchange.

The commercial feasibility of exploitation of the diamond deposits in Majhgawan based on the underground mine would be established when the underground sampling operations are completed.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 42)

The Committee are surprised to note that a project having received priority in the Third Five Year Plan and taken up for development, was deferred by the end of that plan for reasons of economy and low priority. The Committee feel that if the Government decisions are subjected to such frequent changes, investments on Public Sector Undertakings, are found to be erratic and uneconomic. Of all the projects taken by NMDC so far the Panna Diamond Mining Project alone has proved profitable where the Government could have earned the maximum return on minimum investment. The Committee trust that the Government would reconsider their decision and diamond mines at Panna would be exploited to their rated capacity. (Para 180).

Reply of Government

Noted.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 43)

The Committee feel that as far as possible, in future, Government should not enter into such agreements with other countries which will put them under the obligation of importing machinery from those countries. In view of what the Mining and Allied Machinery Corporation Ltd. and the Managing Director of NMDC have stated the Committee expect that NMDC would procure its future requirements of machinery and stores from the indigenous sources. The Committee suggest that the Government should strictly control the purchase of foreign mining machinery. (Para 185).

Reply of Government

The orders for the crushing, screening and ore handling plants required for the development of Bailadilla Deposit No. 5 and the Kiriburu Expansion Modification programme are being placed on Heavy Engineering Corporation on the basis of the negotiations conducted with them. Other equipment is also being obtained from MAMC, Bharat Earthmovers Etc. The policy of procuring requirements of machinery and stores from indigenous sources will be followed to the maximum extent practicable.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 44)

The Committee feel that the future economics of the Iron Ore Projects depend to a large extent on the development of the ports. The distance between India and Japan is about the same as that between Australia and Japan, while the freight charges paid for carrying iron ore from India to Japan are more than for that carried from Australia to Japan. In order to compete with Australia keeping in view their developmental plans and to earn larger foreign exchange it is necessary that the freight charges be brought down. This can be achieved only if Visakhapatnam Port is enlarged and developed to take in ships of 1,00,000 tonnage. The ore handling and loading equipment with a rate of 6,000 tons per hour will also have to be installed there to speed up loading of iron ore into ships. The Committee recommend that the Government should give the highest priority for establishment of those facilities in the shortest possible time. (Para 188).

Reply of Government

With the indications becoming available that increasing quantities of export of iron ore to Japan through Vizag. Port, larger ships would be required, the Port appointed a Consultant to study and submit a Feasibility Report for handling vessels of 100,000 to 150,000 DWT. The Feasibility Report was received in May 1968 and has been accepted in principle. The proposal to appoint Consultants for the preparation of a detailed Project Report for the construction of an outer harbour at Vizag. is under consideration of the Government.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 45)

The figures indicated that within a period of five years motor vehicles and cycles have increased by about 5 times. It is true that mining activities of NMDC have been expanding and it has been taking up more mines for development and exploitation. But the rate at which motor vehicles have been added seems very high and also the total number maintained now in comparison with its operation. Keeping in view its strained financial position the Committee recommend that expenditure under this head should be brought down. (Para 190).

Reply of Government

Noted.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 48)

The Committee deplore the delay that has taken place in taking action against the officer. If the inefficiency and negligence of an officer is not brought to light immediately, and necessary action is not taken against him in time, it will create an impression that the management is powerless to take action against inefficient and negligent persons. The Committee recommend that such cases of inefficiency and negligence should be dealt with effectively and promptly. The Committee are also not satisfied with giving of a warning only to the defaulting officer. (Para 198).

Reply of Government

The recommendation of the Committee that such cases should be dealt with effectively and promptly is noted.

Regarding the punishment given to the defaulting officer, it is submitted that all the facts of the case were placed before the C.V.C. and their advice obtained. The officer was administered a warning as per advice of the C. V. C.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 27th February, 1969].

Recommendation. (Serial No. 49)

The Committee feel that the various deficiencies pointed out by the Company Auditors indicate lack of proper control on the part of the management. They recommend that necessary steps should be taken immediately to remove the defects in the systm of accounting of the various projects of N.M.D.C. (Para 201).

Reply of Government

The deficiencies in the system of accounting pointed out in the audit reports are being reviewed by the N.M.D.C. in consultation with the Company Auditors with a view to seeking the removal of the defects.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 50)

The Committee cannot accept the reply of the management without reservation. If the procedure for periodical checking of cement stock was in vogue, then the loss should have come to notice earlier. But no loss of damage to cement bags was brought to the notice of General Manager till he himself in the course of his inspection noticed it.

This only shows that all these rules and procedures existed only on paper and were not being fully implemented. The Committee recommend that procedures for periodical stock verification and inspection of storage arrangements should be strictly enforced, so that up-to-date stock position of various items is maintained and losses, if any, are brought to the notice of the General Manager immediately. (Para 205).

Reply of Government

The necessity for conducting periodical stock verification and inspection of storage arrangements on regular basis has been impressed upon the projects.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 57)

The Committee feel that taking such a large number of people on deputation has created dissatisfaction and bitterness among the employees of NMDC. Deputationists besides being costly on account of the incidence of deputation pay, leave salary and pension contribution, cannot always give their best to an organisation because they have no permanent stake in the undertaking. Moreover most of the staff coming from the Government departments are used to a different way of working which might not be suitable for a mining undertaking like NMDC. NMDC was set up about 10 years ago. The Committee find no justification for its failure in not having recruited, trained and developed adequate number of personnel for the efficient running of the organisation. The Committee recommended that steps should be taken to build up a strong cadre of staff from within the organisation so that dependence on deputationists is minimised. (Para 234).

Reply of Government

The observations of the Committee will be kept in view in the matter of personnel policy of the Corporation.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 61)

The iron ore projects are vital for the economy of the country both from the point of view of exports as well as internal requirements of the steel plants. Therefore every effort has to be made to work them at the lowest cost. The Committee hope that the various deficiencies pointed out in this Report will be overcome with a view to make these projects fully productive and economically viable. (Para 242).

Reply of Government

NMDC will continue to keep these objectives fully in view in operating the two projects to the extent the factors are within the control of the Corporation and will continue to seek proper adjustment in respect of the external factors.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

CHAPTER III

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

Recommendation (Serial No. 2)

The Committee regret to note that the contract for the consultancy services was given to a firm which was not fully qualified for the job since it had no previous experience in the line and whose quotation was not the lowest. They are surprised that the appointment of the consultants was made on the consideration of availability of foreign exchange in their country rather than on their technical competence. (Para 16).

Reply of Government

Before finalising the contract with the Japan Consulting Institute, full particulars regarding their technical standing and ability to undertake the consultancy services for the Kiriburu Iron Ore Project were ascertained from the Embassy of India in Japan. The Mission reported, in January 1959, that the Institute was set up by the Government of Japan as a non-profit making Government subsidised organisation to enter into contracts for consultancy services; for its consultancy services for specific jobs the Institute enlisted the services of experts from its members, about 17 private principal industrial concerns as per Appendix I. So far as the question of their appointment as Consultants for Kiriburu Project was concerned, the Embassy advised that the Institute was perhaps, the most eminently suited in Japan and that for this Project the Institute would enlist the cooperation of Nittetsu Mining Co.

In addition to technical competence, the availability of foreign exchange to finance the Project was also one of the principal considerations. After full consideration of all the relevant factors it was finally decided to enter into a contract for consultancy services with the Japan Consulting Institute.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 3)

The Audit pointed out that since the agreement with the Japan Consulting Institute was based on the investigation report of the Indian Bureau of Mines, a clause in regard to lump-fine ratio should have been included in the agreement. The Managing Director admitted that non-inclusion of such a clause was an ommission. The Committee agree with the views expressed by Audit and desire that the responsibility should be fixed on the person responsible for the lapse. (Para 25).

Reply of Government

In this connection reference is invited to clause 3 of the consultancy agreement with Japan Consulting Institute which is reproduced below:—

"3. The Consultants shall provide advisory and supervisory services at their own cost and expense in respect of the Project as fall commonly within the scope and functions of consultants and among other things with regard to the following—

Stage—I Exploratory work and preparation of schemes:

(a) review the Indian Bureau of Mines' exploratory programme and recommend any modification necessary to enable the Consultants properly to assess the ore reserves including their physical grading and analysis;

(b) review and confirm or revise as may be appropriate final report of the Indian Bureau of Mines regarding ore reserves;

(c) advise on ore testing, i.e. the grading and analysis of the physical and chemical properties;

(d) prepare characteristic cross and longitudinal sections of the open cut operations and development plan giving the scheme of projected development of the mining for a period of at least 30 years, working on two shifts, together with estimates of capital and operating costs for approval by the Corporation;"

It may be submitted that although the lump-fine ratio is not specifically referred to therein, this could be considered to have been covered by the clause which is all embracing.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 12)

It will be seen that although the plant was ready for production in July, 1963 no concerted efforts were made to go into full production and sell the output within the country for use by the Indian Steel Plants. On the contrary the management kept waiting till April, 1964 for trial production. If non-completion of the mechanical Ore handling Plant at Visakhapatnam had been the reason for starting trial run then there is no reason why the management started trial production in April, 1964 because the mechanical ore handling Plant was ready only in August, 1965. The committee could not find out any valid reason for which management should have waited till April, 1964 for trial production. They feel that the management of N.M.D.C. did not take care initially to have the test run performed in time and when it saw that the matter was getting too much delayed it allowed the plant to go into production in April, 1964. The Committee are of opinion that had the test run been performed in August, 1963 at least the deficiencies of the plant would have come to notice and timely action could have been taken to remove the defects. They are unhappy to note that the project authorities failed to use foresight in this respect. It is also regrettable that the Ministry of Steel, Mines and Metals, inspite of getting periodical reports, did not take any initiative in the matter. (Para 52).

Reply of Government

Though the plant was ready in 1963, regular production could not commence till April, 1964, since there was no outlet for ore from the mine. Efforts to sell the ore to Durgapur and Rourkela Steel Plants were made directly by the NMDC as well as by this Ministry. No supplies to Durgapur could be made due to operational difficulties of the Railways. Moreover both the Indian Steel Plants *viz.* Durgapur and Rourkela had developed their own captive/associated mines and also entered into commitments for regular supplies from other sources. In any case, some supplies of ore were made to Rourkela on the basis of their demand. As regards the possibility of export of ore till April, 1964 the same could not be done due to frequent breaches on the Railway line between Kirburu and Badamunda and inadequate loading facilities at the port. It was only after the agreement was signed by MMTC with Japan on 24th April, 1964, and loading facilities at Port through manual means were improvised, that Kiriburu could start production and despatch of ore to Vizag. The production at Kiriburu had to be limited even thereafter to match the off-take capacity of the manual berth.

Due to the reasons indicated above the plant could not be run on full capacity and hence the performance tests could not be completed.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 13)

The Committee feel that there was not enough justification for limiting the production to a level much lower than the rated capacity of 2 million tonnes per annum during the years 1964-65 and 1965-66. This would be evident from the fact that MMTC who was responsible for distribution of iron ore among the Indian Steel Plants, was not approached during these periods for taking supply of ore from Kiriburu for use within the country. The administrative Ministry also does not appear to have given any guidance in this regard. The Committee are not happy with the situation in which the production level was kept limited. They hope that in future in case of emergence of any export difficulty the management would take all possible measures to dispose of ore within the country. (Para 53)

Recommendation No. 14.

It would appear that besides external hindrances there were other Internal reasons due to which the plant failed to attain the rated capacity of 2 million tonnes per annum. The Committee recommended that reasons for non-attainment of rated capacity of 2 million tonnes per annum should be analysed and the management should make concerted efforts to remove those difficulties so that the plant may achieve the rated capacity without any further delay.

Reply of Government

The same remarks apply as given in respect of recommendation No. 12. The project has achieved the following levels of production:—

Year	Production	Despatches	Shipment	Foreign Exchange earned (Rs. in lakhs)
		(lakh tonnes)		
1964-65	2.42	1.83	1.83	53.00
1965-66	9.36	8.82	7.97	295.00
1966-67	18.86	18.75	17.68	956.00
1967-68	19.23	19.23	19.02	1082.00
Total :	49.87	48.63	46.11	2387.00
1968-69 upto 31.8.1868.	7.59	7.65	7.12	406.00
	57.46	56.28	53.23	2793.00

It would be seen that the production level has been progressively increasing. In 1967-68 the project has produced 1.923 million tonnes of ore against the rated capacity of 2 million tonnes.

Due to change in the lump fine ratio, it is now considered necessary to process 4 million tonnes of ROM to get 2 million tonnes of sized ore. This is against a capacity of 3.3 million tonnes of ROM for which the mine had been designed. This higher level of production can be achieved only by additional investment on the mining equipment. The matter has been carefully analysed specially in view of the forthcoming expansion and modification of the Kiriburu Project to meet the requirements of Bokaro Steel Plant by the middle of 1970 onwards and it has not been considered advisable to invest further in this project for this period for a small additional quantity.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 24)

While the merit of the prospecting work done by the IBM is not known to the Committee, they fail to understand why the Planning Division of NMDC which is equipped with highly paid technical officers did not carry out detailed prospecting work but depended solely on the data furnished by the Indian Bureau of Mines. In the case of Kiriburu Project detailed prospecting was done by the IBM. The troubles and losses of NMDC at that project were attributed to the defective prospecting done by the IBM. The Committee wonder if NMDC has not again assigned the work to the IBM in order to escape responsibility. They feel that if NMDC was not capable of undertaking the job itself its Planning Division should have supervised and checked the performance of the IBM so that it could be held responsible for the shortcomings if any noticed later on. (Para 102)

Reply of Government

While detailed prospecting at Deposit No. 14 was being done by IBM, N.M.D.C. had deputed its own Mining Engineers, Geologists and Surveyors to be associated with the day to day prospecting and make independent interpretation of the results of prospecting. The following is the quantum of work done by the IBM and the additional prospecting, quality control and blocking work done by the NMDC.

Item	Prospecting work by IBM	Additional work done by the NMDC
Drilling	1090 metres	2011 metres
Pitting	350 metres	380 metres
Aditing	81 metres	—
Tranching	—	45 metres
Samples drawn and analysed.	1011	5550

The Corporation has also prepared detailed bench-wise geological plans, indicating the iron ore contents, lump-fine ratio and other characteristics of the ore body on different horizons likely to be mined during the first five years of the life of the mine. Thus, the NMDC has not depended solely on the data furnished by the IBM but has carried out prospecting work on its own in addition to the work done by the IBM.

[Ministry of Steel. Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 27)

It is clear that the management of N.M.D.C. has neither adhered to the original project estimate of establishment charges nor made any formal revision of the estimates. On the contrary, for some reasons or the other it allowed the expenditure to run on the high side without fixing any limit. The Committee are not satisfied with the manner in which the establishment charges have been allowed to be increased. There may be some justification for marginal increases but a three hundred per cent increase in establishment charges is hardly justifiable. The Committee regret to note that the management of N.M.D.C. exercised little control over the establishment charges of Bailadila Deposit No. 14. Taking account of this with its performance at the Kiriburu Project, Committee cannot but recommend replacement of the whole set up responsible for this state of affairs. (Para 115)

Reply of Government

Against the provision of Rs. 54.50 lakhs in the project report, the actual expenditure on establishment charges incurred till the end of December 1967, had been indicated to the Committee as Rs. 158 lakhs. The expenditure actually incurred under this head has since been thoroughly scrutinised by the N.M.D.C. and it has been found that a certain portion of the expenditure which should have been accounted for under other heads had been incorrectly debited to the head "Establishment and Other Expenses". The necessary rectification has since been made in the revised estimate and on this basis the revised provision comes to Rs. 127.48 lakhs. The difference between the original provision and the revised provision is mainly due to the following reasons:—

(a) *Increase in D.A.*—Estimate of expenditure under the head "Establishment and Other Charges", was prepared for purposes of the Project Report, on the basis of the rates of D.A. which were then in force. These rates, however, under-went increases from time to time on the basis of the enhancement in D.A. given effect to by the Government of India. The increase in the D.A. rates during the period of construction of the project has, on an average, been of the order of 50 per cent of the basic pay in the case of some of the categories of staff. In the overall the increase in the expenditure attributable to this factor has been 20 per cent of the basic wage bill amounting to Rs. 11 lakhs during the entire period of construction.

(b) *Cost of Civil Engineering Staff.*—For purposes of accounting requirements this items of cost has been included in the head "Establishment and Other Charges", although the provision therefor was made in the project report as debitable to the cost of the respective civil works. The amount involved is Rs. 16 lakhs.

(c) *Delay in the Completion of the Project.*—According to the Project Report, it was anticipated that the project would go into production by October, 1966. Trial production, however, commenced on 7th April, 1968 with the supply of power by the M.P. Electricity Board. The delay in the trial commissioning of the project has been due to the following reasons apart from the delay in the supply of power:—

(i) Due to extreme remoteness of the area and non-availability of the approach road to the mine site opening of the base camp at the works site was held up. Connecting roads were partly to be constructed by PWD and partly by the contractor.

(ii) Late arrival of the machinery at the site.

(iii) Change in the site conditions of the crushing plant, tunnel and the primary stock pile.

There was, thus, a delay of nearly 18 months in the commencement of trial production. On the basis of monthly average expenditure of Rs. 2·56 lakhs on pay and allowances of officers and staff over this period, the additional expenditure incurred under this head came to nearly Rs. 46 lakhs.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 33)

The Committee have learnt with great regret that the Kiriburu and the Bailadila iron ore projects are going to run at loss. According to the present estimates the annual loss will be Rs. 512.40 lakhs. Considering the fact that the private sector is also exporting iron ore to Japan and is making a profit, the Committee draw the only natural conclusion that the projects will be running into losses because of the failure of the management of N.M.D.C. As recommended earlier the Government should immediately weed out from N.M.D.C. those who do not come up to the mark. (Para 134)

Reply of Government

The figure of Rs. 512.40 lakhs was estimated as the annual loss on the operation of the Kiriburu and Bailadila iron ore mines in the context of the devaluation of the sterling in November, 1967. It was, however, possible later to get from the Japanese buyers necessary mark-up in the price of the Kiriburu ore corresponding to the devaluation of the £ sterling. The price for Bailadila ore for the year 1967-68 and 1968-69 has been negotiated at $ 9.73 per tonne. However, with certain changes in the rates of Railway freight, payment of port charges, export duty etc, the total annual loss on operating these two mines works out now to Rs. 292.94 lakhs as detailed in appendix II & III. Apart from the fact that the Railway freight and port charges are being recovered by the respective agencies on the basis of their own commercial principles it may be pointed out that the total annual earnings of the Government on account of the export duty on iron ore from these two mines would aggregate nearly Rs. 5½ crores, when Bailadila attains full rated capacity of 4 million tonnes per annum. Even if the export duty earnings of the Government are set off against the losses of NMDC there is really no loss to the economy, the question being one of a rationalisation of the distribution of the sale proceeds among the various agencies involved.

It will also be noticed from Annexure I that against the budgeted cost of Rs. 11 per tonne in the case of Kiriburu mine, the actual operating cost is now going to Rs. 8.7 per tonne which constitutes only 13.6 per cent of the total f.o.b.t. cost. Similarly in the case of Bailadila project, the operating cost of Rs. 6.74 per tonne comes to only 9.32 per cent of the total f.o.b.t. cost.

The private sector which is also exporting iron ore to Japan may even be making a profit on the operations but it may be pertinent to mention that in addition to the fact that the Kiriburu and Bailadila iron ore mines are much larger in areas and fully mechanised as compared to mines in the private sector, the initial development infra-structure by way of provision of the transport communication and utilities in completely backward areas has necessarily had to be hired. Moreover, agencies like the Madhya Pradesh Electricity Board have had to incur heavy capital expenditure on laying the necessary transmission lines over a distance as much as 300 Kms for the supply of electricity power to the project at Bailadila. This in turn has resulted in the NMDC having to pay to the Madhya Pradesh Electricity Board an immediate guaranteed amount of Rs. 20 lakhs per year although the current consumption of power is barely 1/10th of this amount and even when the plant is in full production, the total consumption may not give initially the immediate guaranteed payment. It is doubtful whether mines in the private sector would be able to incur charges of this high order. Similarly the levels of wages and amenities such as township and other french benefits made available to the employees at the NMDC's projects are at par with the benefits available to Central Government servants and are, therefore, on an average higher than those available to the employees in private sector mine. All these factors necessarily add to the cost of production. Nevertheless as stated in the reply to recommendation No. 21, efforts will continue to be made to prune the cost wherever possible.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969.]

Recommendation (Serial No. 34)

It is clear that although necessary technical know-how was not available with NMDC, the task of carrying out detailed prospecting and exploration works was entrusted to its Chief Engineer only to satisfy the Administrative Ministry. The Administrative Ministry also does not appear to have considered the ability of NMDC and its Chief Engineer in this regard before according its sanction. These primary lapses led to inordinate delay in the preparation of the final project Reports and their execution. The detailed prospecting and exploratory works are the pre-conditions for successful execution of a Project. The Committee regret to note that NMDC proceeded with the development of the project without getting those basic requirements fulfilled. (Para 139)

Reply of Government

Although at the time of assignment of the Diamond Mining Project to it, the NMDC did not have experience of conducting prospecting and exploratory operations for diamonds, the Corporation did collect and go through the data that was available in respect of earlier operations done in the Panna Diamond Belt by other organizations including Russian Agencies. This information and knowledge was supplemented by a visit by the then Chief Engineer of the Project to Africa, during the course of which he familiarised himself with modern scientific methods of exploration, prospecting, mining, treatment of ore and other aspects connected with establishment and working of Diamond Mines. All this data and experience was put to use in the task of carrying out detailed prospecting and exploration works in the Panna area. These efforts were further supplemented subsequently by the selection and appointment of a firm of Consultants to assist the Corporation in establishing and operating Diamond Mines.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969.]

Recommendation (Serial No. 35)

The Committee come to the conclusion that even though detailed technical know-how for exploiting various diamond deposits was not available with NMDC, the Corporation prepared the Project Reports for Ramkheria and Majhgawan mines in 1961 and this resulted in revisions of the Project Reports. There is no evidence to show that the administrative Ministry examined the feasibility of these reports before according its sanction. The Committee consider it unfortunate that the management of NMDC started working on an entirely unrealistic project report with the full knowledge of the Government. It is still more regrettable that the Project Reports had to be revised more than once and may have to be revised again in future, if the targets envisaged in the original project report are to be achieved. (Para 144)

Reply of Government

As stated in the reply to recommendation No. 34 the fullest use was made of the data then available in regard to earlier operations in Panna as well as of the Chief Engineer's visit abroad to African Diamond Mines. These data as well as the further data assembled during the course of the prospecting operations were assembled in documents including the Project Reports prepared by the N.M.D.C. As soon as the Consultants M|s. John Taylor and Sons were brought in position, all these reports were made available to them and they were requested to review the data and if necessary suggest further programme of prospecting and exploration work. The Consultants scrutinised the data in the light of experience available to them in other parts of the world. Their examination was conditioned by the fact that this was the first time on which large scale mining operations of the deposits particularly of the volcanic pipe at Majhgawan was being attempted in India. It was in these circumstances that they considered it necessary to proceed with the utmost caution and suggested further prospecting work and evaluation of the data before the final mining programme was ultimately drawn up. In fact, in the case of Majhgawan operation are presently being confined to open cast mining of the ore available in the top operations of the ore body. The regular mine at Majhgawan for large scale operations will have to be an underground one, to be designed after completion of the sampling operations to a depth of 300 feet which are in progress and ore expected to be completed during the next 18 to 24 months. It may also be mentioned in this connection that the areas which are now being worked on the basis of the final recommendations of the Consultants, at Ramkheria and Majhgawan are the same that had been proposed for exploitation in the Project Reports originally prepared by the N.M.D.C.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 46)

The Committee are unhappy to note that the public undertakings suffered a loss of Rs. 405 lakhs in a total transaction of Rs. 469.10 lakhs. (Para 193)

Reply of Government

The monetary value of the transaction during the period covered by the Committee's recommendations, reckoned on the basis of the sales realisation on the export of ore, is Rs. 1021 lakhs roundly. The amount of loss of Rs. 405 lakhs referred to in this paragraph is comprised of Rs. 110.68 lakhs incurred by the M.M.T.C. and Rs. 295.30 lakhs incurred by the NMDC till the 31st March, 1967. Consequent on further details which have now become available the actual trading losses of the MMTC are Rs. 72.99 lakhs, out of which MMTC got a sum of Rs. 41.13 lakhs on account of tax credit and after taking into account this, the net loss of the MMTC on account of supply of Kiriburu iron ore to Japan would be Rs. 31.86 lakhs; even this sum includes an amount of Rs. 11.82 lakhs representing the MMTC's service charges.

After the devaluation of the £ Sterling with effect from 19th November, 1967, the situation has changed for the better consequent on—

(a) the mark up in the price of ore secured from the Japanese Steel Mills; and

(b) reduction in the rate of export duty for which a portion of the Kiriburu ore will be eligible from the 31st August, 1968.

After taking into account those factors, the total estimated annual loss on the export of ore from Kiriburu and Bailadila Deposit No. 14 is now estimated at Rs. 242 lakhs as against the sum of Rs. 512.40 lakhs mentioned by the Committee.

It has to be remembered that as a result of production, movement and export of iron ore from the NMDC's mines, revenues have accrued to the Railways and the Port as well as to the Government of India by way of Export Duty on the ore. The revenues so earned will have to be taken into account in reckoning the ultimate quantum of loss involved in the overall transaction. The mater regarding sharing of the losses and the basis of reimbursing the respective charges to the concerned agencies participating in the integrated export programme is under consideration by Government.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969.]

Recommendation (Serial No. 47)

The Committee consider it regrettable that the management gave a wrong statement to the Audit 1964. This was due either to negligence or wilfully done. The Government should investigate and take suitable action against the person concerned. (Para 195).

Reply of Government

The Chairman, National Mineral Development Corporation Ltd., was requested to investigate the matter and report the factual position on it. It is learnt that:—

"In July, 1960, the Kiriburu Project constructed a link road from Barbil to base camp with a bridge over Karo River. Although the bridge was damaged shortly after its completion, it was repaired and was used right upto 1963 for transporting part of plant and machinery etc. received during the construction phase and unloaded at Barbil, as the alternative road could not carry the heavy load. It was only after the construction phase was over that the bridge was under disuse. It was on this basis that National Mineral Development Corporation Ltd. stated to Audit in July, 1964 that there was no proposal to construct a new bridge and that the existing bridge had been in use even after damage to it in August, 1969."

In the original questionnaire issued by the Committee on Public Undertakings, question No. 91(c) asked in this connection was as below:—

Question: It was stated by the Management in July, 1964 that there was no proposal to construct a new bridge and that the existing bridge had been in use even after damage to it in August, 1960. Is the old bridge still being used?

Answer: In reply to this given, in early 1968, it was stated that "the bridge is not in use".

The facts are that the bridge was used for transportation of plant and machinery etc. unloaded at Barbil upto 1963 and it was only after the alternative road had been completed that the traffic was diverted. It would, thus, be observed that the statements made by National Mineral Development Corporation Ltd. in 1964 and 1968 were based on the factual position actually obtaining at these two different points of time.

From the clarification now furnished by the National Mineral Development Corporation Ltd. it would be seen that the management gave the information to the Audit in 1964 and to the Committee on Public Undertakings in 1968, on the understanding that the information required by Audit as it was in 1964 and by the Committee as it obtained in 1968. It is therefore felt that the Corporation did not furnish wrong information either wilfully or negligently. It is regretted that the reply given by the National Mineral Development Corporation Ltd. in 1968 did not clarify the position properly.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI dated the 13th March, 1969].

Recommendation (Serial No. 51)

The Committee are unhappy to note that although the Enquiry Committee submitted its report in November, 1961, the question of fixation of responsibility for the loss was decided by the Board of Directors only in January, 1964, *i.e.* after a lapse of 2¼ years, due to which it was not possible for National Mineral Development Corporation to take any disciplinary action against the persons held responsible. Had action been taken by the Managing Director/Board of Directors soon after the submission of the Enquiry Report, it would have been possible to bring the guilty persons to book. The Committee urge that in future the question of fixing responsibility should be decided immediately after the presentation of the report of an Enquiry Committee. The Committee would also like to know what action was taken by the Heavy Engineering Corporation, Ranchi, against the officer who had been adversely commented upon by a Departmental Enquiry Committee of the Public Undertaking for his negligence during his employment with them.

(Para 207)

Reply of Government

The observations of the Committee have been noted. As regards the action taken by the Heavy Engineering Corporation, Ranchi against the officer, it is submitted that the results of the investigation were communicated by the NMDC to the HEC for taking necessary action against the officer concerned. The H.E.C. on examination of the findings of N.M.D.C. investigation came to the conclusion that since no case of moral turpitude had been made out, it was not possible to take any action against him by the HEC. Another point that came in way of H.E.C. taking any disciplinary action against the officer was the fact that HEC being a separate juristic entity any disciplinary action for negligence of duty in another Undertaking could not be sustained legally. However as a result of the investigation done by N.M.D.C. the observations against the officer were communicated to him.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI dated the 29th January, 1969].

Recommendation (Serial No. 52)

The Committee are constrained to observe that the management of NMDC failed to re-negotiate the contract in tie and later on involved itself in litigation which was avoidable. While the Committee refrain from commenting upon the facts of the case as it is under arbitration, they hold the view that the responsibility should be fixed for the lapses and action taken against the persons responsible for it. .. (Para 211)

Reply of Government

The amount of Rs. 1.75 lakhs withheld from the contractor's final bill has not so far been paid to him. The Arbitrator's award has not yet been published. As regards fixation of responsibility for the lapses and action taken against the persons responsible in this case, it may be resubmitted that the Central Vigilance Commission has advised that there is not enough justification for taking departmental action against the officers and it would be enough if they are asked to be more careful in future. Further action in this case can appropriately be considered after the Arbitrator's award becomes available.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI dated the 7th January, 69].

Recommendation (Serial No. 53)

From the facts of the case, it would appear that the Project Authorities were hesitant to have the case investigated by the Special Police Establishment. When the Special Police Establishment made a report holding six persons of NMDC guilty on charges of misappropriation of iron materials and two persons guilty on charges of negligence of duty, the General Manager found the accused persons innocent. Even though the charges of misappropriation against the accused persons could not be established beyond doubt, it cannot be denied that the management of the project was responsible for lack of control on the accounting and custody of stores which resulted in loss of Rs. 20,520. The Committee deplore the laxity on the part of the management and recommend that measures should be taken for avoiding recurrence of such incidents in future.

(Para 219)

Reply of Government

As already submitted, no disciplinary action was taken against the officers concerned on the advice of the Central Vigilance Commission. In order to avoid recurrence of such cases in future, necessary instructions were issued by the Corporation in June, 1967 (copy enclosed) *vide* Appendix IV.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI dated the 7th January, 69].

Recommendation (Serial No. 56)

The Committee are not convinced with the arguments of the Managing Director for maintaining two offices—one in a hired building in New Delhi where the top functionaries sit and another in its own building at Faridabad where rest of the staff of the head office are located.

There is an acute scarcity of accommodation in Delhi. The distance between Delhi and Faridabad is not much. The Committee feel that there should be no difficulty in transferring the Delhi office to head office at Faridabad. (Paras 229-30).

Reply of Government

The work handled by the National Mineral Development Corporation involves very close and continuous contact with the Ministries of Transport, Railways, Finance & Commerce as also with the Minerals & Metals Trading Corpn. of India and other Governmental agencies in regard to planning and provisioning of railway facilities, supply of adequate rail capacity for movement of the ore, programmes of development of ports and ore handling facilities at the various ports, shipping programme for supply of ore to Japan, foreign exchange releases and other connected matters. The Corporation has recently been assigned the responsibility for setting up a large mechanised iron ore mine at Deposit No. 5 Bailadila, involving a total investment of Rs. 38 crores; the development of another iron ore mine at Donimalai in Bellary Hospet region of Mysore State has also been approved, in principle involving investment of nearly Rs. 22 crores. The expansion and modification scheme of the Kiriburu Iron Ore Mine at an estimated cost of Rs. 12 crores is yet another additional task to be undertaken by the Corporation. These new assignments would inevitably involve substantial day to-day liaison and coordination with the various agencies/Ministries, referred to above. Another significant development in connection with the new assignments is that the Corporation has to take upon itself the bulk of the work of designing and consultancy services. In order to build up a strong and effective design and consultancy service, this unit shall have to be located at such a place where it is easy to expeditiously collect the necessary information and data on various technical problems. Towards this end, the possibility of organising a fully equipped design office of the Corporation in its existing buildings at Faridabad is considered to be an essential and desirable proposition and quite of technical personnel in the existing Head Office of the Corporation at Faridabad would form part of the proposed organisation. In any case, more accommodation must of necessity be provided for the technical officers and staff working for the new organisation. Therefore, it will be necessary to shift elsewhere the remaining officers and staff in essential categories dealing with the planning, production and financial policies. For the successful discharge of the functions assigned to the National Mineral Development Corporation within the time schedule laid down, which is very tight, optimum coordinated efforts in the various fields of activities would be called for. Moreover, Government have already decided to constitute, the Board of

Directors by having three whole-time functional Directors and these Directors would be able to function more effectively in their respective spheres, if they and their essential staff work at Delhi from where the Chairman and the Financial Controller are functioning along with their essential staff. Experience has shown that the present system of spliting up the Registered office and Head Office should be done away with and the Head Office with a minimum possible strength of officers and staff should be located in Delhi, in order to improve efficiency, expedition and economy in the conduct of the business of the Corporation. It is, therefore, felt that the integrated office of the Chairman and the functional Directors of the National Mineral Development Corporation, with minimum possible number of officers and staff, be located at New Delhi.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI dated the 27th February, 1969].

Recommendation (Serial No. 58)

The Committee were surprised to note that without carrying out the techno-economic feasibility study of the project, the Government entered into an agreement with the Japanese Steel Mission for supply of 2 million tonnes of ore per annum from 1964 and subsequently assigned the project to NMDC for development on a set line. (Para-238).

Reply of Government

In the case of large purchases for exploitation of mineral deposits involving heavy capital investment the practice normally followed internationally is first to enter into a firm commitment with the buyer on a long term basis, indicating broadly the area which will be developed for exploitation to fulfil the contract. In accordance with this practice the iron ore negotiating committee of the Government of India entered into an agreement in March 1958 with the Japan Steel Mission under which Kiriburu area was to be developed for the sale of 2 million tonnes of iron ore per annum to Japan for a period of 10 years in the first instance. This development was part of multipurpose integrated scheme, involving the laying of a new railway line to open up to the interior of Bihar-Orissa and to service hinderland; to expand the Visakhapatnam Port and establish modern ore loading facilities at the port to handle the export commitment; and the development of the Kiriburu Iron Ore Deposits. Immediately after the agreement was concluded action was initiated by the Government to select and appoint Consultants as well as to assign the

Project to the NMDC for developing and operating the mine. The same procedure was followed in the case of the development of a mine at Bailadila Deposit No. 14 in pursuance of the subsequent agreement entered into with Japan Steel Mission in March, 1960.

The advantage in following this procedure in the case of Projects at Kiriburu and Deposit No. 14 at Bailadila has been that there was a firm basis for exploiting iron ore deposits and for sale of the ore. In the case of the new projects of the NMDC, however, such an advantage of a prior long term contract is not available and is being sought.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 59)

The Committee noted with regret that the selection of the Consultants for preparation of the Project Report of Kiriburu and instalation of mining plant there was based merely on the availability of foreign exchange in that country rather than on merit. In fact the history of the Kiriburu Project right from the beginning to the present stage of development is full of bad planning and ineffective performance. (Para 239).

Reply of Government

In this connection reply to Recommendation No. 2 may kindly be referred to.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 60)

The Bailadilla Iron Ore Project (Deposit No. 14) has not been completed uptil now against the scheduled date of December, 1966 and the delay has resulted in higher capital costs.

The net results of wrong planning and ineffective management at all levels has been that NMDC has incurred a loss of Rs. 295.30 lakhs up to 31st March, 1967 on the working of the Kiriburu Project alone. Further losses of Kiriburu and Bailadilla Projects are estimated to be Rs. 285.60 lakhs and Rs. 226.80 lakhs per annum respectively. There appear to be no prospects of earning profit in the near future. (Paras 240-41).

Reply of Government

The trial run operations of the mine and plant at Bailadilla Deposit No. 14 commenced in April, 1968, with the availability of power from the Madhya Pradesh State Electricity Board.

The position of losses of Kiriburu and Bailadilla projects is explained in reply to Recommendation No. 33. The question of a meeting losses on the operation of these projects among the various agencies involved in the integrated iron ore export programme is under the consideration of Government.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

CHAPTER IV

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

Recommendation (Serial No. 30)

The Committee are unhappy at the inclusion of such an unfavourable clause in the contract. It prevented N.M.D.C. from getting a feasibility study made by other sources. The existence of such a clause is all the more regrettable because it restricted the autonomy of N.M.D.C. for a specific period of time, and made it wholly dependent for that purpose on one foreign agency. The Committee recommend that the undertakings should exercise due care and caution while drawing up agreements and ensure that such one sided and unfavourable clauses are not allowed to be inserted in the agreements. (Para 125).

Reply of Government

As already stated in reply to Recommendation No. 29, the entire question of engaging consultants for conducting feasibility studies on pelletisation has been reviewed and it has been decided that to the maximum extent possible, the services of Indian agencies available in the field should be utilised.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Comments of the Committee

Please see para 3 of Chapter I of the Report

Recommendation (Serial No. 36)

The sum of Rs. 1,30,000 to be paid to the Consultants in Indian rupees, was utilised by them for salaries, leave pay, passages and incidental expenses. All these items were required to be paid by the Consultants to their staff in rupees in India and the question of increased costs of these items did not arise. According to the terms of the contract there was no scope for increased payments on these items due to devaluation. The Committee are therefore not convinced that there was any valid ground for the enhancement of the fees by Rs. 63,533 per year. (Para 155).

Reply of Government

The enhancement in the Rupee fee of the Consultants was made taking into account the impact of devaluation of Rupee on certain elements of the fee like passages. However, with effect from 19th November, 1967 *i.e.* the date of devaluation of £ Sterling, a reduction of Rs. 10,000 per annum in the fee has been secured.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Comments of the Committee

Please see para 6 *Chapter I of the Report.*

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Serial No. 19)

N.M.D.C. has been incurring continuously losses in its supply of ore to Japan. Payment of commission to MMTC adds to its losses by Rs. 2 million per annum. Since the actual supplies are being shipped directly by NMDC, there seems to be no reason why it cannot service other aspects of the contract itself. In any case, a commission of Re. 1 per tonne seems to be on the high side, particularly in view of the fact that MMTC is also a public undertaking. The Committee would, therefore, suggest that NMDC might work out its cost of exporting ore independently. If the management is competent enough to handle the work and the cost does not work out to be more than the commission now paid to MMTC, it might be more economical if the work is taken over by NMDC. (Para 77).

Reply of Government

The question of profit/losses in the Iron Ore Export Programme has since been examined in detail. A Committee comprising of the representatives of the Ministries of Finance, Transport, Commerce and Mines and Metals has been appointed to go into this matter and give its recommendations. This is awaited. The proposition will be examined in the light of the recommendations of the Committee referred to above.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 31)

The Committee regret to note that there has been appreciable increase in the cost of construction of these 175 quarters at Hill Top at Bailadilla and the construction was not completed within the scheduled period. The management could blame NBCC if in the agreement, there were any provision for ceiling on costs and a penalty clause in regard to non-completion of the quarters within the stipulated period but no such stipulation were laid down in the agreement. They trust that the management would enter into agreements in future with due regard to the cost of construction and lay down schedules for completion.

The Committee recommend that responsibility should be fixed for drawing up such a faulty agreement. (Para 129).

Reply of Government

The N.M.D.C. has reorganised an Agreement Scrutinising Cell.

As regards fixation of responsibility, the matter is under investigation.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 54)

The Committee are of view that there is no utility in maintaining a non-technical Projects Division at the head office for a highly technical mining organisation like NMDC. If administrative planning was the main consideration, then this work could be shared by other non-technical divisions of N.M.D.C. such as Board's Secretariat and Administration and Establishment Division. The Committee hope that with the bifurcation of NMDC this division would be wound up. (Para 222).

Reply of Government

The proposal for the re-organisation of the Head Office of the N.M.D.C. is under consideration and the above points will be borne in mind while finalising this.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)|67-MVI, dated 7th January, 1969].

Recommendation (Serial No. 55)

The Committee are not convinced with the arguments of the Managing Director in regard to retention of the Planning Division (iron ore) at the head office of NMDC at Faridabad. They feel that for the effective planning of development of iron ore deposits, it is necessary that the Planning Division should be located somewhere near one of the iron ore projects. The work of coordination with the port and railways etc. can be handled by the non-technical staff at the headquarters. By virtue of its location near a project site, the Division and the Chief of Iron Ore would be in a better position to understand and advise on the practical problems of running the projects. This would enable the Planning Division to plan effectively for the future projects and to suggest remedies for the present difficulties of the projects. This is more true in view of the fact that the feasibility studies carried out by it so far and project reports prepared by it in the past have not been realistic. The Committee desire that the Planning Division (Iron Ore) of NMDC now located at its head office be transferred to either of the projects sites, *i.e.* Kiriburu or Bailadilla. (Para 226).

Reply of Government

Government have since decided to reconstitute the Board of Directors by having three whole time functional directors. In the light of this decision, the reorganisation of the various Divisions at the Head Office of the Corporation is under consideration.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

Recommendation (Serial No. 62)

Of all the projects taken up by NMDC, Panna Diamond Mining Project appears to be the only one where the Government could have the maximum return with the minimum of investment. However, the approach for development of that project has not been systematic and it had to face deferments.

The Committee were surprised to note that a project which had received priority for development in the Third Five Year Plan was deferred by the end of that Plan for reasons of economy and low priority and that the Government decision to defer the project was taken without working out the economics of deferment.

The Committee also fail to appreciate the decision of the Government in sanctioning the present Majhgawan scheme for the production of 12,000 carats of diamond per annum as against the scheme based on the Hungarian Treatment Plant for the production of 22,500 carats of diamond per annum. The committee believe that full scale exploitation of Panna Diamond mines would have resulted in profit. (Paras 243—45).

Reply of Government

Possibilities of full scale mining are under consideration.

[Ministry of Steel, Mines & Metals—Department of Mines & Metals O.M. No. 4(9)/67-MVI, dated the 7th January, 1969].

NEW DELHI;
December 12, 1969.
Agrahayana 21, 1891 (*S*).

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

APPENDIX I

[*Vide* reply to recommendation at Sl. No. 2 (Para 16)]

List of Member Companies of Japan Consulting Institute as received from Embassy of India in Japan, Tokyo, in January 1969.

1. M/s. Ishikawajima Heavy Industry Co., Ltd.
2. M/s. Kawasaki Heavy Industry Co., Ltd.
3. M/s. Kobe Steel Co., Ltd.
4. M/s. Komatsu Seisakusho Co., Ltd.
5. M/s. Shin Mitsubishi Heavy Industry Co., Ltd.
6. M/s. Sumitomo Machinery Industry Co., Ltd.
7. M/s. Tokyo Shibaura Electric Co., Ltd.
8. M/s. Nigata Iron Works Co., Ltd.
9. M/s. Hitachi Seisakusho Co., Ltd.
10. M/s. Hitachi Ship-building Co., Ltd.
11. M/s. Fuji Electric Mfg. Co., Ltd.
12. M/s. Mitsui Ship Building Co., Ltd.
13. M/s. Mitsubishi Ship Building Co., Ltd.
14. M/s. Mitsubishi Electric Mfg. Co., Ltd.
15. M/s. Mitsubishi Nihon Heavy Industry Co., Ltd.
16. M/s. Yasukawa Electric Mfg. Co., Ltd.
17. M/s. Fijinagata Ship-building Co., Ltd.

APPENDIX II

[*Vide* reply to recommendation at Sl. No. 33 (Para 134)]

Economics of Kiriburu project consequent on reduction in export duty.

Output . . . . 1.9 million tonnes.

	1969-69	
	w.e.f. 1-4-68 upto 30-8-68	31-8-1968 on wards
	(Rs. per tonne)	
A. 1. Operating cost	8.74	8.74
2. Interest on Yen credit	0.14	0.14
3. Interest on working capital	0.06	0.06
4. Royalty	1.75	1.75
TOTAL CASH EXPENSES	10.69	10.69
5. Interest on Govt. Loan	1.90	1.90
6. Depreciation	3.91	3.91
TOTAL F.O.R. (A)	16.50	16.50
B. 1. Railway freight	28.00	28.00
2. Port charges	9.00	9.00
3. Incidentals and MMTC's commission	2.50	2.50
4. Export Duty	10.50	8.00
TOTAL (B)	50.00	47.50
TOTAL F.O.B.T. Cost Vizag : (A plus B)	66.50	64.00
C. FOBT sales realisation @ 54.23 shillings per wet Metric tonne (5% moisture)	56.94	56.94
D. 1. Loss per tonne (A B C)	(—)9.56	(—)7.06
2. Annual loss for 1.9 million tonnes shipment (Rs. lakhs)	(—)181.64	(—)134.14

APPENDIX III

[*Vide* reply to recommendation at Sl. No. 33 (Para 134)]

Bailadila Iron Ore project (Deposit 14)

Estimate of Cost of Production on the basis of 4 million tonnes of production and sales realisation.

	1964 Estimate	1966-67 Post-devaluation estimate	1968-69 Estimate
		(Rs. per tonne)	
1. Operating cost	6·14	6·74	6·74
2. Interest on Yen credit	..	0·80	0·80
3. Interest on working capital	0·15	0·25	0·25
4. Interest on Govt. loan	1·19	2·01	2·01
5. Royalty, labour cess and development cess	2·50	2·50	2·50
6. Depreciation	3·22	4·20	4·20
(A) Total F.O.R. (1 to 6)	13·20	16·50	16·50
7. Railway freight	21·00	30·00	33·50
8. Port charges	8·00	9·00	9·00
9. Export Duty	..	10·50	10·50
10. Incidentals	1·50	1·50	1·75
11. MMTC's Commission	1·00	1·00	1·00
(B) Total (7 to 11)	31·50	52·00	55·75
(C) Total F.O.B.T. cost (A plus B)	44·70	68·50	72·25
(D) Sales realisation	46·00	68·28	68·28
(E) Surplus/Loss (D-C) (plus)	1·30	(—)0·22	(—)3·97
(F) Annual Profit/Loss for 4 million tonnes (Rs. in lakhs)	52·00	(—) 8·8	(—)158·8

APPENDIX IV

[*Vide* reply to recommendation at Sl. No. 53 (Para 219)]

NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

(A GOVERNMENT OF INDIA UNDERTAKING)

N.I.T.
Faridabad

No. 9(20)|Estt|64|Pt.
Dated 6-6-67.

General Managers:

1. Kiriburu Iron Ore Project
2. Bailadila Iron Ore Project
3. Khetri Copper Project
4. Chief Engineer (Panna)

Deputy/Financial Advisers:

Kiriburu Iron Ore Project,
Bailadila Iron Ore Project,
Khetri Copper Project,
Panna Diamond Mining Project,
Purchase Officer, Calcutta,
Sr. Accounts Officer, Calcutta,
Accounts Officer, Sandur and
Accounts Officer (B)

SUB.: *Stores Accounting procedure*

Sir,

I am directed to forward herewith supplementary instructions on the above subject for your information and guidance.

Yours faithfully,

Sd|- S. S. BAHEL,

Accounts Officer (P&S.)

NATIONAL MINERAL DEVELOPMENT CORPORATION LTD.
N.I.T. FARIDABAD

No. 8(2)Estt|64

CIRCULAR

SUB.: *Stores Accounting Procedure.*

A case had come to light where a receipt voucher prepared by the Project representing the receipt of certain quantity of M.S. Angles was subsequently cancelled, and the cancelled receipt voucher was substituted by another receipt voucher bearing the same number and date for another material for which a receipt voucher was yet to be prepared. It is recognised that in the construction stages of the large scales Projects, due to pressure of work all round, cases might occur where the receipt vouchers once prepared have to be cancelled due to various reasons (*e.g.* wrong materials having been included in the receipt vouchers, duplicate receipt vouchers having been prepared, loss or excess quantity having been entered on the receipt vouchers etc. etc.) In such cases the number which was allotted to the cancelled receipt voucher should be left blank; that particular number should not under any circumstances be allotted to any other receipt voucher dealing with the same or any different kind of material.

2. Immediately it has come to light that a wrong receipt voucher has been prepared in respect of any material, the stock position of that particular material should be gone into thoroughly. The verification should bring out excess or shortages if any; the full circumstances for such excesses or shortages should be investigated into, and the shortages|excess regularised promptly without any delay whatsoever.

3. The Accounts Branch concerned should scrutinise in detail the reasons for cancellation of the receipt voucher and any adjustments already made on the strength of that receipt voucher, should be reversed with the least possible delay.

4. For certain type of materials, particularly Iron and Steel, advance payments have often to be made to the suppliers, which are cleared subsequently when the stores are received by debit to stock; such transfers from the head 'advances' to the head 'stock'

should, however, be made only after the proper receipt vouchers for the materials received have been prepared and the stores have been taken on stock. Under no circumstances should the head 'advances' be cleared by debit to stock merely on the strength of any statement that the materials in respect of which amounts are lying under advance have been physically received at the Project site.

5. Where materials have got to be stored for any length of time at a railway siding|yard it would be for consideration as to whether, for facility of work all around, a Stores Sub-depot should not be created at the particular railway siding|yard. In such an eventuality formal receipt vouchers could be prepared immediately the materials have been received at the sub-depot. The materials at the sub-depot would be treated as a part of the stores belonging to the Project; the subsequent transfer of the material from the sub-depot to the main stores depot should be arranged through Depot Transfer Vouchers. The Heads of the Projects should consider, in consultation with their Financial Advisers, the advisibility of creating such a Store-Sub-Depot at the siding when large accumulation of stock is anticipated at the siding.

6. The existing instructions regarding preparation of receipt vouchers and accounted and issue of stores should be scrupulously observed.

APPENDIX V

[*Vide* para 5 of Introduction)

Analysis of the action taken by Government on the recommendations contained in the Eleventh Report of the Committee on Public Undertakings (Fourth Lok Sabha)

I.	Total number of recommendations	62
II.	Recommendations that have been acceyted by Government (*vide* recommendations at Sl. Nos. 1, 4, 5, 6, 7, 8, 9, 10, 11, 15, 16, 17, 18, 20, 21, 22, 23, 25, 26 28, 29, 32, 37, 38, 39, 40, 41, 42, 43, 44, 45, 48, 49, 50, 57 and 61)	
	Number	36
	Percentage of total	58%
III.	Recommenendations which the Committee do not desire to pursue in view of Government's replies (*vide* recommendations at Sl. Nos. 2,3, 12, 13, 14, 24, 27, 33, 34, 35, 46, 47, 51, 52, 53, 56, 58, 59 and 60).	
	Number	19
	Percentage of total	31%
IV.	Recommendations in respect of which final replies of Government have not been accepted by the Committee (*vide* recommendations at Sl. Nos. 30 & 36.)	
	Number	2
	Percentage of total	3%
V.	Recommendations in respect of which final replies of Government are still awaited (*vide* recommendations at Sl. Nos. 19, 31, 54, 55 & 62) .	
	Number	5
	Percentage of total	8%

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

PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT OF BUSINESS IN LOK SABHA (FIFTH EDITION) AND PRINTED BY THE GENERAL MANAGER, GOVERNMENT OF INDIA PRESS, MINTO ROAD, NEW DELHI.