

**COMMITTEE ON PUBLIC
UNDERTAKINGS
1972-73**

(FIFTH LOK SABHA)

TWENTY-SEVENTH REPORT

**NATIONAL NEWSPRINT AND PAPER MILLS LTD.
NEPANAGAR**

(MINISTRY OF INDUSTRIAL DEVELOPMENT)



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1973/Chaitra, 1894 (S)

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CORRIGENDA

Twenty-Seventh Report of the Committee on Public Undertakings on National Newsprint & Paper Mills Ltd.

Page	Para	Line	For	Read
(i)	III	B	'Newprint'	'Newsprint'
(11)	VI	C	'of'(after 'Production)'	' and' ' and'
5	1.17	11	'eucalptus'	'eucalyptus'
12	2.6	13	'accord'	'accorded'
15	2.12	4 of table	Insert 'of' after	'delivery'
20	2.24	2	<u>Substitute the line by</u> "customary in the paper industry that pulping plant was co-"	
22	2.31	5	'fabre'	'fibre'
22	2.31	last	'1963'	'1973'
22	3.13	2	commissioning	commissioning
22	3.16	4 and 5	documents from	documents from
22	3.16	last but one	was	were
22	3.22	8	'indigenious'	'indigenous'
22	3.22	10	'Pupling'	'Pulping'
22	3.32(ii)	3	'comparatve	comparative
22	Col.8	4	brake	broke
22	Col.11	1	?	%
22	-	1	<u>delete</u>	?
22	3.74	6	abnormal.Sound	abnormal sound
22	3.80	4	This	Thus
50	3.85	19	<u>Substitute the line by</u> " established. The Committee are surprised to note that even be-"	
57	4.11	15	Autralia	Australia
66	4.41	3	conditions	condition
69	4.49	10	<u>insert</u> "Machine" <u>after</u> "Paper"	
73	5.3	2	<u>delete</u> the dots	
75	5.16	2	India	Indian
83	6.15	3	whem	when
93	7.5	6	and organic	and inorganic
93	7.5	17	dileted	diluted
100	8.14	11	marjar	major
101	8.18	2	<u>delete</u> 'have' <u>appearing for second time</u>	
110	3.48	3	he.	the
119	-	5	Air	Aid
120	-	4	misconstruction	misconstruction

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1972-73)

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Shri M. N. Kaul—*Under Secretary.*

*Died on the 7th February 1973.

COMPOSITION OF STUDY GROUP II ON MACHINE TOOLS,
NEWSPRINT AND PAPER MILLS

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4. Shri Amrit Nahata
5. Shri M. Kamalanathan
- *6. Chaudhary A. Mohammad
7. Shri D. P. Singh.

*Died on the 7th February, 1973.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Twenty-seventh Report on the National Newsprint and Paper Mills Ltd.

2. This Report of the Committee is based on the comprehensive appraisal of the working of the National Newsprint & Paper Mills Ltd. as contained in the Report of the Comptroller and Auditor General of India for the year 1969-70—Central Government (Commercial) Part IV—National Newsprint and Paper Mills Ltd. and also on examination in depth of the working of the National Newsprint & Paper Mills Ltd. upto the year ended 31st March, 1972.

3. The Committee on Public Undertakings took evidence of the representatives of the National Newsprint and Paper Mills Ltd. on the 27th July, 1972 and of the Ministry of Industrial Development on the 26th September, 1972.

4. The Committee on Public Undertakings considered and finalised the Report at their sitting held on the 6th March, 1973.

5. The Committee wish to express their thanks to the Ministry of Industrial Development and the National Newsprint and Paper Mills Ltd. for placing before them the material and information they wanted in connection with the examination of National Newsprint & Paper Mills Ltd. They wish to thank in particular the representatives of the Ministry and the Undertaking who gave evidence and placed their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered to them by the Comptroller and Auditor General of India in connection with the examination of the National Newsprint and Paper Mills Ltd.

SUBHADRA JOSHI,

Chairman,

Committee on Public Undertakings.

NEW DELHI;

March 23rd, 1973.

2, Chaitra, 1895 (S.)

INTRODUCTORY

A. Historical Background

The National Newsprint & Paper Mills Limited (also referred to as Nepa Mills) was floated as a limited Company on the 25th January, 1947, as a private enterprise at Nepanagar in Madhya Pradesh, with an authorised capital of Rs. 5 crores. It was originally planned as a Paper and Straw Board Mill, but on receiving encouraging results regarding the possibility of manufacturing newsprint from Salai Wood, the Project was subsequently converted into a Newsprint Mill of the capacity of 100 tons per day i.e. 30,000 tonnes per year.

1.2. Initially the affairs of the Company were handled by Messrs Nair Press Syndicate, who were the Managing Agents. As on the 30th April, 1949, the total share capital subscribed was only Rs. 57 lakhs out of the issued capital of Rs. 1.5 crores.

1.3. The Government of Madhya Pradesh took an active part both in guaranteeing and subscribing to the share capital and in promising certain facilities in the earlier stages. In 1949, it came to light that the Managing Agents of the Mills were not capable of running the Mill on sound and business-like lines. The funds required to complete the erection of the Mill were also found to be much larger than what had been originally estimated. Accordingly, the Government of Madhya Pradesh removed the Managing Agents in October, 1949 and took over the management of the Mill themselves. An officer of the State Government was appointed as the Managing Director.

1.4. The Nepa Mills project was included in the First Five Year Plan as one of the major projects of the Government of Madhya Pradesh. On this basis, the Government of India were approached for loans to finance the project. Steps were taken to prepare the project cost on the basis of the then up-to-date information. As the work progressed, the project cost was examined and amended from time to time. The cost of the project ultimately worked out to Rs. 5½ crores. This was mainly financed from the loans given by the Central and State Governments.

1.5. As the loans received from the Central and State Governments amounted to Rs. 497.60 lakhs, the accumulated arrears of

interest thereon amounted to Rs. 95.76 lakhs upto 31st March, 1958. With the burden of loans and interest thereon, the Mill found it impossible to repay the loans and arrears of interest. As a result of the discussions held by Nepa Mill's Management with the Central and State Governments, it was decided by both the Governments to convert a substantial portion of the loans granted by them into equity capital and treat the accumulated arrears of interest on the loans as interest-free loan. The Annual General Meeting of the Mill held on the 29th December, 1958 formally approved the reconstruction of the Share Capital, as agreed by both the Governments, resulting in the Government of India acquiring 51 per cent shares of the Mill. The Government of India took over the control of the Mills on the 29th December, 1958 when the status of the Mills changed to that of a Public Sector Undertaking.

1.6. By the end of the year 1954-55, the first Paper Machine was put into operation and trial production commenced. Regular commercial production commenced in 1956-57 after commissioning the Chemical Pulp Mill. During 1956-57, the production was 13,567 tonnes. The production was gradually stepped up until it reached the targetted capacity of 30,000 tonnes in 1963-64.

1.7. As there were difficulties in procurement of chlorine from distant places and heavy freight charges had to be paid, it was decided in the year 1961-62 to establish a Caustic Soda Chlorine Plant to meet the Mills' requirements. Accordingly, a 10/12 tonnes Caustic Soda Chlorine Plant was put up by the Mill at a cost of Rs. 65 lakhs and the same was commissioned in the year 1965-66.

1.8. The Nepa Mills is a single unit concern. Its Board of Directors is constituted by nomination of three Directors by the Government of India, three by the Government of Madhya Pradesh and one Director representing the private share holders and one representing labour. The Chairman and the Managing Director are appointed by the President of India.

B. Examination by Financial Committees

1.9. The working of the National Newsprint and Paper Mills was examined by the Estimates Committee in 1961-62 and their recommendations/observations were embodied in their 157th Report (2nd Lok Sabha). Its working was also reviewed by the Comptroller and Auditor General in Audit Report (Commercial), 1963. This Audit Report was considered by the Public Accounts Committee (1963-64) *vide* paragraphs 106—113 of their 23rd Report (3rd Lok Sabha).

1.10. The action taken by Government on the recommendations of the Estimates Committee and the Public Accounts Committee was

considered by the Committee on Public Undertakings in their 9th Report (3rd Lok Sabha—April, 1965) and 40th Report (4th Lok Sabha—March, 1969) respectively.

C. Objectives

1.11. The objects of the Nepa Mills are enumerated in the Memorandum & Articles of Association of the Mills. The main object in taking over the Nepa-mills by the Government of India in 1958, was to increase the production of newsprint in order to meet at least a part of the newsprint requirements of the country to save valuable foreign exchange. On taking over, the production of newsprint by the Mills increased from 13,567 tonnes in 1956-57 to its targetted capacity of 30,000 tonnes in 1963-64.

1.12. In 1963, it was decided to expand the capacity of the Mills from 30,000 tonnes to 75,000 tonnes per year.

D. Plan to meet the requirements of newsprint indigenously

1.13. At present the National Newsprint and Paper Mills Limited is the only company in the country producing newsprint. In fact in the entire South-East Asia region there are only two mills one at Nepanagar and the other at Khulna in Bangla Desh. The quantity of newsprint required by the country, the quantity indigenously produced, the quantity imported and the amount of foreign exchange spent thereon during the last five years are as below:—

Year	Newsprint requirement	Newsprint produced	Newsprint imported	Foreign Exchange spent on import
1	2	3	4	5
		(in tonnes)		(Rs. in crores)
1967-68	1,51,308	31,308	1,20,000	16
1968-69	1,50,562	30,562	1,20,000	16
1969-70	1,59,275	39,275	1,20,000	16
1970-71	1,77,270	37,270	1,40,000	18
1971-72	2,20,040	40,040	1,80,000	23.00

1.14. The demand for newsprint for the year 1972-73 is about 2.2 lakh tonnes while the estimated demand by the end of the Fifth Five Year Plan period is 3.5 lakh tonnes per annum.

1.15. In order to meet the rising demand of newsprint, National Newsprint and Paper Mills have installed a second newsprint machine to increase their capacity by another 37,500 tonnes and has also a project in hand to modify and renovate the first machine so as to increase its capacity from 30,000 tonnes to 37,500 tonnes thus raising their total capacity from 30,000 tonnes to 75,000 tonnes. Though the second machine has been commissioned in March, 1969 for various reasons, which have been discussed elsewhere in this Report, the second machine has not gone into full production. Till the production on the second machine is stabilised, the Undertaking do not propose to take in hand the modification of the first machine. Nepamills expect to complete these two phases of their expansion project in another two year's time from now. During the evidence of the representatives of the National Newsprint and Paper Mills Limited the Committee were informed that in Nepa Mills, after the expanded capacity of 75,000 tonnes was achieved, it would not be possible for economic reasons to increase further its capacity.

1.16. On an enquiry from the Ministry of Industrial Development, the Committee were informed that following steps have been taken by Government to become self-reliant in matter of newsprint.

- “(i) Government have approved a scheme for the expansion of the capacity of Nepa Mills from 30,000 tonnes to 75,000 tonnes per annum at an estimated cost of Rs. 11.71 crores. The completion of the expansion scheme is expected by 1974.
- (ii) Government have under consideration a project for the manufacture of newsprint for a capacity of 80,000 tonnes in Kerala at a cost approximately of Rs. 30 crores (a project under Hindustan Paper Corporation).
- (iii) Government have issued letters of intent to the following entrepreneurs:—
 - (a) M/s. Ballarpur Paper and Straw Board Mills. (Himalachal Pradesh)—60,000 tonnes.
 - (b) M/s. Suraj Industrial Packing Limited (U.P.)—60,000 tonnes.
 - (c) M/s. Shetkari Sahakari Sakar Karkhana Limited (Maharashtra)—44,500 tonnes.

It will be seen from the above that the total capacity under consideration/approved is 289,500 tonnes per annum.”

1.17. During the course of evidence the Secretary of the Ministry of Industrial Development informed the Committee that as far as newsprint is concerned the position was that as against the current requirement of 2.2 lakh tonnes, the country was producing only 40,040 tonnes. He enumerated the steps being taken to fill up the gap. Besides expanding the capacity of Nepa Mills, which was expected to be completed in two years time from now, a project was coming up in Kerala under the Hindustan Paper Corporation, which would be completed by the end of 1976, and which would produce 70,000 tonnes of newsprint and 10,000 tonnes of magazine paper based on eucalptus. Licences had also been given to three different private parties for setting up (i) a newsprint factory in Himachal Pradesh based on pinewood to produce 60,000 tonnes of newsprint per annum (ii) a factory in U.P. based on eucalyptus to produce 60,000 tonnes of newsprint and (iii) a factory in Maharashtra based on bagasse to produce 44,500 tonnes of newsprint. The Secretary of the Ministry also informed that in the first two projects in the private sector considerable preliminary work had been done, whereas the third project was still at an elementary stage of development. It was pointed out that technology for the conversion of bagasse, into newsprint on which the third project was to be based was not available indigenously and it was likely that they might have to go in for foreign collaboration. The Secretary also pointed out that so far as the new projects were concerned, they would take anything from 4 to 5 years to mature because of industry having a long gestation period. When all these projects would be completed and commissioned a production capacity of 3.20 lakh tonnes could be expected.

1.18. During the evidence of the representatives of the Ministry of Industrial Development, the Committee were also informed that necessary steps to augment the newsprint producing capacity of the country could not be taken earlier than this, because these projects could not be accommodated in the Plan priorities.

1.19. The Secretary also informed the Committee that the quality of newsprint—specially the colour, from the new projects was expected to be better than that from Nepa Mills, the dull shade of which was chiefly due to the hard brown wood—salai, being used there.

1.20. The Committee note that, at present, out of a total demand of 2,20,000 tonnes of newsprint in the country, Nepa Mills are meeting only about 18 per cent of the demand and the rest of the requirements are being met by imports, and a sum of Rs. 23.20 crores was

spent thereon in the year 1971-72. In view of the growing demand for newsprint in the country and the indigenous production not registering any appreciable increase, precious foreign exchange would continue to be expended on import of newsprint. In order to stop the drain on flow of foreign exchange, it is essential that concerted efforts are made to achieve the target of manufacture of 75,000 tonnes per annum by the National Newsprint and Paper Mills Ltd. without loss of any further time. The Committee note that Government have as a first step to achieve self-reliance in the matter of newsprint, under consideration a project for the manufacture of newsprint and magazine paper for a capacity of 80,000 tonnes in Kerala and which is to be completed by end of 1976. The Committee feel that the Public Sector Project to manufacture newsprint in Kerala should have been set up earlier. The Committee need hardly stress that serious efforts should be made to accelerate the progress of work both in the expansion scheme of Nepa Mills and the public sector project in Kerala. The Committee would also like Government to keep a careful watch on the progress made by the private sector projects so as to ensure that they keep upto the schedule for installation of machinery and production of newsprint. The Committee also stress that there should be a time-bound programme, with a view to make newsprint of acceptable quality available in the country to meet the requirements in full and obviate dependence on imports.

1.21. In regard to the demand for paper in the country the Secretary, Ministry of Industrial Development, informed the Committee during the evidence that "the total requirements in the country at the moment is estimated to be of the order of 8 lakh tonnes. The production in indigenous factories during 1971-72 was 7.4 lakh tonnes. Some speciality paper has been imported in the last two years as also in the past, but we had not been importing ordinary writing paper. There is a certain marginal shortage of paper in the country. Apart from that, I think that the demand may be put down as 800,000 tonnes."

1.22. In reply to a question, the Lok Sabha was informed in May, 1972 that—

"Twenty—schemes have been approved under the Crash Programme for increasing the production of paper by about 1 lakh tonnes by the end of 1973. Thirty-five new schemes have also been approved for the establishment of additional capacities to meet the long term needs for writing and printing paper."

1.23. The Minister of Industrial Development and Science and Technology also stated in reply to question in Lok Sabha in November, 1972 that "the estimated demand of paper is currently of the order of 8.5 lakh tonnes per annum. It is expected to reach the level of 13.3 lakh tonnes by the end of the Fifth Plan. As for paper products, they are so diverse in kind that any precise projections of demand are not feasible."

"Apart from the crash programme for expansion of the production capacity of existing units, which is expected to generate an additional capacity of 1,23,750 tonnes per annum, Government have already approved proposals for setting up new units and for effecting substantial expansion of existing units for an additional total capacity of 8,58,125 tonnes."

"Government have also set up a Corporation in the public sector viz., Hindustan Paper Corporation to put up new units for the manufacture of paper and pulp. The details of the units are given below:—

	Capacity
1. The Nagaland Paper and Pulp Project	30,000 tonnes per annum
2. The Nowgong Paper and Pulp Project	80,000 tonnes of pulp and 50,000 tonnes of paper per annum.
3. The Cachar Paper Project	50,000 tonnes per annum (Likely to be raised to 80,000 tonnes per annum)

1.24. It has also come to the notice from the Report of Hindustan Paper Corporation Ltd. that besides the above, the Hindustan Paper Corporation had been entrusted with the implementation of a newsprint mill in Kerala for a capacity of 75,000 tonnes per annum and that the projects are expected to go into production during 1975-76.

1.25. The Committee note that the demand for paper is currently of the order of 8.5 lakh tonnes and it is expected to go up to 13.3 lakh tonnes by the end of the Fifth Five Year Plan. The Committee also note that the existing indigenous production is only of the order of about 7.4 lakh tonnes. The current production is thus short of the requirements by about a lakh of tonnes. The Committee note that Government have approved a crash programme for expansion of the existing units which is expected to generate an additional capacity of 1,23,750 tonnes per annum. Government have also approved pro-

posals for setting up new units and for effecting substantial expansion of existing units for an additional total capacity of 8.5 lakh tonnes. The Committee would like to point out the difficulties in obtaining paper which are being experienced not only by the ordinary consumer but also by Government users particularly the Government of India Presses. In this connection, the Committee would like to draw attention to paragraph 1.71 of 38th Report of Public Accounts Committee (Fifth Lok Sabha). The Committee cannot therefore, too strongly stress the need for implementation of the crash programme so as to make good the existing gap between demand and indigenous production. The Committee also stress that concrete and effective measures should be taken to ensure that the additional capacity of 8.5 lakh tonnes which has been licensed results in production of additional paper to the extent of at least 7 lakh tonnes to meet the additional requirements by the end of Fifth Five Year Plan. As paper is a capital intensive industry with a long gestation period there is need for advance planning and implementation to ensure that paper required for public purposes is made available in adequate quantities and at competitive prices, to obviate any scarcity conditions developing in this essential commodity. The Committee would also like to stress that the Hindustan Paper Corporation, a Public Undertaking, which has been formed for undertaking manufacture of paper in the public sector should take a lead in developing the manufacture of paper and supplying it at most competitive rates to meet the ever-growing requirements of the public.

II

EXPANSION PROGRAMME

A. Project Estimates

2.1. The Company has two Paper Mills, known as old Mill and new Mill. The old Mill was set up at a cost of Rs. 541 lakhs and went into production in April, 1956.

2.2. In order to meet about 50 per cent. requirements of the country for newsprint, the Company planned in August, 1963 to increase its capacity for the manufacture of newsprint from 30,000 tons to 75,000 tonnes per annum. The additional capacity was proposed to be achieved by increasing the capacity of the existing Mill from 30,000 tons to 37,500 tonnes per annum after renovations and modifications and by setting up a new Mill with a capacity of 37,500 tonnes.

2.3. In August, 1963, a Preliminary Project Report at an estimated cost of Rs. 731.50 lakhs was prepared for increasing the capacity for manufacture of newsprint from 30,000 tonnes to 75,000 per annum. The approval of the Government of India to the preliminary Report was obtained in May, 1964. The main features of the Preliminary Project Report were (i) to increase the newsprint capacity to 75,000 tonnes per annum from the then existing capacity of 30,000 tonnes. (ii) the expansion of the pulping chemical recovery sections and water works.

2.4. In July, 1965, a Detailed Project Report was prepared and the cost of the Project was then estimated at Rs. 950 lakhs. The reasons for the significant increase in the cost estimates were stated to be that the Preliminary Project Report was based on a rough estimate only—even formal quotations from the suppliers had not been obtained. The Preliminary Report provided a broad framework of the expansion and details were furnished later on in the Detailed Project Report. The following table indicates the project estimates for the expansion scheme as per the Preliminary Project Report, subsequent revisions and the actual expenditure incurred upto the end of each of the last three financial years ending on 31st March, 1970, 1971 and 1972:—

(Rs. in lakhs)

Serial No.	Particulars	As per Preliminary project Report (August, 1963)	1st revision (Feb. 1964)	2nd revision (July 1965) as per D.P.R.	3rd revision (July 1966)	4th revision (Nov. 1966)	5th revision (Jan. 1967)	Sixth revision (June, 1967)	7th Revision (July, 1968)	Actual expenditure as on 31st March, 1971	Actual expenditure as on 31st March, 1972	
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Plant and Machinery	499.00	499.00	514.64	615.41	585.91	575.02	590.73	613.63	536.88	545.41	554.37
2	Custom Duty Railway freight, Transportation, Insurance etc.	83.75	83.75	120.90	207.77	128.76	129.27	107.70	115.80	94.28	101.53	104.57
3	Erection and Civil Works	120.50	120.50	146.35	182.35	182.35	182.35	182.35	223.90	109.29	139.17	154.33
4	Miscellaneous	10.00	10.00	9.50	61.55	61.55	41.30	41.30	44.94	33.38	33.92	36.56
5	Contingencies	18.25	18.25	20.25	..	..	20.15	20.15	21.15	0.27	0.45	0.55
6	Township	..	..	18.50	74.00	74.00	74.00	74.00	74.00	17.24	17.24	17.24
7	Interest on deferred payments	..	135.00	64.00	100.80	114.16	110.15	85.59	77.46	37.40	40.13	43.71
8	Fluctuations	..	..	..	..	..	..	..	..	..	..	..
9	Interest on Govt. loans	..	..	..	..	..	..	..	..	26.52	38.18	63.34
		731.50	935.00	949.64	1241.88	1146.73	1132.24	1101.32	1170.88	855.26	916.03	974.67
		Say 750.00	Say 950.00									

2.5. It would be seen that project estimates increased from Rs. 750 lakhs to Rs. 1,170.88 lakhs. The estimate was last revised in July, 1968 to Rs. 1,170.88 lakhs. No revision of the Project Estimates was made after July, 1968.

2.6. In a written note submitted to the Committee, the Nepa Mills explained the reasons for delay in preparation of and sanction of estimates and even then why the estimates could not be sanctioned in full. They stated as follows:—

“The Preliminary Project Report was approved by the Government *vide* their letter No. LI(III)-12(29)64 dated 13th May, 1964 and a licence No. L/24(2)(4)-S.E./Chem(1)/63 dated 22nd November, 1963 was issued to us. In July, 1965 a detailed project report was prepared and submitted to the Government as the Preliminary Project Report was only a broad frame work of the expansion and provided only rough estimates. The extra items of cost, like Interest on Deferred Payments to M/s. Wartsila and Elof Hanson, increased rates of Customs Duty, provision for township, etc. necessitated the revision of the Project estimate in 1965. In June, 1966, the Indian Rupee was devalued and as a result thereof the prices of imported plant and machinery which were not finalised till that date as well as the prices of indigenous supplies increased as they were mostly dependent on imported machinery parts. Based on the quotations received for the supply of machinery and erection works and also the expenditure incurred upto March, 1968, the estimate was revised to Rs. 1,170.88 lakhs which was approved by the Board of Directors in their 125th meeting held on 27th July, 1968. A copy of the revised Project estimate was also submitted to the Government for approval under our letter No. Act/Gen-18/4137 dated 29th and 30th June, 1968 and the Project Estimates duly approved by the Board was again submitted to the Government *vide* our letter No. Act|Gen.-18|11121 dated 4th and 5th September, 1968. The Ministry of Finance, Bureau of Public Enterprises pointed out the non-inclusion of interest on Government loan in the project estimate of Rs. 1,170.88 lakhs. Since the grant of loans was based on quarterly release and even terms of re-payments and rates of interest were not finalised at that time, it was not possible to include the amount of interest in the Project Estimate. Besides, the interest on loan can be capitalised only upto the time of commissioning of the plant and not

beyond. Due to these uncertainties, no interest was included in the Project Estimate. In August, 1970, an estimate for interest on loan was made for Rs. 98.25 lakhs which was intimated to the Government *vide* our letter No. Act|Expen—47|8634|110 dated 3rd August, 1970. This increased the total Project cost to Rs. 12.69 crores from Rs. 11.71 crores. The matter remained under consideration and in February, 1971 the matter was discussed by the Secretary, Ministry of Industrial Development with the representatives of Nepa Mills and various officers of the Ministry of Finance. The Revised Project estimate has been now approved by the Government for a total project cost of Rs. 1195.13 lakhs excluding estimate for township *vide* Ministry's letter No. LI(III)12(29)|64-Paper Cell dated 4th April, 1972. This above sanction does not cover the township expenditure of Rs. 74 lakhs, but covers the interest on Government loan of Rs. 98.25 lakhs. The Government of India have also accord *ex post facto* sanction for Rs. 16.64 lakhs and Rs. 17.71 for township expenditure already incurred and to be incurred during the current year *vide* letter No. 10(2)|72-Paper Cell dated the 30th May, 1972. The detailed estimate for the remaining expenditure on township is under submission in accordance with the revised design of the quarters adopted by the Bureau of Public Enterprises."

2.7. Meanwhile to meet the requirement of caustic soda as well as bleaching liquor, the Board of Directors in their meeting held on the 22nd August, 1969 approved the proposal for installation of a Calcium Hypochlorite Plant at a cost of Rs. 9.04 lakhs (which was within the powers of the Board). And in their meeting held on the 31st March, 1970 the Board approved the proposal for expansion of Caustic Soda, Chlorine Plant at a cost of Rs. 66 lakhs. Approval of the Government for this expenditure was received in December, 1971.

2.8. As regards non-inclusion of Township Expenditure in the project estimates, even after these had been revised seven times after the preparation of Preliminary Project Report the representatives of the Ministry of Industrial Development during the course of evidence, stated as follows:—

"There has been a lapse in this regard. We have gone into it very thoroughly and we find that at various stages certain figures were not included or the matter had to be referred again to the mills to work out and include the township part in it. At present, of course, the accepted method is that township costs are not to be included in the estimate.

Sanction for 16 lakhs for township expenditure has already been sanctioned and for the balance detailed estimate is under preparation and will be submitted to the Government. We will process it."

2.9. The Committee note that the Preliminary Project Report for the expansion scheme was approved by the Government in May, 1964 and the Detailed Project Report, along with the finally revised estimates, was approved on the 4th April, 1972 after several revisions resulting in an increase of nearly 56 per cent due to various factors like inclusion of interest on deferred payment, interest on loans, increase in rates of customs duty, addition of miscellaneous equipment. Even then the revised project estimate as sanctioned did not include provision for township which was sanctioned separately. It has been admitted by the Mills as well as by the Government that there had been lapses in preparation of the estimates. The Committee are surprised that the Mills had been allowed to continue with the expansion programme without a firm financial sanction of the Detailed Project Estimates. The Committee have a feeling that the entire issue has been dealt with both at the Mills and the Government level in a leisurely manner and it is, therefore, no surprise that the expansion scheme has not been implemented in earnest. The Committee deprecate such delays and desire Government to make a case study of the delay and lapses which have occurred in this case to obviate their recurrence.

B. Delay in construction and commissioning

2.10. The main features of the Expansion Scheme under the revised Project were as follows:—

- (1) The newsprint capacity of 75,000 tonnes per annum was to be achieved by adding a new Paper Machine with a capacity of 37,500 tonnes and by renovating the old Paper Machine, so as to increase its capacity from 30,000 tonnes to 37,500 tonnes per annum.**
- (2) Expansion of the Pulping and Recovery Sections:**
 - (i) The existing pulping plants have the following capacities:—**

Chemical Plant	:	40 tonnes per day
Mechanical Ground		
Wood Plant	:	60 tonnes per day.

In order to meet the requirements of pulp for the expanded capacity, it was estimated that Groundwood Pulping Plant could be geared up and its production could be increased upto 80/90 tonnes per day to meet the requirement of 27,000 tonnes of groundwood pulp. Prior to expansion, the proportion of furnish was assumed to be 60 per cent of groundwood pulp and 40 per cent of chemical pulp; but after expansion the furnish was to be revised as under:—

(a) Chemical Pulp	: 33-1/3 per cent.
(b) Semi Chemical Pulp	: 33-1/3 per cent
(c) Groundwood Pulp	: 33-1/3 per cent

With the increased newsprint capacity of 75,000 tonnes, the per day capacity of the paper plants would be 250 tonnes. As the furnish requirement would be 10 per cent more than finished newsprint, the per day requirement of pulp would be 275 tonnes. Thus the requirements of chemicals and semi-chemical pulps would be 90 tonnes each per day.

As the present capacity of the chemical pulping plant was only 40 tonnes, it was proposed to expand this plant to produce 90/95 tonnes per day.

(ii) To meet the requirement of semi-chemical pulp through a new process, namely cold soda process, a new plant with a capacity of 90 tonnes per day was to be added.

All the three plants were to be commissioned by September, 1968 and were to achieve the rated capacity by October, 1968.

(iii) Expansion of Recovery Plant.

It consisted of three sections, i.e. Black Recovery Evaporator Plant, Black Liquor Boiler, and Causticizing Plant. Since the capacity of the existing plant was hardly able to cope with the liquor produced by the existing chemical pulp plant and as its size was uneconomical, it was planned to procure a new plant of 90/100 tonnes capacity per day. The existing unit was to be kept as a standby. These plants were to be erected and commissioned by the following dates:—

	Date of erection	Date of commissioning
(1) Black Liquor Evaporator Plant	Jan. 68	June, 68
(2) Black Liquor Recovery Boiler	July, 68	Oct. 68
(3) Causticising Plant	Feb. 68	June, 68

(3) Water Works:

To meet the requirement of water for the expanded capacity of the plant as well as the colony, the requirement of water was estimated at 20 million gallons per day. The capacity of the existing Tapti Water Works was only 10 million gallons per day. Hence an additional water works with a similar capacity was planned to be constructed at a new site. The water works was expected to be commissioned by August, 1967.

Since all the above plants would be integrated, the rated capacity of these plants would be only in terms of newsprint production i.e. 75,000 tonnes per annum after complete expansion. As per the Project Report the rated capacity was expected to be achieved by the year 1969-70.

2.11. Since pulp is the basic material in the process of production of newsprint, the Committee would like to deal with the Pulp and Recovery Plant first.

(i) Pulp and Recovery Plant

2.12. The following table gives the construction and production schedule as per Detailed Project Report in respect of pulp section:—

Sl. No.	Particulars	Date of Commencement	Date of Completion
1	2	3	4
1	Finalisation of order		
	(a) Cold Caustic Pulp Plant	Oct. 1965	Dec. 1965
	(b) Chemical Pulp Plant	Oct. 1965	Dec. 1965
2	Delivery machinery		
	(a) Cold Caustic Pulp Plant	August, 1967	Oct. 1967
	(b) Chemical Pulp Plant	Oct. 1967	Dec. 1967
3	Arrival of machinery at site		
	(a) Cold Caustic Pulp Plant	Oct. 1967	Dec. 1967
	(b) Chemical Pulp Plant	Dec. 1967	Feb. 1968
4	Civil construction and foundation work		
	(a) Cold Caustic Pulp Plant	Jan, 1967	Dec. 1967
	(b) Chemical Pulp Plant	Jan, 1967	Jan, 1968

1	2	3	4
5 Erection of Machinery			
(a) Cold Caustic Pulp Plant	• Oct., 1967	May, 1968	
(b) Chemical Pulp Plant	• Dec., 1967	May, 1968	
6 Installation of electrical equipment and power wiring			
(a) Cold Caustic Pulp Plant	• Jan. 1968	June, 1968	
(b) Chemical Pulp Plant	• Jan. 1968	June, 1968	
7 Commissioning and trial operation			
(a) Cold Caustic Pulp Plant	• July, 1968	August, 1968	
(b) Chemical Pulp Plant	• July, 1968	Sept. 1968	
8 Rated production			
(a) Cold Caustic Pulp Plant	Sept. 1968	• Dec. 1968	
(b) Chemical Pulp Plant	• Oct. 1968	Dec., 1968	

2.13. The contract for the supply of plant and machinery for Cold Caustic Pulp Plant and Chemical Pulp Plant was finalised in June, 1967. Due to delay in finalisation of the contract for the supply of plant and machinery, the Management revised the schedule of construction and production and in April, 1969 it was expected that the plant would go into production by December, 1970. The work could not, however, proceed according to this schedule owing to delay in finalisation of the contract for civil works and the schedule was revised in December, 1969.

2.14. According to the revised schedule regular production was to start during January, 1972. The progress of work, however, showed that civil works were behind schedule. The Management attributed the delay in completion of the civil works to non-availability of steel. According to latest revision (November, 1970) the Unit will now be commissioned in 1972-73.

2.15. It has been further stated in a note submitted by the Nepa Mills that the question of procurement of steel was taken up with the Ministry of Industrial Development and the Ministry of Steel. The Mills had received most of the requirements of steel for the civil construction. The structural and civil works, were expected to be completed by 31st December 1972. Efforts were being made to commission the Pulp & Recovery plants by July, 1973. From

the minutes of the 129th meeting of the Board of Directors held on 24th May 1969 it has been noted that the contract for dismantling and civil construction work was awarded to M/s. Gannon Dunkarley & Co. and that for structural steel and AC sheeting to M/s. Garlick & Co.

2.16. It was noted from the minutes of the 140th meeting of the Board of Directors held on the 27th November, 1971 that Messrs Garlick & Co. to whom the contract for structural steel and AC Sheeting was awarded repudiated and terminated their contract and as such the Board approved that the contract might be awarded to M/s. Triveni Structural Ltd.

2.17. The contract for supply, fabrication, erection of steel for chemical recovery and pulping plants by M/s. Triveni Structural Ltd. was signed on the 10th January, 1972. As per contract, M/s. Triveni Structural Ltd. was to complete the work within a period of nine months from 10th January, 1972 and the receipt of interest free advance by them or seven months after the receipt of 50 per cent of the required quantity of useable steel whichever was later. The work order and the initial advance was given on the day of signing the contract.

2.18. The structural and civil works were expected to be completed by the end of 1972 and the pulping plants were expected to be commissioned by July, 1973.

2.19 The delay in appointment of consultants for supervision and design of civil construction of the Pulp Plants, which resulted in delay in awarding the civil construction work, has been explained by the Nepa Mills as follows :—

“The contract for supply of pulping plants was finalised in June, 1967. Taking into consideration the schedule of supply of plant and machinery, the then Consulting Engineers for our new paper machine, i.e. M/s. Tata-Ebasco Consulting Engineers, was requested to quote for design and supervision work of the new Pulping and Recovery plants. Their offer was placed before the Board of Directors in their 123rd meeting held on 30th March, 1968. While the Board was prepared to approve this proposal, it desired that the Managing Director should negotiate with the party and try to get some reduction in the amount quoted by them, if possible and the Chairman should ascertain whether any other consulting engineers were able to submit an alternative tender at an early date. In the 124th Board Meeting

held on 14th May, 1968, the Chairman placed the offer received from M/s. Kuljian Corporation (India) Private Ltd. The Board considered the offer from M/s Kuljian Corporation and constituted a Committee of Directors to fully evaluate the merits of M/s. Kuljian Corporation's offer and that of earlier offer received from M/s. Tata-Ebasco. The Committee met on 27th May 1968, but could not arrive at final decision and desired that fresh open tenders should be invited for the engineering and supervision services at an early date, and the same when received, should be placed before the Board. The tenders were accordingly advertised on 8th June 1968 on all India basis giving last date for receipt of tenders as 15th July, 1968. A comparative statement of the quotations received were placed before the Board of Directors in their 125th meeting held on 27th July, 1968. While considering the comparative statement of quotations received, the Board observed that there appeared to be only two suitable parties, i.e. Messrs Kuljian Corporation and Messrs Tata-Ebasco who could be appointed as consultants. The designing fees which would have been payable before the actual work was taken up was Rs. 1,95,000 for Messrs Kuljian Corporation in comparison to Rs. 2.83,900 to Messrs Tata-Ebasco. Regarding supervision charges, since Messrs Kuljian Corporation had not given any ceiling for the supervision charges, and according to the Managing Director the period of supervision could extend to about 18 months time, the Board approved the appointment of M/s. Tata-Ebasco as Consultants on technical grounds. The Board also desired that the Managing Director should negotiate with Messrs Tata-Ebasco and try to bring down the design engineering fees and finalise the contract in consultation with the Chairman. On 27th July, 1968 the Managing Director had discussion with the Consultants—M/s. Tata-Ebasco regarding reduction in the engineering fees. Tata-Ebasco agreed in the same meeting and confirmed a reduction of Rs. 18,900 in their fees for design engineering. There was no change in their fee for construction supervision and other conditions indicated in their offer. However, before the agreement with the party could be signed, M/s. Tata-Ebasco handed over all the works to M/s. Tata Consulting Engineers, and in their 130th Board Meeting held on 22nd July, 1969 transfer of the contract from M/s. Tata-Ebasco to Tata Consulting Engineers was approved. The agreement was

finally signed on 7th November, 1969 with M|s. Tata Consulting Engineers. This delayed the appointment of the Consultants.”

2.20. As regards civil and structural work tender notice was issued on 11th January 1969 last date being 17th February 1969. Six parties had given the tender offers. Tenders were opened on 17th February 1969 and were then forwarded to consultants for their recommendations. Tender analysis along with the recommendations of consultants were considered by the Managing Committee on 28th March 1969 and discussion took place on 10th April 1969. The proposals were put to the Board in the 129th meeting held on 24th May 1969 and the Board decided to award civil works to Messrs Gannon Dunkarly & Co. and structural work to M|s. Garlick & Co. (P) Ltd. The agreement was signed on 15th October 1969 with a time limit of 12 months. After giving 5 1/2 months of extension, the contract with M|s Gannon Dunkarly & Co. Ltd. was terminated from 31st March 1971 on their request. The contractor could not complete the work as the structural work was not ready.

2.21. Work order was issued to M|s. Garlick & Co. on 12th January 1970 for structural steel & A.C. sheeting work with a time limit of 8 months from 12th January 1970. They were given extension of time of 12 months as they could not complete the entire work due to non-availability of steel sactions from J.P.C. Afterwards M|s. Garlick & Co. repudiated their contract and as such their contract was terminated.

2.22. During the course of evidence of the representatives of the National Newsprint and Paper Mill Ltd., the Chairman-cum-Managing Director informed the Committee in this regard as follows;—

“As far as the pulping plant is concerned one is the Cold Soda pulping plant and the other is bamoo pulping plant. These two plants have yet to be erected. The equipment has been received. The civil contractors were Gannon Dunkarly and the structural work was given to Garlicks. Erection of the recovery boiler is yet to be done. Gannon Dunkarly finished two thirds of the work which they could do without the structural part being made available to them. Then they said they cannot go on waiting for Steel structures. They said they should be relieved. If we wanted them to be back again, they gave us very high

rates. For the rest of the work, they wanted much more than Rs. five lakhs. We decided to do this work ourselves. Garlicks could not do their part of the structural work, because we were unable to get the steel. Their contract was extended, but still there was no steel. They said, the contract was entered into in January, 1970, and in 1972, the position still remained where it was. They said that if we wanted them to continue, they would work as per their revised rates. Then we decided that the work should be given to Triveni Structural Ltd. Garlicks gracefully backed out without any legal complication. Now the work is being done by Triveni Structural. The steel is with us except for 150 tonnes which has yet to come from the producers. We have not imported any steel."

2.23. Asked as to how much foreign exchange was lost due to non-commissioning of the pulping plant, the Chairman-cum-Managing Director informed that ;—

"If the pulping plant were there and with both machines which are ready there, we should have produced 67,500 tonnes. After renovation of the machine it would have been 75,000 tonnes. For want of pulp, we are making 40,000 tonnes; the production loss is 35,000 tonnes, The foreign exchange loss would be Rs. 4.7 crores."

2.24. On an enquiry the Committee were informed that it was non-commissioning of the pulping plant, the Chairman-cum-commissioned a little after the commissioning of the paper machine, but it was admitted, in case of Nepa Mills the difference in two operations was longer.

2.25. The Committee also discussed this question of delay in the construction and commissioning of the Pulp Plant with the representatives of the Ministry of Industrial Development during the course of their evidence in connection with the examination of Nepa Mills. The Secretary of the Ministry admitted that the commissioning had been unduly delayed, which had adversely affected the production of Nepa Mills. He termed the delay as "tragic". The delay was chiefly due to delay in civil construction on account of non-availability of steel. He assured the Committee that now the things had been set right and the Plant would go into production within two years. Triveni Structural Ltd. were doing the job at present being a public sector undertaking under the Ministry of Steel, they were slightly better placed in procuring steel for the job. The Committee were also informed that in the meanwhile Nepa Mills

had used imported pulp and also tried pulp from the Central pulp Mills, Sonagarh but they did not find it an economic proposition. There was idle capacity in the two newsprint machines, as the expansion of the Pulp plant had not synchronised with the installation of the new machine.

2.26. The Committee note that although the contract for supply of pulping plants was finalised in June, 1967, the management took two years in finalising the appointment of consultants for supervision and design of civil construction and award of contract for civil works and structural and AC sheeting work. The Committee note that even then the management had to foreclose the contract due to civil contractor backing out on account of non-availability of steel and also to terminate the contract with a private company to whom the contract for structural and AC sheeting work was awarded and allot the structural work to M/s. Triveni Structurals Ltd., a public sector undertaking. The Committee fail to understand why the services of Triveni Structurals Ltd. could not be availed of in the very first instance when, according to the Ministry, they were slightly better placed in procuring steel for the job. The Committee regret to observe that due to the delay in the erection and commissioning of the pulp plant, foreign exchange to the extent of Rs. 4.7 crores had to be expended on import of paper which could have been manufactured if additional pulp was available. The Committee are of the firm view that had advance planning accompanied by timely procurement of steel been done such costly delays would not have occurred.

2.27. The Committee recommend that Government should fix responsibility for delayed action which resulted in underutilisation of the capacity of the plant to manufacture newsprint which had to be imported by expending precious foreign exchange. The Committee would like to be informed of the action taken against the parties at fault and the remedial measures taken to ensure that such costly lapses do not recur.

(ii) Renovation of old paper machine

2.28. In order to increase the existing capacity of the old paper machine from 30,000 tonnes to 37,500 tonnes it was laid down in the Detailed Project Report that the renovation work should be taken up and completed during 1968-69 i.e., within one year of the commissioning of the new paper machine.

2.29. The new paper machine went into production in March, 1969 but the renovation work on old paper machine has not been taken

up as yet. According to the latest indications given by the Management the renovation of this paper Machine was scheduled to be completed by 1968 after the new paper machine come into operation. Since the new paper machine was commissioned only in 1969 and its working was not stabilised, the work of renovation had to be postponed so as to maintain production of newsprint till production on the New Paper Machine got stabilised. Now that the production on new Paper Machine has stabilised, the renovation work would be taken up by 1973.

2.30. In this connection the representatives of the Nepa Mills informed the Committee during evidence that they did not want to open up the old machine, till the production on the new machine got going. The Chairman-cum-Managing Director stated as follows :

“It is unfortunate that such a thing happened. This machine (No. 2) was commissioned on 27th March 1969 the main motor failed; it had to be repaired. It was repaired. There was teething trouble over the drive, over the pumps and so on. The Finland people came last year twice or thrice. They gave performance guarantee for 2 days only. Certain spares were required. They were not available in the country. They said they had been despatched. As soon as they arrive we will ask them to come again. They did give performance guarantee. Unfortunately to get the full performance guarantee we were short of spares. It requires 125 tonnes to be continuously produced for 7 days. We did not want to open up machine number one when trouble was going on with machine No. 2. We did not want production of newsprint to suffer in the country. Suppose No. 2 machine also fails and machinery No. 1 is opened up, there will be a difficulty.”

2.31. The representatives of the Mills further added :—

“We wanted to make improvement; we wanted to remove the defects for the short fibred pulp. There was to be improvement of the screening system. Certain improvements were required for short-fibre material. These were incorporated in the new machine. If these were to be incorporated in old machinery it would have taken 3 and 4 months. With this if No. 2 machine fails and No. 1 machine is opened up there will be no production for some time. When new machinery gets stabilised we will take renovation. It will be by 1963.”

2.32. The Committee regret to note that renovation of the old Paper Machine scheduled to be completed by 1968 has not been completed even after four years for one reason or other. The Committee hope that the Nepa Mills would be able to adhere to the schedule and complete the necessary renovation of Machine No. 1 by 1973 along with the matching pulping plant under expansion as without sufficient pulp, the capacity of the renovated plant would be lying idle.

III

PRODUCTION

A. Rated Capacity and Actual production

Old Paper Machine

3.1. The production capacity of the Mill was fixed at 100 tons per day (on an estimated speed of the paper machine at 900 to 1000 feet per minute) or 30,000 tons per annum on the basis of 300 working days a year with one paper machine.

3.2. According to the Ranganathan Committee Report (1953), the machine was capable of working at a speed up to 1200 feet per minute and if the pulp could stand a speed exceeding 1000 feet per minute it might be possible in due course when the Mill got into stride and the technical staff were experienced to step up the production by 10 to 20 per cent.

3.3. The Ministry stated in January, 1971 that "the experience until now has shown that whenever speed is increased beyond 800 feet per minute, breakages go up and hence achievement of a speed of 1200 feet per minute is not at all possible under the present circumstances. Even the foreign experts who were specially invited for this purpose during the year 1962 could not achieve the speed beyond 800 feet per minute."

3.4. The factory went into trial production in January 1955 and regular production in April, 1956.

3.5. The following table gives the number of working days, the average speed of the machine per minute, rated capacity and the actual production of newsprint during the last seven years.

Year	No. of working days	Envisaged speed	Actuals Average speed per minute	Rated production @ 100 tons per day	Actual production (tons)
1	2	3	4	5	6
			feet		
1965-66	316	900-1000	735	31,600	29,861
1966-67	316	Do.	736	31,600	29,036

1	2	3	4	5	6
			feet		
1967-68	325	Do.	745	3 2,500	30,807
1968-69	325	Do.	733	32,500	30,073
1969-70	278	Do.	685	27,800	22,805*
1970-71	139	Do.	592	13,900	12,272*
1971-72	173	Do.	582	17,300	11,867*

3.6. Actual production was less than the rated capacity and the envisaged speed of 900—1000 feet per minute (much less than the speed of 1200 feet per minute up to which the machine was capable of working) was never achieved. The low speed of the paper machine was stated to be due to :—

- (i) shortage of power and steam up to August/September, 1968;
- (ii) insufficient capacity of the chemical pulp plant to feed the paper machine;
- (iii) other factors coming in the way such as additional screening facilities, maintenance of constant head, sheet transfer arrangements etc.

3.7. During the course of evidence of the representatives of Nepa Mills, the Committee were informed that the old paper machine was run at various speeds 700—750 and whenever it was attempted to be run at the higher speed between 800—900 there were difficulties due to short-fibre material. The Production Manager explained “In 1961-62 we got over here foreign experts from U.S.A. and they were here for three months and they tried to see what were the difficulties and how these could be overcome. But they could not run the machine more than 800 speed.”

The Production Manager further stated that under the renovation plan some improvements were envisaged in the machine so as to increase speed. It was stated that there were a few basic defects in the unconventional raw materials, which could not be removed even by technology. He further stated that “we are running at present at a speed of about 925 F.P.M. and we are running the old machine at a slower speed of 450—600 F.P.M. with whatever pulp available to us.”.....

*Excluding production by the 2nd machine.

3.8. In regard to the difficulties regarding additional screening facilities, maintenance of constant head, sheet transfer arrangement, etc., it was stated that these difficulties were experienced whenever higher speed was attempted in 1960-61. The difficulties still persisted but not affecting the production as the available pulp was distributed to both the machines and the machine was dependent on the availability of pulp. These defects would be rectified in the renovation of the machine.

New Paper Machine

3.9. The following table gives the construction and erection programme of the new paper machine :

Sl. No.	Particulars	As per detailed project Report		Actuals	
		Date of commencement	Date of completion	Date of commencement	Date of completion
1	Shipment of machinery.	Oct., 65	March, 66	Dec. 65	May, 66
2	Arrival of machinery at site .	Jan. 66	June, 66	Feb., 66	Oct., 67
3	Civil construction and foundation work	Dec. 65	May, 67	Nov. 66	March, 68
4	Erection of machinery	Aug. 66	Sept. 67	Sept. 67	Dec. 68
5	Installation of electrical equipment and power wiring etc..	Jan. 67	Oct. 67	Jan. 68	March, 69
6	Commissioning and trial operation.	Nov. 67	Jan. 68	28th Feb. 69	27th Mar. 69
7	Rated production	Feb. 68	Dec. 68	Production started on 27th March, 1969	Rated Production has not been achieved so far.

3.10. The delay in completion of the plant is stated to be mainly due to:—

(i) delay in finalising design services contract;

(ii) delay in getting engineering and construction information from suppliers; and

(iii) delay in finalisation of tenders for civil works and delay in completion of civil works.

3.11. During the course of evidence of the representatives of the National Newsprint and Paper Mills Ltd., the Committee enquired the reasons for the delay in erection and Commissioning of the new paper machine. The Financial Controller explained that there was a cumulative delay of two years due to (i) delay in shipment of equipment from Finland on account of Finish ports being snow-bound; (ii) delay in selecting the consulting engineers and (iii) further delay in the awarding of the contracts to Civil Contractors.

3.12. (i) As regards delay in supply of equipment, the Nepa Mills stated in a written note as follows:—

“As per agreement the final shipment of Plant and machinery from Wartsila was to be made by March, 1966, but since the Finish Ports were snow bound and the Indian ships could not enter the Port at Helsinki, the suppliers wrote to us whether shipment should be made in foreign ships or it should be delayed. They also made an alternative suggestion that delivery can be effected from another port called Turku. But this, as per their estimate necessitated an approximate additional cost of £6,200 which had to be borne by the Nepa Mills, since the contract was f.o.b. Helsinki. This was towards transportation, storage, extra loading and unloading etc. Contrary to this they suggested that if we agree for postponement of shipment till May, 1966 they will store the plant and machinery at their own cost in their work at Helsinki.”

3.13. Since the earlier arrival of the final consignment by two months would not have expedited the earlier commissioning of plant and machinery, it was decided to agree to their second proposal of despatch by May, 1966.”

3.14. (ii) In regard to delay in finalising the contract for design services, the Nepa Mills have stated in a written note as follows:—

“Enquiries for designing and construction supervision of the new paper machine building were floated *vide* letter No. DEV/ER/ADV/600, dated 7th April, 1965 and sent to the following parties. They were requested to give quotation for the engineering work (Design Supervision) of the paper machine building work and also indicate a rough cost estimate of work involved to be entrusted to other civil contractors under their supervision :

- (1) M/s. Patel Eng. Co. Ltd., Bombay.
- (2) M/s. N.U.C. (Pvt) Ltd, Bombay.

- (3) M/s. Hindustan Construction Company Ltd. Bombay.
- (4) M/s. K. C. Const. Co. Ltd., Bombay.
- (5) M/s. Grover & Puri, New Delhi.
- (6) M/s. Bhai Sundardas Sardar Singh Pvt. Ltd., New Delhi.
- (7) M/s. Gannon Dunkerley & Co. Ltd., Bombay.
- (8) Tata Ebasco, Bombay.
- (9) NIDC New Delhi.

Out of the above M/s. Patel Engg. Co. Ltd., NIDC, Tata Ebasco, HCC, and Grover & Puri had submitted their quotations. M/s. Grover & Puri had given an estimate of Rs. 13 lakhs for the entire civil construction work as against Rs. 34 lakhs of our estimate and Rs. 23 to 50 lakhs of other tenderers. This was considered impracticable and as such their quotation was not considered. Offers left for consideration were from three parties namely:—

- (1) M/s. National Industrial Development Co. (NIDC) New Delhi.
- (2) M/s. Tata Ebasco, Bombay.
- (3) M/s. Hindustan Construction Co. (HCC), Bombay.

M/s. NIDC was interested in the job so far as designing and preparation of all detailed drawings were concerned. They were also agreeable to supervise the working during its execution by periodical visits, but actual execution of the job in the case of M/s. N.I.D.C. and M/s. Tata Ebasco, Bombay, was to be entrusted to a civil contractor to be selected after calling tenders. N.I.D.C. estimate was for Rs. 23 lakhs. They had no previous experience of this particular type of construction and they were in no way bound as far as total expenditure was concerned. The actual investment was to depend on the quotations received from Civil Contractors*.

M/s. Tata Ebasco was well experienced in this line of constructing buildings for paper Mills. They were interested to take the job on a turn-key basis that is designing, preparation of detailed drawings, supervision of actual execution. They had all the staff necessary to take up this specialised job.

The third party M/s. Hindustan Construction Co. was another well established Civil Engineering firm. Their offer was also based

*At the time of the factual verification, the Audit informed as follows:—

“In this connection the following observations were communicated in October, 1972 (i) Actual execution of the job was to be undertaken by the civil contractors both in case of N.I.D.C.'s offer as well as M/s. Tata Ebasco Bombay offer (ii) Both NIDC and Tata Ebasco were to supervise the actual execution of the work. Additional amount was, however, payable to Tata Ebasco for spot supervision, whereas NIDC was prepared to supervise the work through periodical visits to sites without any extra charge (iii) Tata Ebasco reduced their estimates from Rs. 35 lakhs to Rs. 25 lakhs with (±) 10%. This, therefore, compared favourably with N.I.D.C.'s estimates of Rs. 23 lakhs.”

on turn key basis, that is, designing, preparation of detailed drawing etc. Their estimate was for Rs. 34 lakhs. They however, had no past experience of this particular type of construction.

Taking into consideration all these facts stated above, the Board at its 109th meeting held on 30th September, 1965 decided to recommend to the Government for its approval M/s. Tata Ebasco, Bombay. M/s. Tata Ebasco's tender was the highest, but for installing one of the fastest and the biggest paper machines in our country it was imperative to entrust the job to a firm having similar sound experience in the past.

The Board's recommendation of awarding the above job to M/s. Tata Ebasco was forwarded to the Government of India vide our letter No. MD-365, dated the 6th October, 1965. The Board at its meeting held on the 22nd November, 1965 was informed that the Government's decision in this matter was still awaited. It was pointed out to the Board that this matter was getting much delayed and early decision in this matter was imperative. According to the detailed Project Report the decision should have been taken by then and actual work started by December, 1965. As such the Board at its 110th meeting held on the 22nd November, 1965 authorised the Chairman to negotiate with M/s. Tata Ebasco for a reduced fee on design contract and approve the same and report the approved price to the next meeting of the Board.

On negotiations with M/s. Tata Ebasco, Bombay by our Chairman and Dr. Seetharamaih, they had further reduced their quotations by Rs. 43,000 and their fee stood at Rs. 2,66,000 as against Rs. 80,500 of M/s. NIDC and Rs. 1,02,000 of M/s. HCC. In the light of above, the contract for Civil Engineering design work was awarded to M/s. Tata Ebasco. The Board ratified this at its meeting No. 111 held on 31-12-1965."

3.15. During the course of evidence of the representatives of the Ministry of Industrial Development, the Committee enquired the reasons for selecting a Bombay firm, in preference to the National Industrial Development Corporation, a public undertaking, even though the tender of the Bombay firm was not the lowest. The Secretary of the Ministry explained that in the year 1965, NIDC had not adequate experience in the field and that their offer was not for the complete job-particularly they did not include supervision of erection and construction and therefore the tender of Tata Ebasco, though not the lowest, was accepted as they had the experience and were also associated at the time of setting up the project. It was also stated that the second paper machine had since been installed and commissioned.*

*Please also see foot-note on page 28.

3.16. (iii) In regard to Civil Construction Contract the following was the sequence of events:—

Design service contract finalised	December, 1965
Tenders for civil construction invited after receipt of tender documents from the consulting engineers	May, 1966.
Consulting engineer's recommendations received	July, 1966.
Final recommendation submitted to the sub-committee of the Board	October, 1966
Approval given by the Board	December, 1966
Work awarded	November, 1966
Time allowed for completion of work	14 months
Time actually taken	16 months

It has been stated that there was a delay of only one month by Consulting Engineers due to delay in receipt of drawings from Suppliers and that there was no delay in finalising the tender documents, as the tender documents were received on 6-4-1966 and tenders was invited in May 1966, after holding some discussions with the Consultants.

3.17. As regards delay in completion of works, it was stated that the original time given was 14 months for completion from 16-11-1966 to 15-1-1968 and further extension was given upto 31-3-1968 on the recommendation of the Consultants due to extra work involved and rock excavation by chiselling instead of blasting.

Production :—

3.18. The Detailed Project Report envisaged that the New Paper Machine would go into trial runs in November, 1967 and into full production by January-February, 1968 and that the Mill would achieve the increased capacity of 75,000 tonnes in 3 years as under:—

Year	Old Paper Machine	New Paper Machine	Total }
1			3
(Figures in tonnes)			
1967-68	30,000	15,000	45,000
1968-69	25,500	37,500	63,000
1969-70	37,500	37,500	75,000

3.19. From the table at paragraph 3.9 above, it could be seen that the new paper machine went into production only on 27th March, 1969.

3.20. The year-wise budgetted and actual production from the both the machines is given below:—

Year	Budgetted Production	Paper machine No. 1 (Tonnes)	Paper Machine No. 2 (Tonnes)	Total
1965-66		30348	..	30,348
1966-67		29,506	..	29,506
1967-68		31,308	..	31,308
1968-69		30,512	50	30,562
*1969-70	56,000 (31000 old + 25,000 new)	23,170	16,105	39,275
1970-71	37,000	12,470	24,800	37,270
1971-72	39,000	12,058	27,982	40,040

3.21. The expanded capacity of 75,000 tonnes of newsprint per annum under the expansion scheme is now planned to be achieved as under :—

Year	Quantity in tonnes
1972-73	45,000
1973-74	50,000
1974-75	65,000
1975-76	75,000

*The non-achievement of the production target of 25000 tonnes on new machine was attributed to defects in the new machine.

3.22. Since the pulp plant was under construction, the Management felt that it would not be economical to produce even 100 tonnes per day on new paper machine, i.e. 60,000 tonnes of newsprint on both machines annually as the cost of production per tonne of newsprint with imported pulp would be higher as compared to the cost of imported newsprint. According to them, the production of 45,000 tonnes was the optimum marginal economic production after maximising the production of indigenous mechanical pulp i.e. groundwood pulp. The Ministry, however, stated in January, 1971 that "pending expansion of our Pulping and Recovery Plants, we cannot expect to produce more than 36,000 to 38,000 tonnes of newsprint per annum."

3.23. The factors mainly responsible for the non-achievement of full rated production were (i) initial teething trouble in the new paper Machine and (ii) inadequate capacity of pulp plant and restricted production on account of increased loss.

3.24. The Management stated in April, 1970 that due to initial teething trouble, it was not possible to produce more than 100 tonnes per day i.e. 30,000 tonnes per year on the new machine.

3.25. During the course of evidence of the representatives of Nepa Mills, the Committee were informed that:—

"The defect with the new machine was the defective drive. Foreign Experts came and they had rectified it. Certain type of special belts were received from Germany. The belts were not working well in the particular climatic conditions and in particular width. Now they had rectified this and they have given new designs of the belts. We are trying to get in India this particular width of the belts and within two or three months, we feel we will be able to overcome these difficulties."

3.26. In a subsequent note submitted to the Committee, the Nepa Mills stated that the foreign erectors from M/s. Wartsila, suppliers of the machine, came in August/September, 1971 and November/December, 1971 for rectifying the defects with the drive and other defects and giving the performance guarantee. In spite of their best efforts all the faults could not be rectified as some of the essential spares required were not available. Though the performance guarantee could not be achieved as per the contract, there was marked improvement in the working of the machine.

3.27. M/s. Wartsila representatives assured the Mills that the machine was designed for the rated capacity and there should not

be any difficulty in achieving the rated capacity after the essential spares were replaced and other jobs attended. In case of any further difficulty in achieving the capacity they would help the Mills in the matter.

3.28. As regards the inadequate capacity of the Pulping Plant, it has been stated that the existing Pulp Plant was capable of producing 40 tonnes of chemical pulp and 60 tonnes of mechanical pulp (with the operation of 2 grinders out of the existing 4 grinders) i.e. groundwood pulp per day, which were sufficient for production of 30,000 tonnes of newsprint from the old paper machine at a rate of 100 tonnes per day. The expansion scheme contemplated the setting up of a new pulp plant and the adoption of cold caustic process therein for manufacturing the semi-chemical pulp from salai wood instead of the conventional groundwood pulp. The installation of the cold caustic pulp plant and the expansion of chemical pulp plant were envisaged under the scheme to meet the increased requirements of pulp for the manufacture of newsprint from the new paper machine. The Preliminary Project Report for the expansion scheme indicated the possibility of completion of the expansion of the paper section a year or so earlier than that of pulp section and the utilisation of imported pulp during the intervening period.

3.29. As the new paper machine went into production in March, 1969, the Management decided to run this machine with imported purchased pulp (mechanical as well as chemical). Therefore, in the year 1969-70 a large quantity of imported pulp was utilised to supplement the pulp requirement of both the machine. But due to devaluation, the cost of imported pulp increased very greatly and it was not found to be economically viable. It was estimated in September, 1969 that for production of 56,000 tonnes of newsprint from both the machines (31,000 from old+25,000 from new) the cost per tonne would work out to Rs. 1276 against the then selling price of Rs. 1100 per tonne resulting in a loss of Rs. 176 per tonne or Rs. 98.56 lakhs a year.

330. In view of the high price it was decided not to import pulp but to run the paper machine according to the availability of pulp indigenously. Accordingly, the production in 1970-71 and 1971-72 was restricted to the availability of indigenous pulp. The Mills, therefore, decided to reduce the production of newsprint to 45,000 tonnes per annum. The mills planned to produce 45,000 tonnes during 1970-71 and 1971-72 each and 75,000 tonnes during 1972-73 by which time the new pulp and recovery plant were expected to go into production. Meanwhile the working of the existing Chemical Pulping and Recovery Units was geared up by running them at

higher than the rated capacity with certain modifications and by using a small amount of indigenous chemical pulp from the Central Paper Mills, Sonagarh to produce more newsprint from the indigenous pulp.

3.31. To an enquiry of the Committee as to why the expansion of the pulp and recovery plant could not be synchronised with the installation of the new paper machine, the Nepa Mills stated:—

“Generally in an integrated Pulp and Paper Mill the Paper Machine is installed earlier as the trial of the machine can be conducted with external pulp by the time the pulping units are ready. Since in our expansion scheme a new process of Cold Caustic Semi-Chemical Pulp was envisaged, it was not possible to plan for the installation of Pulp and Recovery Plants along with the Paper Machine. As the Cold Caustic process was new and its know-how was not available indigenously, the enquiry had to be floated in foreign countries and discussions made with the representatives of foreign parties. Hence, it was planned in the Project Report itself that the Paper Machine will be running on imported pulp for a short-while before the Pulp and Recovery Plants are commissioned.”

3.32. In regard to erection and commissioning of the new pulp plant it was stated that global tenders were invited in August, 1963 but owing to delays at different levels the purchase orders were placed in June, 1967. In this regard, the Ministry stated in January, 1971 as follows:—

- (i) Processing of offer for expansion of pulp section started from 1965 onwards after order for the new paper machine had been placed in December, 1964 on the Finnish firm.
- (ii) As quotations were received from various parties, considerable time was taken in seeking clarification etc., and the comparative statement was sent to the Ministry on 9-10-65 for obtaining approval.
- (iii) They were again approached in December, 1965.
- (iv) The Ministry's approval was received on 29-4-1966 subject to the condition that the Company should be able to obtain deferred credit facilities from the suppliers.
- (v) The party was asked on 12-5-1966 to confirm the acceptance of this condition but in the meantime Rupee was devalued necessitating fresh complete revision of the orders and fresh negotiations with the parties.

- (vi) Final recommendations after fresh negotiations etc. were intimated to Government on 14-11-1966.
- (vii) Government desired reconsideration of the quotations in order to be able to meet the import requirements under DM 100 million credit. After further reconsideration the order was finally placed on M/s. Utkal Machinery, an indigenous supplier in June, 1967.

3.33. Asked about the necessity for this long drill when the order was to be placed with an indigenous manufacturer, the Mills stated in a written reply that "there were no indigenous manufacturers available in the country at that time. Only when the Government of India showed their inability to allocate foreign exchange required for this purpose, M/s. Voith, Germany arranged with their associates, M/s. Utkal Machinery for assembling of such machinery in India in collaboration with them by procuring the components required for this purpose from the German credit available for this purpose. Since they are also manufacturing other equipments, they were in a position to place orders which will meet the requirements under DM 100 million credit which was not available for us. Hence the procedure followed in the above case was the only way possible at that time."

3.34. The Committee enquired whether in view of the possibility of attaining the production of 44,000 tonne of newsprint from the two paper machines with the help of the existing pulp plant, the production cannot be stepped up even with the help of the imported pulp as there would be overall saving in foreign exchange, it was explained as follows:

"As the cost of production of newsprint with imported and indigenous purchased pulp had not been found economical at the selling price of Rs. 1100 per tonne and even after the selling price had been increased to Rs. 1362, it is not considered advisable to use imported pulp."

3.35. The Managing Director informed the Committee that if they were to import chemical pulp at the rate of Rs. 1175 per tonne and mechanical pulp at the rate of Rs. 1075 per tonne the cost of production of newsprint in Nepa Mills would be Rs. 1512 which would be higher than the selling price of the newsprint @Rs. 1362. The Managing Director, therefore, did not agree with the suggestion that in order to utilise the spare capacity of the two paper machines, imported pulp should be used, as the cost of imported pulp was higher than the cost of production of pulp indigenously.

3.36. In this connection the Secretary of the Ministry stated that "cost of chemical pulp produced by Nepa Mills is between Rs. 900 and Rs. 1000 and that of imported grade pulp is between Rs. 1150 and Rs. 1200 per ton. The Songarh chemical pulp that we are buying, costs us Rs. 1375 per ton. The Nepa Chemical is the cheapest of the three."

3.37. The Secretary further stated that since there was only a marginal difference in the price of the imported pulp and imported newsprint, it was found by experience that it was not worthwhile to go in for imported pulp, as the resultant foreign exchange saving would be very little.

3.38. The Committee find that Nepa Mills was to attain the rated production of 75,000 tonnes of newsprint from the old and new paper machines in 1969-70. However, the Mills could not attain the full rated production because of delay in undertaking the renovation and modification of the old paper machine and the defects in the new paper machine.

3.39. The Committee note that renovation and modification of the old paper machine would now be taken up in 1973. The Committee also note that there has been a delay of more than one year in the commissioning of the new paper machine. Even after commissioning, the new paper machine could not work to the rated capacity because of the teething troubles in the machine and the inadequacy of the pulp. The Committee were informed that even now the difficulties have not been overcome and the erectors could not give the performance guarantee. The Committee urge that Nepa Mills should immediately take all the necessary steps to see that the new paper machine is made capable of attaining the rated capacity by providing the essential spares and rectifying the defects.

3.40. The Committee find that the main hindrance in attaining the rated capacity of the paper machine is the inadequacy of the pulp. The Committee were informed that the new pulp plant is expected to be commissioned by 1973-74. The Committee note that the preliminary project report for the expansion scheme indicated the possibility of completion of the expansion of the paper section a year or so earlier than that of the pulp section and the utilisation of imported pulp during the intervening period. However, because of the high cost of imported pulp, the Nepa Mills found it uneconomical to produce newsprint from the imported pulp. The Committee are at a loss to understand the sequence in the planning of the paper plant by putting the paper machine first and erecting the pulp plant one

year later. The Committee cannot but emphasise the need for synchronisation in commissioning the paper plant along with the pulp plant in order to achieve the maximum utilisation of the paper plant. The Committee need hardly point out that Government should learn a lesson from this experience and at least in the future planning of paper projects, realise the need for an integrated approach in setting up the pulp plant simultaneously with the paper plant to secure the maximum utilisation of the paper plant.

3.41. The Committee also find that even though the preliminary project report contemplated the setting up of the Pulp Plant a year or so later than the paper machine i.e. by January, 1969, they were informed that the pulp plant would be commissioned by 1973-74 i.e. after a delay of more than five years.

3.42. The Committee are surprised that even the placing of orders for the new pulp plant had taken more than two years and the order was placed only in June, 1967, when the erection of the new paper machine was in progress. Had the construction and commissioning of the new Pulp Plant been as per schedule, the Nepa Mills would not be facing shortage of pulp which is keeping down the production of newsprint.

3.43. The Committee cannot too strongly emphasise that the additional capacity created for the production of newsprint should be put to productive use at the earliest by expediting completion of the new pulp plant and thereby save the precious foreign exchange which is being expended at present in importing newsprint.

B. Quality of Newsprint

3.44. The Nepa Mills informed the Committee that the quality of newsprint of Nepa Mills compared fairly well in all the functional properties, except the shade and finish.

3.45. In tropical countries, newsprint produced from unconventional raw materials like salai, could not be compared with that produced from conventional raw materials like coniferous woods.

3.46. In regard to further improving the quality of newsprint the Managing Director informed the Committee during evidence as follows:—

“At present with the pulping plant that we have, it cannot be improved. We utilise 57 per cent groundwood pulp and 43 per cent chemical pulp. If we bleach groundwood pulp it will be very expensive and it will reduce the strength

also. In our future plan, after the expansion is complete, we will use 33-1/3 per cent Chemical pulp, 33-1/3 per cent mechanical pulp and 33-1/3 per cent Semi-Chemical pulp and when we achieve this formula, I am told that our quality will improve with this furnish. Since newsprint has to be a cheap grade paper, it is not found desirable to adopt a process, which would increase the cost of production."

3.47. The representatives of the Ministry of Industrial Development stated that the printability and the strength of the newsprint was as good as that of the imported newsprint, but its brightness was inferior and that bleaching would weaken the strength of newsprint. The cold soda process to be introduced in the Expansion Scheme was expected to improve the brightness.

3.48. The Committee would like to emphasise that the expenditure involved in changing over to the new formula for production of pulp after the expansion is completed, should be commensurate with the improvement in shade and finish of the newsprint produced by the Nepa Mills. The Committee hope that the Nepa Mills would keep in view the cost aspects and the strength of the newsprint while introducing the new process in improving the shade of newsprint.

3.49. Since brightness and quality of paper are important in the interest of general health of the reading public, the Committee need hardly stress that continuous efforts should be made by the Nepa Mills to improve the quality and make it comparable if not superior to the imported newsprint.

C. Loss due to damage in Production

3.50 The following table gives the opening stock of damaged paper Quantity damaged during the year, quantity issued, and converted in to reams and rolls and the wastage for the last five years :—

(Figures in tonnes)

Year	Opening balance of damaged paper	Quantity damaged during the year	Quantity issued for converting into reams and rolls		Quantity converted into ream and rolls		Damaged rolls transferred to brake	Damaged paper in reams and rolls	Total wastage	? over the year 1967-68		
			To	To	Reams	Rolls						
			2	3	4	5	6	7	8	9	10	11
Sheetcutter Lavinder												
1967-68	..	38.723	651.151	440.076	170.935	361.023	145.437	27.361	104.551	131.912	..	
1968-69	.	51.502	961.555	845.593	139.237	677.263	121.936	6.843	185.631	192.474	146	
1969-70	.	21.384	1778.378	1530.601	165.670	1229.126	132.659	..	334.486	334.486	253	
1970-71	.	103.491	1994.872	1747.316	157.502	1259.590	122.266	..	522.962	522.962	396	
1971-72	.	27.680	2462.309	1650.795	179.304	1297.614	156.098	15.442	376.467	391.909	297	

3.51. It will be seen that the quantity of newsprint damaged during the process in the year 1967-68 was of the order of 131.912 tonnes. The quantity damaged during 1968-69 recorded an increase of 146 per cent over the year 1967-68. The percentage of damaged further increased to 253 per cent and 396 per cent during 1969-70 and 1970-71, though it came down to 297 per cent during 1971-72.

3.52. The Management stated in November, 1970 that "the increase in the quantity of damaged paper during 1968-69 was due to the commissioning of the new Paper Machine, on which the trial operations were started some time in February, 1969, and finally the machine was commissioned on 27th March, 1969. The increase in the quantity of damaged paper during 1969-70 was partly due to increased production from 30,562 tonnes to 39,275 tonnes and partly due to teething trouble in the New Paper Machine. Due to failure of the main drive motor, frequent changes of bearings and other spares were required and this necessitated frequent stoppage of the Paper Machine with increasing brokes."

3.53. In the absence of details of quantity of damaged paper separately for old paper machine and new paper machine for the year 1969-70 the extent of damage on account of trial operation of the new paper machine could not be assessed. For the same reason the quantity of damaged paper on old paper machine during 1969-70 could not be compared with the earlier years.

3.54. The Ministry stated in January, 1971 that "in view of the fluctuations of raw materials and other process variation, it is not practicable to fix any norms. As production of both the machines is to be regulated according to the availability of pulp, no separate record is maintained."

3.55. The increase in the damaged rolls during the year 1970-71 and 1971-72 was stated to be mainly due to the following reasons:—

Old Paper Machine

- (i) Intermittent stop-up and start-up operations of the old Paper Machine resulted in imperfect rolls at times.

New Paper Machine

- (ii) Frequent changing of bearings and the defective motor of the machine No. 2 (new) resulted in giving defective rolls.
- (iii) Variations in the drive due to defective system, resulted in disturbed conditions.

- (iv) The calender stack was due for crowding and it required major stoppage. Since the Mills wanted to synchronise this stoppage during the visit of the Wartsila Engineers for attending the defective drive and various other faults, the replacement of the calender stack was postponed and this accounted for the damaged rolls to some extent.
- (v) Attempts were made to speed up the machine and in the initial stages it resulted in more number of imperfect rolls.

Besides, 711.014 tonnes of rejected rolls were sold as such during 1970-71 and 1971-72 thus realising full tonnage and value of the same.

3.56. In a written reply, the Management stated that the percentage of rejects to the total production during 1970-71 and 1971-72 worked out to 5.35 per cent and 6 per cent respectively. The rejects were utilized by cutting them into smaller sizes and whatever balance was left was re-used in the process of manufacture. The Secretary of Ministry, in the course of evidence informed the Committee as under:—

“The rejects are only the usual amounts namely 3 to 4 per cent, but these are not abnormal rejects. Nothing abnormal has been reported from any quarter.”

3.57. The Committee note that quantity of paper damaged during process increased from 131,912 tonnes in the year 1967-68 to 522,962 tonnes in 1970-71 and came down to 391,909 tonnes in 1971-72. The Committee were informed that the increase in the quantity of damaged paper during 1968-69 was due to the commissioning of the new paper machine on which the trial operations were started sometime in February, 1969 and which was finally commissioned on 27th March, 1969. The Committee are surprised that so far no records have been maintained to indicate separately the extent of damage of newsprint produced by the two paper machines. Although it has been stated that the percentage of rejects to the total production during 1970-71 and 1971-72 was of the order of 5 to 6 per cent and has not been considered abnormal by the Mills, the Committee need hardly stress the need for maintaining separate records for each paper machine to asses as accurately as possible the extent of paper damaged and fix realistic norms for rejection in respect of each machine. The Committee would also suggest that the Nepa Mills should ascertain the norms from the foreign suppliers of machinery and other Mills which are using this machinery.

D. IDLE MACHINE HOURS

3.58 The following table gives the idle machine hours in respect of the Old and New Paper Machines and the Caustic Soda Plant for the last 5 years:—

(In hours)

Reasons	1967-68	1968-69	1969-70	1970-71	1971-72	1970-71	1971-72	1970-71	1971-72
	2	3	4	5	6	7	8	7	8
	(Old Paper Machine)				(New Paper Machine)				
Mechanical trouble	94	118	149	393	374	745	1229		
Electrical trouble	84	157	133	125	142	475	706		
Change of wire and felts	128	108	87	54	28	171	130		
Power house trouble	33	47	79	28	88	39	48		
Instrument trouble	6	8	21	24	21	81	71		
Shortage for pulp and Salai	206	163	1059*	3887@	3605	299	189		
Annual shut down	240	48	192	..	..	..	..
Others	118	187	175	735	226	648	239†		
	909	836	1895	5246	4484	2458	2612		
Number of available machine hours	8712	8640	8568	8568	8640	8568	8664		
Percentage of Idle machine hours to available machine hours	10.4	9.7	22.1	61.2	51.8	28.7	30.01		

*Includes 192 hours on account of shortage of salai.

@Includes 408 hours on account of shortage of salai Besides in 1970-71 the old machine was shut for 12 days due to miscellaneous reasons.

†Exclude 720 hours on account of the time taken for repairs by engineer of M/s. Wartsila.

Caustic Soda Chlorine Plant ?

Reasons	1967-68	1968-69	1969-70	1970-71	1971-72
I	2	3	4	5	6
Shut down of recovery and paper machine	174	235	24		
Production of Unbleached Paper	75	177	46		
Powers failure	224	33	44		
After meeting demand of black liquor	132	..	..
Water works . . . . .	..	37	59		
Miscellaneous	81	28	145		
	686	510	718	476	221
Number of available machine hours	8712	8640	8568	8568	8688
Percentage of idle machine hours to available machine hours	7.9	5.9	8.4	5.6	275

3.59. Idle machine hours of Paper Machine (Old) increased from 909 in 1967-68 to 4484.35 in 1971-72 and the idle machine hours on account of shortage of raw materials accounted for 39.23 per cent of the total idle machine hours during 1967-68 to 1969-70 years and 80 per cent in 1971-72. Similarly, the idle machine hours in Caustic Soda Plant increased from 510 in 1968-69 to 718 in 1969-70 and came down to 221 in 1971-72.

3.60. As regards the Recovery Plant and the new Paper Machine the detailed analysis of idle machine hours as done in the case of Paper Machine (old) and Caustic Soda Plant had not been made. The Management however, worked out that the Recovery Plant did not work for 887 hours in 1967-68, 862 hours in 1968-69 and 1014 hours in 1969-70 and the new Paper Machine did not work for 3792 hours during 1969-70.

The Ministry stated in January, 1971 as follows:—

“.....the recovery plant is entirely a captive unit and its working is dependent upon the working of Pulping Plant

.....Till our pulping units are ready and pulp to the extent of full requirements is available and the operations get stabilised, the analysis of idle hours for paper machines Nos. 1 and 2 will serve no useful purpose. After complete expansion of the Plants the records required will be maintained."

3.61. The idle machine hours of the old Paper Machine increased in the year 1969-70 due to the following reasons:—

- “(a) Because of limited capacity of our own pulping plants the total pulp produced had to be distributed to both the Paper Machines and, therefore, the working of the 1st Machines had to be restricted. Due to this, the idle machine hours have increased from 206 in 1967-68 to 866 in 1969-70.
- (b) Due to shortage of salai wood, there was loss of 192 hours in the year 1969-70.
- (c) There was a severe water shortage due to the low level of water in the river Tapti in summer.
- (d) Increased mechanical troubles due to the fact that the plant is getting old. It has already run for about 15 years. If the losses due to the above reasons are removed the remaining idle hours will be at par with the previous two years.”

3.62. During 1970-71 and 1971-72 also, the increase in the total idle hours was mainly due to inadequacy of pulp. The increase in mechanical troubles in the old paper Machine was, however on account of the following:—

1970-71

1. There was a shut-down due to floods in the river Tapti and also failure of the cable of the transformer at the Tapti Water Works (179 hrs.).
2. Failure of king roll bearings at the Paper Machine (29 hrs.).

1971-72

1. Preventive maintenance on paper machine fourdrinier section for two days (48 hrs.).
2. Overhaul of the press rolls (92 hrs.).

3.63. In regard to the New Paper Machine the increase in the idle hours was mainly attributed to mechanical troubles in the main shaft drive, break down of motor etc.

In case of Caustic Soda Chloride Plant, the idle machine hours during 1969-70 had increased due to the following reasons:—

- “(a) Due to shutdown of Paper Machine on account of shortage of salai wood in the month of November, 1969 for about 157 hours.
- (b) Due to increased shutdowns of Recovery for replacement of punctured boiler tubes twice during the year in addition to the normal annual recovery shutdown for boiler inspection about 94 additional hours were lost.
- (c)The working of Caustic Soda Chlorine Plant has to be adjusted depending on the working of other plants, viz. Recovery and Pulping Mills.”

3.64. The increase in idle machine hours during 1969-70 of Recovery Plant was due to the following reasons:—

- “(i) 94 hours (approx.) stoppage due to replacement of punctured boiler tube twice during the year in addition to the normal annual boiler inspection.
- (ii) 144 hours stoppage due to salai shortage.”

3.65. During the evidence, the Managing Director informed the Committee as follows:—

“As far as idle hours of machine are concerned I would say clearly that there are no idle hours practically as far as the running of paper machine is concerned. Some time it may remain idle due to shortage of pulp, but the shut downs are for various other reasons like recovery and so on.

Whatever pulp we make we are utilising. We utilise whatever we can get indigenously. The only other way of getting the pulp is import. As I explained previously, that is prohibitive.”

3.66. The Committee note that in the case of old machine idle machine hours on account of shortage of salai and pulp had increased from 55.88 per cent of the total idle machine hours in 1969-70 to over 80 per cent in 1971-72 and that this had also caused the shut down of Caustic Soda Chlorine Plant. The Committee also note that even in regard to the new paper machine, the percentage of total idle

hours to available machine hours had increased from 28.7 per cent in 1970-71 to 30.1 per cent in 1971-72. The Committee are distressed to note that the bulk of the machine capacity has remained unutilised mainly due to shortage of pulp because of the delay in erection and commissioning of pulp plant with the result that the country has been put to the necessity of importing newsprint. The Committee hope that the Pulp Plant would at least now be commissioned according to the present schedule and the maximum utilisation of machinery ensured.

E. Breakdown of Motor

3.67. On 9th December, 1964 an agreement was entered into with M/s. Wartsila, Finland for the supply of plant and machinery and spares for the Paper Mill to be set up under the expansion scheme at a total cost of Rs. 159.27 lakhs f.o.b. (subsequently increased to Rs. 210.13 lakhs due to devaluation).

3.68. The agreement stipulated that the suppliers would be responsible for the replacement of any machinery found defective within 12 months from the date of commissioning or 24 months from the date of the shipment of the last consignment. The last consignment of the plant and machinery was despatched by the suppliers on 9th May, 1966 and the guarantee period expired on 8th May, 1968.

3.69. There was, however, delay in the installation of the plant and machinery and the new Paper Machine went into regular production on 27th March, 1969.

3.70. It was observed that the paper section had not worked regularly without interruption after the commencement of the production and was not giving the rated production of 125 tonnes of finished newsprint of 50|52 gms.|sq. metre substance for which the suppliers had given performance guarantee.

3.71. The motor of the plant gave trouble right from the beginning and had a break-down on 5th June, 1969.

3.72. From a written note submitted to the Committee after evidence it is seen that the electrical erection and supervision works for the paper machine No. 2 drive were carried out by M/s. Wartsila and under their supervision by M/s. Gannon Dunkerley & Co., (Contract with M/s. Nepamills) and M/s. AEG (India) and AEG, West Germany (contract between AEG & Wartsila). The Mills were required to give only A.C. supplies to the various motors as per AEG's requirements and instruction from AEG's erection and commissioning engineer. After commissioning in March, 1969, when the Commis-

Commissioning Engineer of M/s. AEG, West Germany left India, as per his instructions, the various operations were being carried out by the Mills from time to time.

3.73. When the packing of 1000 KW 3.3. KV motor was opened out and checked by an engineer of AEG, it was noticed that some sound was coming from inside the motor when the coupling was rotated. After further check by AEG engineer, repair work was carried out in the presence of the Chief Erection Engineer and the AEG Engineer. This was brought to the notice of M/s. Wartsila by Nepa Mills in their letter No. PE|DEV-VI (91-B) dated 5-9-1968 and also to the Commissioning Engineer from AEG West Germany. After a thorough check-up, the Commissioning Engineer advised the Nepa Mills to run the motor with the original bearings mounted on the motor giving the plea that in his opinion noise was not abnormal and damage to the motor or bearings was not feared. Thus, the motor was run intermittently from January, 1969 to May, 1969 for about 600 hrs.

3.74. On 22nd May, 1969, when one of the bearings failed Nepa Mills had to change it with a new one in the presence of Commissioning Engineer from AEG West Germany. After the bearing was mounted, the motor was re-started after the same was checked thoroughly and certified by him. He was fully satisfied with the smooth running of the motor as no abnormal. Sound, vibration and heating of the bearings were noticed till 4th June, 1969. However, the bigger bearing on the other side failed on 5th June, 1969 after 300 hrs. causing failure of the motor and other bearing also.

3.75. M/s. Wartsila were of the opinion that the failure of motor may be due to misalignment or improper mounting of the bearing.

3.76. It was stated by the Nepa Mills that "it was made sure that none of the following conditions were observed at any time:—

- (i) Misalignment.
- (ii) Defect in foundation.
- (iii) Vibrations due to rotor unbalance.
- (iv) Improper Lubrication.

The sudden failure of the bearing was thus unexplained."

3.77. The motor, after repair, was started on 26th July, 1969 in the presence of a representative of M/s. Evans Electric Ltd. Bombay, who repaired the motor. The representative was of the opinion that the defect was with the motor and it was perhaps with marginal safety factor in design of the bearings.

3.78. Messrs SKF Ball Bearing Co. Pvt. Ltd., Bombay, to whom one of the removed bearings was sent for check up and comments on the wear of the bearing, attributed the wear on the bearing to passage of current through the bearing.

3.79. It was, therefore, established that the failure of original motor was due to passage of current through the bearings.

3.80. It was further stated that:

“M/s. AEG India erected the drive under contract with M/s. Wartsila and expert from M/s. AEG, West Germany Commissioned the whole drive. This, the entire responsibility of observing the machinery and checking the possibility of failure due to passage of current lies with suppliers and commissioning engineer. Particularly so, since their engineers were present during all this period and the machine was being run under their supervision and observation.”

3.81. Immediately after the 3.3 KV.—1000 KW main generator motor failed on the 5th June, 1969, the matter was brought to the notice of M/s. Wartsila on 6th June, 1969 stating that the cause of the failure appeared to be due to the internal defect of the motor and the supplier should, therefore, replace the motor at their cost. The Mills also claimed from them, the repair charges of the damaged motor. This was further reiterated in their letter dated 16-6-1969. This action was taken in accordance with clause XV of the relative guarantee clause of the agreement with M/s. Wartsila. The first para of the above clause of the agreement read as follows:—

“and that the performance guarantee shall be considered fulfilled once this rate of production is attained continuously for a minimum period of 6 days at a stretch****Units for which proof can be furnished that they do not work satisfactorily on account of inferior material, faulty manufacture or unsuitable construction, shall be replaced by supplier free of cost to the exact place of replacement within 12 months from the start up of the plant or 24 months from the date of last consignment.”

3.82. In the above clause the words “whichever is earlier” or “whichever is later” were not incorporated as it was then considered that the start of the machine would not be delayed beyond 24 months of last date of consignment. In the opinion of the Nepa Mills, the guiding factor was to be the earlier clause, i.e. 12 months from the start-up. But the suppliers *vide* their letter dated 17th June, 1969 disowned their responsibility taking the plea that the damage was

not due to the defective motor in origin. Their interpretation was again objected to and all the facts were brought to their notice saying that the damage was entirely due to the defects in the construction of the motor. M/s. Wartsila disowned the claims on the ground that the machinery was considered as delivered and responsibility remained with Nepamills. On the advice of their Solicitors a registered notice was served by NEPA on the suppliers in September, 1969 and they were reminded on 9-10-69. Since no reply was received, NEPA Mills again approached their solicitors for their advice. The matter was brought to the notice of the Government on 29th November, 1969, with a request to move the Ministry of External Affairs to persuade the Finnish firm through the Finnish Embassy. The Ministry of Industrial Development *vide* their D.O. letter No. LI (III)-12(34)|69 dated the 16th March, 1970 informed that since the claim was time-barred (as the case was not referred within 24 months from the date of last shipment), no purpose would be served by requesting the Ministry of External Affairs to take up the matter.

3.83. In the meantime, M/s. Wartsila *vide* their letter dated 29th December, 1970 agreed for reimbursing the Nepa Mills with 2|3rd of the ex-works cost of the new motor, i.e. Rs. 54,510|-, purchased from West Germany for replacing the damaged motor. Besides M/s. Wartsila had sent to the Nepa Mills a credit note for the repair cost of the damaged motor, amounting to Rs. 22,822|- and they had also not insisted for return of the old damaged motor. The NEPA Mills decided on 30th March, 1972 to agree to this proposal.

3.84. During the course of evidence of the representatives of the Ministry of Industrial Development, the Secretary of the Ministry informed the Committee as follows:—

“Here I may inform that these motors were supplied in May, 1966 and they were covered by a guarantee which extended to two years and this guarantee, therefore, went up to May, 1968. The defect in these motors came to light in June, 1969 when the guarantee period had already finished. But despite the fact when it was taken up by the Company with the suppliers, the suppliers actually agreed to repair the old motor at their own cost and in regard to supply of new motor as a replacement it was agreed between the Company and the supplier that the supplier would bear 2|3rd of the cost and the Company would bear 1|3rd of the cost. At the same time the supplier also repaired the old motor at his own cost. So I would submit that it cannot be regarded as a deal which was very much disadvantageous to the Company.”

3.85. The Committee note that the agreement with M/s Wartsila Finland for the supply of plant and machinery for the paper mill under the expansion scheme stipulated that the suppliers would be responsible for replacement of any defective machinery within 12 months from the date of commissioning or 24 months from the date of shipment of last consignment. Accordingly the guarantee period expired on 8th May, 1968. The Committee regret to point out that because of the delay in the installation of plant and machinery and the commissioning of the new paper machine only in March, 1969, the Nepa Mills were not in a position to check the performance of the motor within the period of guarantee stipulated in the agreement. The Committee also regret to note that the agreement with the suppliers did not incorporate the words, "whichever is later" and this led to a long drawn out correspondence between the suppliers and the Nepa Mills resulting ultimately in the replacement of the motor and partial reimbursement of its cost besides the cost of the repair of the old motor. In spite of the replacement, the Committee are constrained to point out that the guaranteed performance is yet to be constrained to point out that the guaranteed performance is yet to be fore testing the guaranteed output of the new paper machine the payment of one third of the cost of the second motor had been made. The Committee hope that the Nepa Mills would draw a lesson from such costly delays and defective agreements and avoid such lapses in future.

F. Groundwood Bleaching Plant

3.86. In 1957-58 the Company decided to instal a Groundwood Bleaching Plant for the purpose of bleaching salai pulp for obtaining good shade of paper. The plant was acquired in 1959-60 at a cost of Rs. 11.79 lakhs. A portion of the plant valuing Rs. 3.05 lakhs was installed and commissioned during 1965-66. The remaining plant and machinery valued at Rs. 8.74 lakhs was, however, not installed due to shortage of power and inability of the plant to absorb any additional cost on account of bleaching an expansive process. Meanwhile it was also found in 1963 that by grinding dry fresh wood at the grinder, it was possible to obtain a fairly good shade of paper.

3.87. The Management, however, decided to utilise the remaining plant and machinery in the expansion programme. According to latest estimate of the Management, the remaining Plant and Machinery of Groundwood Bleaching Plant would be utilised in Cold Soda Pulp Plant, which was expected to be completed by July, 1973.

3.88. To an enquiry of the Committee as to how the necessity for installation of Groundwood Bleaching Plant arose and why its use

was abandoned, the Nepa Mills stated in a written note that in the initial stages of production, it was found that the newsprint produced from Salai, which was an unconventional raw material, and which had not been previously used anywhere in the world was of a very dull shade. Newspapers, who had hitherto been used to imported newsprint, which was of a brighter shade, were not willing to purchase the newsprint produced by us. To make the product saleable and to popularise the use of indigenous newsprint, it was considered necessary to improve the shade by bleaching. In the original project, bleaching of groundwood was not included. Sanction for installing Groundwood Bleaching Plant was obtained later on in 1957-58 and the machinery for the bleaching plant was purchased in 1959-60 at a cost of Rs. 11.79 lakhs.

3.89. During evidence, the Production Manager informed the Committee that "the Groundwood Bleaching Plant was acquired in 1959-60. When we actually tried to work on it, we found that we required very high quantity of bleaching chemicals. The operation was very costly. We found that if we go for an overall bleaching of the Groundwood pulp, it would mean very high losses. It contains very heavy solubles."

3.90. In the meantime, however, by experience and by use of fresh salai, the quality of newsprint could be improved, and the newspapers also were getting acclimatized to the use of indigenous newsprint. The idea of bleaching of groundwood pulp was, therefore, abandoned.

3.91. The Nepa Mills further stated that on account of the non-utilisation of the Groundwood Bleaching Plant "there was no loss in production. In fact, there was a gain of about 6-7 per cent in quantity, due to saving of fibre loss in bleaching."

3.92. To a further enquiry of the Committee during the evidence as to why the Nepa Mills ordered this equipment, it was admitted by the Production Manager that "it might be a mistake."

3.93. The Committee regret that on account of the Nepa Mills not having initially examined the necessity for bleaching nor explored other methods of improving the shade and quality of newsprint, the Mills had to acquire plant and machinery for groundwood bleaching at a cost of Rs. 11.79 lakhs even though the provision therefor did not exist in the original project. The Committee note that even after acquisition, only a portion of the plant valued at Rs. 3.05 lakhs could be installed and commissioned after a lapse of six years. The Committee were informed that the remaining plant and machinery of the Groundwood Bleaching Plant would be utilised in the Cold Soda

Pulp Plant under the expansion scheme. The Committee however, feel doubtful about the need for utilisation of the Groundwood Bleaching Plant itself in view of the reduction in the percentage of groundwood pulp under the expansion programme also because the earlier operation proved costly without any commensurate improvement in the quality of newsprint. The Committee would therefore like that the matter regarding this purchase should be investigated carefully and suggest that measures should be evolved for an economic utilisation of the plant with a view to keeping down the cost of production.

G. Milk of Lime Plant

3.94. In 1957-58 the Mills decided to instal a Milk of Lime Plant to produce calcium hypochlorite required for bleaching. Accordingly the plant was acquired during 1958-59 and 1959-60 at a cost of Rs. 5.10 lakhs. The scheme envisaged that while chlorine would be purchased from a private party who had been granted an industrial licence for the installation of a Caustic Chlorine Plant at Nepanagar, the Milk of Lime would be manufactured in the Milk of Lime Plant from the purchased lime. As the private project did not materialise, the Company decided to have its own Caustic Soda Chlorine Plant with a capacity to produce 12 tonnes of caustic soda and 10 tonnes of chlorine. Because of difficulty and the extra investment involved in marketing the caustic soda produced in lye form, the Company decided to continue the existing bleaching process with sodium hypochlorite—a costly process, thereby making use of the caustic soda and avoiding the purchase of lime from outside sources. As a result, the Milk of Lime plant could not be utilised except that a part of the machinery valued at Rs. 1.93 lakhs was used in the Caustic Soda Chlorine Plant.

3.95. In August, 1969 the Management decided to utilise the remaining plant and machinery in the expansion programme of Caustic Soda Chlorine Plant. The Plant has since been commissioned in September, 1971.

3.96. In this connection, the Nepa Mills stated that “the Mill was facing serious difficulties in procurement of the requisite quantities of Chlorine. This had resulted in interruption in the production of bleached newsprint. Almost every month, we had to resort to the manufacture of unbleached paper. The switching over from bleached to unbleached and from unbleached to bleached, used to result in operational difficulties and in production losses.

M/s. Nepa Chemicals (a private party) had been granted a licence

to install a Caustic Soda Chlorine Plant at Nepanagar. Nepamills was negotiating an agreement for the purchase of Chlorine and Caustic Soda from the proposed Nepa Chemicals.

Their scheme, however, did not materialise even in a period of 5 years. The negotiations with them did not, therefore, materialise.

Accordingly, in the Board meeting held on 27-7-1960, the Board resolved that further negotiations with Nepa Chemicals be dropped and Mill should install its own Caustic Soda-Chlorine Plant.

Thereafter, the matter was taken up by the Mills with the Minister for Commerce & Industry and under his guidance, expeditious steps were taken to install our own Caustic Soda-Chlorine Plant."

3.97. The Committee regret to observe that soon after the take over of the Nepa Mills, the Management acquired during 1958-59 and 1959-60 a Milk of Lime Plant at a cost of Rs. 5.10 lakhs without going into the economics of the process on the assumption that chlorine could be purchased from a private party, which was to set up a project for the purpose but which never materialised. The Committee note that a part of the plant was utilised after a period of 4 to 5 years and the remaining in September, 1971 only. The Committee feel that the entire transaction was rather hasty and illconceived, specially because the Mills had themselves admitted that the quality of newsprint produced from salai cannot be improved even by technological process.

IV

RAW MATERIAL

A. Existing reserves of Salai and availability of other-raw-materials:

4.1. The two main raw materials required for the manufacture of newsprint are the chemical pulp produce from bamboo and mechanical pulp from salai wood. While bamboo is stated to be available in abundance in the forest areas of Madhya Pradesh, a Committee (known as Ranganathan Committee) in July, 1953 expressed the opinion that the available reserves of salai were sufficient to meet the requirements for a period of 20 years. Another Committee (known as Seetharamiah Committee) in its report submitted in February, 1965 observed that with the expansion of production capacity of the Mill, the available salai wood in the Madhya Pradesh forest would be adequate for a period of 15 years and with the addition of Maharashtra areas, it would meet the requirements for about 22 years.

4.2. In order to meet the requirements for salai wood at a long term basis, the Ranganathan Committee recommend that the plantation which was previously being done by the Company should be the exclusive responsibility of the Forest Department of the Madhya Pradesh Government and that a separate Nepa Mill Forest Division should be established for that purpose. The Seetharamiah Committee recommended the plantation of fast growing species of pulpwood at a rate of 6,600 acres annually on 15 years rotation basis from July, 1966 by a special agency. The Public Accounts Committee in paragraph 108 of their 23rd Report (3rd Lok Sabha—March, 1964) also emphasised the need for assessing the existing reserves of salai wood and taking measures to increase them and also for growing alternative woods so that the afforestation programme of the State Government was kept abreast of the requirements of the Nepa Mills.

4.3. The Company started experimental plantation in 1948-49 but had to abandon the work in 1954-55 after incurring an expenditure of Rs. 1.10 lakhs as the growth and survival of the plants were found to be unsatisfactory. Thereafter, the Forest Department of the Madhya Pradesh Government undertook plantation on an area of 11,400 acres but the results were found to be unsatisfactory due to adverse locality, shortcomings of techniques, wrong choice of species and hostile sites. Later on, plantation of eucalyptus species was

taken up in a different area around Nepanagar in December, 1962 on a restricted scale.

4.4. In the meantime, a scheme prepared by the Company in December, 1966 for raising plantations on an area of 78,600 acres during a period of 15 years could not be put through as the cost of land demanded by the State Government (Rs. 2,33,600) was considered to be exorbitant. However, the Company established an eucalyptus nursery in 1961-62 and incurred an expenditure of Rs. 58,172 up to the end of March, 1970.

4.5. No tangible progress appears to have been made so far, so as to ensure a continuous supply of salai wood to the Nepa Mills after the existing reserves are exhausted.

4.6. The Management stated in August, 1970 that they had approached the Ministry of Food and Agriculture in May, 1970 to carry out pre-investment survey of forest reserves in Madhya Pradesh wherefrom the raw material was to be extracted to meet the demand of Mills.

4.7. In a subsequent note submitted by the Nepa Mills it was stated that the observations of the Seetharamiah Committee to the effect that available Salai wood in Madhya Pradesh forests would be adequate for a period of 15 years relate only to certain parts of Madhya Pradesh in Khandwa and Khargone districts and did not cover the whole of Madhya Pradesh. Further, the observations appeared to be based on certain *ad hoc* estimates prepared by the Forest Department of the Government of Madhya Pradesh and on the assumption that these forests were to yield on an average 1.75 tonnes of salai per acre. Unless more accurate data were available on the productivity of the forests taken on lease and proposed to be taken on lease by the Mills, it could perhaps not be appropriate to comment for how long the salai stocks would last.

4.8. The average yield of salai per acre obtained each year 1965-66 to 1971-72 was reported as under:—

Year	Yield per acre of salai area in tonnes
1	2
1965-66	2.08
1966-67	2.41
1967-68	1.77

1	2
1968-69	2.41
1969-70	2.01
1970-71	2.73
1971-72	2.07
Average for the entire period	2.21

4.9. The figures given above were, however, subject to the following limitations:—

- (i) Previous to the year 1968 there was no system of marking of exploitable salai trees by the State Forest Department before felling. The contractor was required to fell two thirds (and later all) of trees that had reached the exploitable girth. There was no numerical check on the actual number of trees felled by the contractor.
- (ii) There was also no check on whether the contractor worked the compartment in full, on account of there being no numerical check as mentioned above. It was possible that on account of difficult communications, inaccessibility etc., some compartments might not have been fully worked.

4.10. During the course of evidence of the representatives of the Nepa Mills, the Managing Director informed the Committee in this regard as follows:—

“Ranganathan Committee took the average yield as 1.1 tonne or 1.2 tonnes per acre. They said, since no detailed investigations are carried out, the alleged production picture is a myth etc. But, from investigations they came to the conclusion that salai would be 1 to 1.25 tonnes per acre. The Seetharamaiah Committee took it at 1.71 tonnes. Since then I started collecting some data from the compartments. Who found we were getting about 3.7 tonnes. I am keen that we should survey all the areas. We requested pre-investment survey by the unit under the Ministry of Food and Agriculture. Reconnaissance survey was done. We have not got the report. I hope they will complete this survey and we will then know how much would be available and if these areas give us more than what is anticipated by Seetharamaiah Committee and Ranganathan Committee we will be in a happy

position indeed. We have been after the Madhya Pradesh Government to raise the plantations. But as already said in the report, salai is a thing which is not so suitable for raising in plantations. So, it cannot be raised that way and artificial plantation of salai is not known. Natural regeneration is also poor. The areas are overgrazed. How to meet the demand if there is a shortage after 20 years? 400 tonnes per day will be required. We have asked Madhya Pradesh Government to take up some plantations somewhere else, may be eucalyptus or other species, under rotation of 10 years or 15 years. We have also asked for areas in three other districts where salai is available. We can also make the pulp somewhere else as the technology gets improved. Japan gets chips from Malaysia and Indonesia and from Australia and New Zealand. With this improvement in technology we will be safe. I think.

About average yield we have calculated, it to be 3.7 tonnes to 4.48 tonnes per acre.... If our calculations come to be true, it will be twice, it will be 44 years.

So even if raw material is not available nearby, as technological improvement takes place, we can make pulp somewhere else in Madhya Pradesh and bring it. Japan gets chips from other countries.... There is no raw material problem and the indications are, we will get more than what we had indicated already.

4.11. In regard to suitability of the area around Neapanagar for cultivation of salai, the Managing Director stated as follows:—

“Sir, this area is not at our disposal. No. 2 is that these trees are just scattered here and there and there are other trees like teak trees and when teak trees are there was exploit salai trees only and the rest of the trees are managed by the Department of Forestry.”

4.12. At the present level of newsprint production (1971-72), about 44,000 tonnes of air dry bamboos and 52,000 tonnes of green salai are consumed as raw material yearly. Small quantities of chemical pulp purchased from the Central Pulp Mills are also used to supplement the requirements of chemical pulp when necessary. Under the expansion scheme the requirements would increase to 1,20,000 tonnes of green salai and 75,000 tonnes of air dry bamboos.

4.13. The Government of Madhya Pradesh had leased out for 90 years an area of 4,70,000 acres of salai bearing forest in South Khandwa Division from 1956. So far about 1/3rd of the area had been worked. For the expansion programme, the Nepa Mills had requested the Government of Madhya Pradesh to allot to them additional salai bearing forests in South Khandwa, North Khandwa and Khargone Divisions covering an area of 6,31,000 acres. The orders of Government of Madhya Pradesh are awaited.

4.14. Regarding bamboos, the Nepa Mills had taken on lease for 90 years, 26 bamboo felling series in Nimar, Hoshangabad and Betul districts of Madhya Pradesh. These areas yield roughly 26,000 tonnes of air dry bamboo each year. In 1963-64 it was experienced that the quantity of bamboos from these areas was not adequate to sustain production, and on request of Nepa Mills, the Government of Madhya Pradesh allotted on an *ad hoc* basis 7 felling series in West Betul, North Betul and Harda Divisions on annual leases. These areas yield about 6,000 tonnes of bamboos annually.

4.15. To supplement the yield from the above areas to meet the needs of increased production, Government of Madhya Pradesh also allotted to Nepa Mills, 11 felling series in Harda, South Betul and West Betul Divisions again on an *ad hoc* basis for the years 1970-71 and 1971-72. These areas yield about 8,000 tonnes of bamboos. Government also allotted in the year 1971-72 eleven felling series in South Balaghat Division for the year ending on 30th June, 1972. These areas would yield about 15,000 tonnes of air dry bamboo.

4.16. To meet the bamboo requirements in the expansion programme, the Nepa Mills had requested the Government of Madhya Pradesh to allot to them on a permanent footing the 29 felling series which were being allotted to them on an *ad hoc* basis on annual leases. The Nepa Mills had also requested Government of Madhya Pradesh to allot 7 more felling series in South Balaghat Division on a permanent footing. Orders of Government of Madhya Pradesh were awaited.

4.17. It was also stated that successful experiments were carried out in the Nepa Mills to determine the suitability of eucalyptus for manufacture of newsprint and that Madhya Pradesh Government had been requested to raise plantation of eucalyptus. It was however, added that the yield so far was poor.

4.18. It was also stated that in order to examine the feasibility of locating a pulping plant in some other part of Madhya Pradesh, where salai and other pulpable hardwoods might be available in

plenty, the Chief Conservator of Forests, Madhya Pradesh, had been requested to reserve the salai Forests of Raipur, Bilaspur, Raigarh and Surguja districts of Madhya Pradesh. The Chief Conservator of Forests had in turn requested the Conservator of Forests concerned to submit necessary proposals which were still awaited.

4.19. The Chief Conservator of Forests, Madhya Pradesh was also requested to examine the possibility of raising irrigated plantations of pulp wood species in the protected forests and unoccupied waste lands located in the command of the Tawa Dam in Hoshangabad district. The Chief Conservator of Forests replied that the forest area lying within the command area of Tawa project was reported to be unsuitable for raising tropical pines and that the command area could also not be made available for such plantations. Subsequent to this, the Chief Conservator of Forests was again requested to examine the possibilities of raising irrigated plantations of pulpwood species in the command area of Kheria-Ghutighat Irrigation Project near Burhanpur below the junction of Tapti and Sipna rivers. The details of the proposal were being worked out.

4.20. The question of availability of raw material was also discussed with the representatives of the Ministry of Industrial Development during their evidence. The representative informed that there was a Central Coordination Committee, which decided about the pre-investment surveys of forests in different parts of the country. On the basis of their recommendations, reconnaissance survey of three districts of Madhya Pradesh, which were contiguous to Nepa Mills, had been done. It was stated that they expected that in the next 20 to 25 years, there would be no problem on this account and thereafter it was expected that ways and means would be found out to meet the demands of Nepa Mills. It was also stated that techniques to grow salai by special cultivation were being worked out as salai was not growing naturally like other species.

4.21. The Committee note that the Estimates Committee in their 157th Report of 2nd Lok Sabha and Public Accounts Committee in their 23rd Report of 3rd Lok Sabha emphasised the need for assessing the existing reserves of salai wood and taking measures for increasing them and also for growing alternative woods to meet the requirements of the Nepa Mills.

4.22. The Committee regret to observe that in spite of these recommendations and those of the Ranganathan Committee and Seetharamiah Committee the Mills have not taken so far any effective steps to ensure a continuous supply of salai wood and to develop techniques to grow salai by special cultivation. The Committee fail to

understand why piecemeal and ad hoc arrangements only are being made with the Governments of Madhya Pradesh and Maharashtra for securing even their bamboo requirements. Since the economic functioning of the plant is dependent on the availability of raw materials in proximity of the Mills, the Committee need hardly emphasise the desirability of undertaking in time adequate plantation operations in appropriate places of species suitable for the plant. Considering the importance of salai as a major raw material for the production of newsprint and the emphasis that was being laid since 1953 by the two Expert Committees and the two Parliamentary Committees [Estimates Committee in their 157th Report (2nd Lok Sabha) and Public Accounts Committee in their 23rd Report (3rd Lok Sabha)] the Committee cannot resist the conclusion that the time taken for conducting comprehensive surveys for the assessment and development of raw materials for the Mills has been unduly long. The Committee would, therefore, stress that in the interest of long term planning, Government should tackle the problem with the utmost expedition and arrange to develop techniques for growing salai of suitable species and other suitable trees by cultivation if necessary with the assistance of Forest Research Institute, Agricultural Research Institutes and Agricultural Universities.

B. Agreement with State Government—extraction of Bamboos

4.23. On the 10th October, 1947 an agreement was entered into between the Mills (then a private enterprise) and the Government of Madhya Pradesh (formerly Central Provinces and Berar) to enable the Mills to set up a Paper Mill in the Nimar district for manufacture of newsprint and printing and other varieties of paper, etc. In consideration of the grants and leases of land, free use of water from Tapti river and other rights, privileges and facilities agreed to be granted and conferred on it by Government, the Mills allotted to the Government, for consideration other than cash fully paid up shares of the value of Rs. 5 lakhs.

4.24. On the 9th February, 1956, a supplementary agreement was entered into between the Mills and the State Government which *inter alia* reserved bamboo forests for supply to the Mills of bamboo not exceeding 30,000 tonnes annually. The Mills were to pay royalty for the bamboo extracted from these areas at the rate of Rs. 5 per tonne. The actual working of the allotted areas upto 1960-61, however, revealed that not more than 28,000 tonnes of bamboo could be extracted annually from the area allotted. The Forest Department on 12th September, 1963 agreed to release some more bamboo areas to the Mills on the royalty payable at the rate of Rs. 12 per

tonne for extraction. Since then additional bamboo areas were being allotted to the Company on year-to-year basis subject to the condition that the rate of royalty as approved by the Government of Madhya Pradesh would be payable by the Mills. There was, however, no commitment that this rate would not exceed Rs. 12 per tonne.

4.25. The following table gives the details of extraction made from the leased areas and the quantity extracted less during each year from 1963-64 to 1971-72:—

(Quantities in tonnes)

Year	Quantity extracted from leased areas	Quantity less extracted from 28,000 tonnes
1	2	3
1963-64	26,270·530	1,729·470
1964-65	16,833·700	11,166·300
1965-66	27,793·960	206·040
1966-67	20,740·600	7,259·400
1967-68*		
1968-69	22,857·364	5,142·636
1969-70	25,720·125	2,279·875
1970-71	26,412·772	1,587·228
1971-72	25,365·311	2,632·689

*During 1967-68 the extraction of bamboo was more than 28,000 tonnes.

4.26. It would therefore be clear from the above table that the Mills did not extract bamboo even upto 28,000 tonnes from the leased areas allotted to them as per agreement.

4.27. The non-extraction of bamboos upto 28,000 tonnes which was considered to be the yielding capacity of the leased areas allotted to the mills, resulted in extra payment of royalty amounting to Rs. 1.94 lakhs (upto the year 1969-70) being the difference between the royalty payable for leased areas and for additional areas:—

The Ministry stated in January, 1971 that:—

“.....that the matter has already been taken up with the Madhya Pradesh Government for exempting the Company to pay royalty at enhanced rates for the short yield received from the bamboo areas allotted earlier. The

matter is still under the consideration of the Government."

4.28. In a subsequent note, it was stated that a meeting of Joint Secretary to the Government of India, Ministry of Industrial Development, Secretaries to the Government on Madhya Pradesh in the Industries and Forest Departments and the Managing Director of Nepa Mills was held at Bhopal on 12th August, 1971 to discuss the question of royalty rate on bamboo pulpwood with the Government of Madhya Pradesh. The representatives of the Government of Madhya Pradesh, agreed that the difficulty of the Nepa Mills would be kept in mind while fixing the royalty. The Madhya Pradesh Government however added that the royalty of Rs. 12 being realised by the Madhya Pradesh Government was at a provisional rate and a final decision in the matter was yet to be taken.

4.29. In regard to the extraction of bamboos it was stated that the quantity of bamboos extracted from any forest areas was subject to certain silvicultural rules and prescriptions laid down by the Forest Department of Madhya Pradesh. In other words, only such quantities that were permitted to be felled under these prescriptions were felled and removed from the forests. The forests on lease when worked under these prescriptions did not yield the originally estimated quantity of 30,000 tonnes. It was also found that to produce 30,000 tonnes of newsprint, 30,000 tonnes of bamboo would not be adequate. The Government of Madhya Pradesh were therefore moved in June, 1963 to allot additional bamboo areas to meet the full requirement of 30,000 tonnes. Accordingly the Government of Madhya Pradesh allotted in January, 1964 seven additional bamboo-felling series in North Betul, South Betul and Harda Divisions and since then, these felling series were being allotted to the Nepa Mills on annual lease basis.

4.30. During the course of evidence of the representatives of the Ministry of Industrial Development the Committee pointed out that one private sector paper manufacturer in Madhya Pradesh was paying a royalty of Rs. 4 per ton on the extraction of bamboos, whereas the Nepa Mills were paying Rs. 5 per ton for the areas contracted in February, 1956 and Rs. 12 per ton for the areas contracted in September, 1963. It was also pointed out that there was, however, no commitment that this rate would not exceed Rs. 12 per ton. The Secretary of the Ministry explained the position as follows:—

"It very much depends upon the time of contract for the supply of wood. There was a time when the State wanted the industries to come. They gave land either free or at a very nominal rate, exemption from sales tax and various

other things. The difficulty is the Public Sector Project has to pay more."

4.31. In a note submitted after the evidence, the Nepa Mills informed the Committee that "for thirty years lease in Vindhya Pradesh region the O.P. Mills is paying royalty at Rs. 6 per tonne."

4.32. The Committee regret to note that the Nepa Mills had contracted for extraction of 30,000 tonnes of bamboos annually at a rate of royalty of Rs. 5 per tonne without actually ascertaining the yielding capacity of the leased areas under the prescriptions laid down by the Forest Department of Madhya Pradesh. When the Mills found the yield did not exceed even 28,000 tonnes, the Mills took on lease additional areas at a higher rate of royalty of Rs. 12 per tonne for extraction. The Committee note that when the question of royalty rate on bamboo was discussed with the Government of Madhya Pradesh, the representatives of the Government of Madhya Pradesh agreed that the difficulty of Nepa Mills would be kept in mind while fixing the royalty but at the same time added that the royalty of Rs. 12 was at a provisional rate, and a final decision in the matter was yet to be taken. The Committee were informed during evidence that "there was, however no commitment that this rate would not exceed Rs. 12 per tonne". The Committee understand that for a 30 years' lease in Vindhya Pradesh Region a Mill in the private sector is paying royalty at Rs. 6 per tonne only. The Committee are surprised at the differential rates of royalty charged by the Madhya Pradesh Government, one rate to the public sector plant and another to the private sector plant. The Committee would suggest that the Ministry of Industrial Development should take up the matter with the State Government of Madhya Pradesh to secure most favourable rates of royalty for the Nepa Mills so that payment of royalty does not become a source of burden to the Mills and thereby increase the cost of production.

4.33. The Committee are also surprised that against a contractual quantity of 30,000 tonnes of bamboos annually, the Mills could not extract even to the extent of 28,000 tonnes except in one year with the result that the Nepa Mills had to incur a loss of Rs. 1.94 lakhs upto 1969-70 by way of extra payment of royalty. The Committee suggest that the Nepa Mills should make a realistic assessment of the yielding capacity of the areas allotted to them for bamboo extraction before entering into fresh contractual commitments.

C. Norms of Consumption vis-a-vis Actual Consumption

4.34. In September, 1968, the Mills on the basis of the experience gained on indigenous pulp, found that for the manufacture of one

tonne of newsprint, the main raw materials required would be as follows:—

Bamboo	1.18 to 1.20 tonnes.
Salai	1.22 to 1.24 tonnes.

4.35. The actual consumption of bamboo and salai per tonne of newsprint produced during the year 1963-64 to 1971-72 is given below:—

(Figures in tonnes)

Year	Bamboo	Salai
1	2	3
1963-64	1·2365	1·2213
1964-65	1·1568	1·1953
1965-66	1·2605	1·1476
1966-67	1·2190	1·1880
1967-68	1·1144*	1·2530
1968-69	1·1470	1·2225
1969-70	@0·9554	@1·0568
1970-71	1·1910	1·1136
1971-72	1·0961	1·3087

*Excess of 2,090 tonnes in physical verification was credited to this account. This resulted in bringing down the consumption from 1·1811 to 1·1144 tonnes.

@Consumption is low due to utilisation of imported pulp in production during 1969-70

4.36. The following table gives the consumption of main chemicals in the manufacture of newsprint, un-bleached paper, etc. for the last five years:—

(a) Newsprint—

(Figures in tonnes)

	1967-68	1968-69	1969-70	1970-71	1971-72	
N-20 (composed of Salt, cake Soda ash, Caustic Soda)	21·67	20·81	22·20	14·62	16·62	Per 100 tonnes of unbleached pulp
Common Salt	0·3032	0·2291	0·2418	00·26	0·34	Per 100 tonnes of bleached Chemical pulp
Lime including Lime Stone (converted into lime in the ratio of 100:56)	40·0497	43·4500	41·6694	40·50	39·16	

	1	2	3	4	5	6	7
Fuel Oil Chlorine		21.1242	19.1212	16.9926	17.89	16.57	
Chlorine . . .		11.8343	12.4104	11.6667	10.09	9.65	
Sizing Chemicals							Per 100
Methylen blue . . .		0.0023	0.0022	0.0010	0.0006	0.0006	tonnes of
Rhodamine . . .		0.0016	0.0014	0.0009	0.0004	..	total plup
Hydrochloric Acid (including supluric acid converted into ratio 32:98		2.9856	3.0590	2.5167	1.2451	2.3123	

4.37. It will be seen that the actual consumption of raw materials varied from year to year and in certain years was in excess of the norms. No norms were prescribed for chemicals.

4.38. In a written reply, it was stated that the consumption of chemicals for newsprint production had not shown any wide variation and was normal.

(b) Caustic Soda

(Consumption per 100 tonnes)

Particulars	1965-66 Tonnes	1966-67 Tonnes	1967-68 Tonnes	1968-69 Tonnes	1969-70 Tonnes	1970-71 Tonnes	1971-72 Tons
1	2	3	4	5	6	7	8
Salt	189.8	186.0	188.2	175.4	184.2	190.0	189.92
Soda Ash	5.3	2.5	2.3	2.1	2.8	3.26	4.48
Lime	5.5	1.8	2.8	1.8	2.5	2.03	3.06
Sodium sulphide . . . . .	..	.049	.031	.029	0.38	.047	.037
Seperan . . . . .	.031	.022	.016	.019	Nil	Nil	Nil

4.39. The Management stated in November, 1970 as follows:—

“The consumption of chemicals has to be adjusted according to the quality of the raw material and hence norms if fixed for one condition, will not hold good for other conditions. However, since 1969-70 is abnormal for Nepa Mills due to many reasons like use of imported pulp, teething troubles etc. no comparison could be made between 1969-70.”

4.40. In a subsequent note submitted by the Nepa Mills to the Committee, it was stated that the "consumption for caustic soda was slightly higher in the year 1970-71 and 1971-72 as compared to 1969-70. This was due to the following reasons:—

- (i) The consumption of salt depends on the quality as well as efficiency in the process of storing, handling and purification. The norm for salt consumption agreed to per tonne of Caustic Soda is 1.90 tonnes (Tariff Commission Report on the fair selling prices of Caustic Soda, Chlorine, Hydrochloric Acid, Bleaching Powder, 1967). Thus the consumption of salt has been within the norms laid down.
- (ii) The consumption of other chemicals varies as per the quality of salt used and quality of chemicals employed for purification. The consumption of soda ash and Lime in 1971-72 has been slightly higher as there was acute shortage of good quality soda ash/lime in the market and the quality of chemicals procured at times was not of the desired quality.

4.41. It is not possible to fix up the norms for the consumption of chemicals which has to be adjusted according to the quality of the raw materials and hence norms if fixed for one conditions, will not hold good for other conditions. The quality of some chemicals also varies and their consumption is altered accordingly."

4.42. It was, however, admitted by the Nepa Mills that it would be useful to fix norms. But it had not been possible to do so for different ranges of quality of raw materials like salai and bamboos, as no known methods of classifying the pulp wood into quality classes on the basis of moisture fibre content, etc. were available. The excess in consumption in 1971-72 could be attributed to the variations in the moisture content and quality of the pulpwood received, which again depended on the habitant factors of the forests over which no control could be exercised.

4.43. During the course of evidence of the representatives of the National Newsprint and Paper Mills Ltd., the Managing Director also informed the Committee as follows in this regard:—

"Right up to 1969-70 we were making only 30,000 tonnes of paper and our requirement of salai was 85 tonnes per day which was brought conveniently without having to store them. When we came to 1971-72 our production increased. We had to bring much more salai for pulp. During rains it becomes difficult to bring salai and it has to be brought in advance and kept. When we keep salai, it dries up. So consumption is bound to be more."

4.44. In a subsequent note submitted by the Ministry of Industrial Development, it was stated that:—

“To watch the consumption of various types of raw materials, chemicals, etc. the Mills have prescribed certain norms for the consumption of raw materials and chemicals and the Department Heads keep a constant watch and ensure that there is no avoidable deviation. The production Manager is also apprised each day of the performance of the previous day which is duly scrutinised and compiled by the Quality Control Section.”

4.45. The Committee note that the actual consumption of raw materials and chemicals varied from year to year and in certain years the consumption was excessive. The Committee regret to observe that in the absence of norms, the extent to which there was excessive consumption of chemicals in the manufacture of newsprint, unbleached paper, etc., from year to year could not be worked out. The Committee note that compilation of data regarding consumption of raw material has revealed that because of a number of variables such as moisture, quality of wood, etc. it has not been found possible to work out a working norm. While the Committee appreciate the difficulties inherent in working out a uniform norm, they feel that if figures are compiled systematically these should help considerably, in framing the norms on realistic basis and of judging the performance, when the quality of material consumed is similar. The Committee were, however, informed that to watch the consumption of various types of raw materials, chemicals, etc. the Mills have recently prescribed certain norms. The Committee suggest that the Napa Mills should persist in their efforts to compile data regarding consumption of materials systematically and closely analyse them with a view to taking remedial measures to avoid excess consumption of raw materials and chemicals. The Committee also suggest that the Nepa Mills should periodically review the norms with the data so compiled with the view to have a stricter check on the consumption of raw materials and derive full benefit of economies of scale, when the second paper machine is also commissioned.

D. Weighment of Material

4.46. During the course of the visit of the Committee on Public Undertakings to the Nepa Mills, it was brought to the notice of the Committee by the representatives of the one of the Labour Unions that there were no arrangements for weighing the material either

at the 'in put stage' or at the 'out put stage' and that the Nepa Mills were following a system of 'dead reckoning'. It was pointed out:—

"From the tonnage of the paper produced, the figures are calculated backwards to put down the quantity of bamboo and salai used as if they have been used in proper proportion. The system of receipt and issue of the major raw material *viz.* salai and bamboo are not only so viable and hazy that figures can be easily fudged to coincide with the quantity of paper produced but also give a wide scope for corruption in the receipt of raw material."

4.47. It was also pointed out that:—

"At present the major raw materials salai and bamboo are received by weight. The bamboo wagons are not even stopped on the weigh before weighing and every thing depends on the integrity of a low paid third class employee. To ensure efficiency the Company's bridges should have automatic recorders so that there is no human factor involved. In the same manner the issue of bamboos to the chemical mills and filling of the digesters with ships should be connected with the weighing process so that the figures of issues are exact. The railway engine which brings loads of bamboos, lime, etc. does not help for placing each wagon dead stop on the weighing bridge...."

4.48. During evidence of the Ministry of Industrial Development, the Committee pointed out to the Secretary that during their visit to Nepa Mills they noticed that there were no measuring devices to know as to how much bamboo was being fed and how much of pulp was coming out or any bye-products like chemicals or alcohol coming out. The representatives of the Ministry informed that roughly from one tonne of bamboo, it would be possible to get about 35 per cent of bleached pulp. He also stated that the left out material consisting of lignin and unconsumed chemicals like sodium sulphate, sodium carbonate and sodium sulphide were not suitable for manufacture of alcohol. As regards the installation of meters, the Secretary of Ministry promised to look into the matter.

4.49. In a note submitted after the evidence the Ministry stated as follows in this regard:—

"As regards measuring devices, for raw materials etc. the main raw materials are bamboo for manufacture of chemical pulp and salai for the manufacture of mechanical pulp. Bamboos are received by wagons and by trucks. There are two weigh bridges, one for the weighment of wagons and the other for the weighment of trucks Bamboo and salai, on receipt at the mills, are weighed on the above weigh

bridges and properly stacked and issued to the respective pulp mills and Ground Wood Mill.

Other raw materials such as lime, lime stone, salt cake fuel oil, etc. are all received in wagon-loads, weighed and stored in various godowns. The receipts and consumptions figures are properly recorded and duly put up to the concerned Heads of the Departments. As regards pulp (chemical and mechanical) they are processed through regulators and mixed through the proportioner|metering system for the newsprint furnish. In the New paper arrangements already exist for metering the cold soda pulp which will be produced by the new cold soda Mill when erected. In the old paper machine an additional compartment to meter the cold soda pulp will be added at the time of renovation.

The spent liquor from the chemical pulp mill, sent to the recovery plant to recover chemicals is analysed and measured through flow meters prior to processing. The efficiency percentage is calculated taking into account the quantity of make-up chemicals added to the alkali system in the Recovery Plant.

Common salt is also weighed over the weigh bridge in tippers and issued to Caustic Soda Chlorine Plant. The Caustic Soda, Calcium Hypochlorite and Hydrochloric Acid produced in the Caustic Soda Chlorine Plant are all analysed, measured and issued. All the accounts of the chemicals produced are maintained as per the procedure prescribed by the Central Excise Department.

On the general system of controls and checks, all the weighing machines and weigh bridges are maintained in good working order. The Mills also have a service contract with M/s. Avery & Co. for the servicing and maintenance of weigh bridges and weighing machines, every three months. the weighing machines are also periodically stamped and certified by the inspector of Weights & Measures. The Instrumentation Department also helps in the maintenance of the various meters and weighing machines.

To watch the consumption of various types of raw materials, chemicals etc., the Mills have prescribed certain norms for the consumption of raw materials and chemicals and the Departmental-Heads keep a constant watch and ensure that there is no avoidable deviation. The production manager is also apprised each day of the performance of

the previous day which is duly scrutinised and compiled by the Quality Control Section.

The Costing Section of the Accounts Department also prepares monthly cost sheets which are sent to the production centres with the necessary observations.

In order to have counter checks over the existing metering system, the mill is also installing magnetic flow meters in the different pulping streets."

4.50. The Committee note the various steps being taken by the Nepa Mills to ensure weighment of material through weigh bridges and meters at the different stages of receipt and supply of material. The Committee need hardly emphasise the importance of maintaining proper accounts of materials either raw or finished at different stages for purposes of accurate costing and ensuring economic use of raw materials in the interest of efficiency. The Committee hope and trust that all the measures enumerated by the Ministry in their note would be strictly observed both by the Management and the field-staff.

V

MATERIAL MANAGEMENT

A. Inventory Position

5.1. The following table indicates the comparative position of the inventory and its distribution at the close of the last five years:—

(Rupees in lakhs)

	1967-68	1968-69	1969-70	1970-71	1971-72
I	2	3	4	5	6
(a) Raw materials	21.76	60.47*	23.45	17.25	27.80
(b) Stores	86.96	80.75	84.50	104.59	104.92
(c) Raw Materials & Stores-in-transit	1.86	46.05@	10.09	3.76	9.71
(d) Others	0.58	0.65	0.58	0.66	1.83
(e) Works-in-progress	1.15	1.31	0.83	0.72	2.12
(f) Finished products	1.30	3.69	2.71	7.81	7.67
(g) Consumption of raw materials and Stores	97.14	98.59	212.17	137.34	156.12
(h) Stock of raw materials and stores in terms of months consumption	13.7	22.8	6.7	11.0	10.9

*Includes imported pulp worth Rs. 42.93 lakhs.

@Includes imported pulp worth Rs. 40 lakhs in transit.

5.2. During the visit of the Committee to the National Newsprint and Paper Mills Ltd., the Committee were informed that the NEPA Mills did not have an integrated materials management system. The main functions of inventory control and store keeping were assigned to the Stores Department under the Production Manager, while functions of enquiry and purchases were done by the Purchase Department under the Financial Controller and movement of goods was attended to by the Transport Department under the Deputy General

Manager. To an enquiry of the Committee whether the **Nepa Mills** were satisfied about this system of inventory control, the Mills stated in a written reply as follows:—

“It is true that, in the **Nepa Mills**, we do not have a separate materials management wing though of late in large public undertakings there is a regular materials management department under the control of a Materials Manager attending to the purchases, store-keeping and transport of raw material and finished goods.

However, it is stated that **Nepa Mills** is not a multiple manufacturing unit and the annual purchases of stores materials do not exceed Rs. one crore. It is, therefore, not considered necessary to have a separate integrated materials management wing, but the Purchase Department works, under a Purchase Officer under the overall supervision of the Financial Controller. Store-keeping is under a Stores Officer with the overall supervision of the Production Manager, while the Transport Department is under a Transport Officer under the overall supervision of the Deputy General Manager.

In accordance with the recent circulars of the Bureau of Public Enterprises, the Chairman & Managing Director has constituted a Materials Management Committee under the Chairmanship of the Financial Controller. This Committee reviews periodically all the three functions of stores keeping purchase and chasing of orders of purchase materials, and transport of raw materials and finished goods. All bottlenecks or difficulties are identified and resolved by the Heads of the three Departments, and where any problem remains for the decision of the Chairman & Managing Director. the minutes of such meetings are put up to him regularly.

We are also sending Quarterly Reports of Inventories to the Bureau of Public Enterprises (Material Management Division). The statements for inventory control and disposal of non-moving and slow-moving items are as per the proforma prescribed by the Bureau of Public Enterprises.

This system is so far working satisfactorily, but if after the implementation of the full expansion programme, a need is felt to create a separate integrated materials management wing, the same will be examined and proper steps taken to implement the same.”

5.3. The Committee enquired whether any norm was fixed in regard to the stock of raw materials and stores in terms.....of months consumption. The Nepa Mills stated as follows:—

“The norms of inventory holding have been prescribed for the years 1971-72 and 1972-73 and Board of Directors approval is being obtained. Though norms have not been fixed during earlier years, purchases and consumption of stores were being controlled on the basis of the Annual Budgets of the Company and our inventories have generally remained at about 4 months cost of production.”

5.4. The Committee note that the inventory of raw materials and stores in terms of months' consumption has risen from 6.7 in 1969-70 to 11 in 1970-71 and has slightly come down to 10.9 in 1971-72. The Committee were informed that norms of inventory holding have been prescribed only from the years 1971-72 and 1972-73 and generally inventories have remained at four months cost of production. The Committee are surprised to find that not only no effective steps have so far been taken to fix norms for the consumption of raw materials and stores, but the Mills have adopted an unusual method of regulating the inventories with reference to cost of production, which itself has been varying from time to time. The Committee would, therefore, recommend that the Nepa Mills should immediately take steps to assess their minimum requirements of stores and raw materials consistent with their needs of production and fix appropriate levels of inventory on a scientific basis taking into account the lead time required for the procurement of the materials.

B. Slow-moving and non-moving items

5.5. As on 31st March, 1969 the value of slow-moving and non-moving items of stores amounted to Rs. 24 lakhs. The Ministry stated in January, 1971 that the value of such stores as on 31st March, 1970 was assessed at Rs. 40 lakhs (including machinery spares amounting to Rs. 25 lakhs) out of which stores valuing Rs. 5 lakhs did not move for a period between one to two years and those valued at Rs. 35 lakhs for a period of more than two years. Out of these, stores to the extent of Rs. 1.28 lakhs were stated to have been declared surplus to requirements.

5.6. In a subsequent note submitted to the Committee, the Nepa Mills stated as follows:—

“The position of slow and non-moving items of stores is reviewed and furnished to the Bureau of Public Enterprises every year by 31st August. The total value of the stores which have not moved over one year as on 31.3.1971 was at Rs. 42.43 lakhs (including standby/emergency stores and

spares amounting to Rs. 30.52 lakhs); out of which stores valued at Rs 7.16 lakhs did not move for a period between 1 to 2 years and those valued at Rs. 35.27 lakhs for 2 years and over. Out of these stores to the extent of Rs. 1.22 lakhs have been declared as surplus to requirements."

5.7. The total value of stores which have not moved over one year as on 31st March, 1972 was Rs. 44.87 lakhs (including standby/emergency stores and spares amounting to Rs. 32.50 lakhs); out of these stores valued at Rs. 5.91 lakhs did not move for the period between 1 to 2 years and those at Rs. 38.96 lakhs for 2 years and over. Surplus stores awaiting disposal at the end of 31st March, 1972 was Rs. 2.42 lakhs.

5.8. Audit has pointed out that no procedure has been laid down for conducting periodical review of inventory with a view to assess and dispose of surplus/obsolete items of stores and spares.

5.9. In the year 1970-71 stores worth Rs. 0.07 lakhs were declared surplus leaving a balance of Rs. 1.22 lakhs as surplus on 31-3-1971.

5.10. In a written reply the Nepa Mills explained the reasons for accumulation of such surplus as follows:—

- (i) Change over of specification of material;
- (ii) Slight excess purchases to the actual requirements; and
- (iii) Discontinuance of certain process, etc.

5.11. The Nepa Mills further stated that the procedure for conducting periodically review of inventory to assess and dispose of surplus/obsolete items of stores and spares was in vogue and that the slow-moving and non-moving items, as worked out from the yearly inventories, were considered by the concerned Departments, who recommended disposal of such items.

5.12. The Nepa Mills have also circulated the list of surplus stores to the different Public Undertakings and some of the items have also been offered for disposal on open tender basis.

5.13. The Committee note that out of stores of the total value of Rs. 125.35 lakhs at the end of March, 1972 stores valued at Rs. 5.91 lakhs did not move for the period between 1 to 2 years and those valued at Rs. 38.96 lakhs for 2 years and over and that surplus stores to the extent of Rs. 2.42 lakhs were awaiting disposal. The Committee also note that the reasons for accumulation of such surplus were (i) change over of specification of material (ii) slight excess purchases to the actual requirements and (iii) discontinuance

of certain processes etc. The Committee are surprised that the Mills had been accumulating the non-moving stores even after the Mills had changed the processes and specification of materials. The Committee would suggest that the Mills should immediately undertake a review of all the non-moving items and take action for the disposal of surplus items by notifying through the Bureau of Public Enterprises and intimating other Public Undertakings.

C. Loss on Import of Pulp

5.14. In response to the tender notice issued on 1st May, 1968 for the import of 5,000 tonnes of unbleached mechanical groundwood pulp and 5,000 tonnes of unbleached sulphite pulp under US Aid Plan, four firms quoted for unbleached sulphite pulp and three firms for unbleached mechanical groundwood pulp. Of these, the tender of M/s. Interasia Inc. New York who had quoted the rates of \$110.50 per ton (66 dollars FAS US port and 45.50 dollars as freight charges) for mechanical groundwood pulp and \$147 per ton (\$101 F.O.B. plus \$46 freight charges) for unbleached sulphite was the lowest. On 7th June, 1968 negotiations were held with the tenderers. The firm reduced the rate to \$141.50 per ton for unbleached sulphite pulp. M/s. Sterling International who had quoted \$113.50 (C & F) per ton and were second lowest in regard to mechanical groundwood pulp, reduced their rate to \$110.50 per ton C&F to bring it in line with the offer of M/s. G. Williams agents of M/s. Interasia Inc. New York. The parties also agreed to ship the pulp preferably by Indian Flagship and, in case, they were required to use any other Flagship, the freight payable by the Nepa Mills was agreed to be restricted to that charged by Indian Flagship.

5.15. The order for 4750 tons of unbleached sulphite pulp at the rate of \$141.50 per ton was placed on M/s. G. Williams agents of M/s. Interasia Inc. New York and for 2,500 tons of mechanical groundwood pulp at the rate of \$110.50 per ton each of M/s Sterling International and M/s. G. Williams—agents of M/s. Interasia Inc New York on 28th June, 1968. The purchase order for unbleached sulphite pulp, however, did not give the break up of price into F.O.B. and freight. Similarly the purchase order for mechanical groundwood pulp did not give the break up of price into FOB and freight.

5.16. Under U.S. Aid Plan, the supplies were to be made in U.S. and India Vessels in the ratio of 60:40. According to the agreement executed between the members of Outward Freight Conference, the cargo shipped to Indian Government by Indian Flagships are charged at concessional rate (i.e., normal rates less 25 per cent rebate). The suppliers shipped all the consignments by Indian Vessels and billed the Company at total C&F cost less ocean freight

payable in India at concessional rate i.e., normal rate less 25 per cent. On noticing the rebate of 25 per cent in freight the Company took up the matter with M/s. Interasia New York—Principal of M/s. G. Williams on 14th December, 1968. The firm while stating that the original quotation given by them in respect of mechanical groundwood pulp includes \$3.50 per ton for port charges, wharfage and handling in the freight rate of \$ 45.50 held that their original quotation was based on a total C&F Price which took into account the 25 per cent. discount granted to Government of India firms allowed by the Indian Flag shippers. On a further reference from the Company, M/s. Interasia Inc. New York stated on 4th March, 1969 that since at the time of negotiations the suppliers were made to agree to accept the lower Indian Flag freight rate even in respect of supplies to be effected by American Flagship, the extra 5 dollars freight was to be absorbed by the suppliers. The firm also held that it can be noted from this that the order was placed on a firm C&F basis and that any freight increase would have to be borne by them and, therefore, it stood to reason that any freight saving should be to their account. Similarly, M/s. Sterling International stated, in April, 1969, that the freight rate of \$31.50 per ton applicable to shipment in Indian Flagships was taken into consideration while quoting C&F price against the contract.

5.17. All the supplies were received per Indian Flagship and the Company had to pay extra freight charges amounting to Rs. 7.93 lakhs (in foreign exchange) on account of non-insertion of break up of cost and freight charges in the purchase orders. Besides, the Company got less credit of Rs. 21,478 (in foreign exchange) from M/s. G. Williams on account of freight charges as compared to the actual charges paid by it to the Shipping Corporation of India. The Company claimed the amount from M/s. G. Williams in January, 1970. The claim has, however, not been accepted by the firm.

5.18. The claim for refund of extra freight charges amounting to Rs. 2.17 lakhs recoverable from M/s. Sterling International has been closed by the Company as the firm had not given the break up of cost and freight charges in their quotation.

5.19. As regards the amount of Rs. 5.76 lakhs claimed on account of 25 per cent rebate and Rs. 21,478 on account of less credit afforded by M/s. G. Williams, the Ministry stated in January, 1971 that a legal notice had been served.

5.20. To an enquiry as to whether the Mills were not aware of the concession in freight rate at the time of finalising the order for import of both sulphite and mechanical pulp and if so, why this could not be taken into account, the Nepa Mills stated in a written

note after the evidence that:—

“When the foreign representatives of the firms, came for negotiations in June, 1968, the concession in freight rates in question had not been received in the Mills, and as such the Company was not aware of the concession in freight rates. Besides, negotiations were carried out and decision taken on the basis of some *ad hoc* reduction in rates given by the suppliers. As such there was no opportunity for the Mills to examine in detail and consult other agencies since the order was to be finalised immediately after negotiations as per U.S. Aid regulations.

In view of the above, it could not be possible for the Mills to ask for insertion of break-up of cost and freight charges, especially in the case of M/s. G. Williams whose rates were negotiated on C&F basis and the suppliers had reduced their rates.* Since the negotiated rates were fixed on C&F basis without any escalation clause, the question of giving break-up of cost and freight charges did not arise.

From the time the matter came to our notice we have regularly been pursuing the case. First it was taken up on 14th December, 1968. We asked the party to pass on the benefit of 25 per cent. rebate as allowed by the Indian Shipping Companies. Their reply was received on 26th December, 1968 informing us that their quotations were given after taking into consideration the 25 per cent. discount by the Indian Shipping Companies. Again we wrote back on 6-1-1969. The matter has all along been pursued. We also tried to find out some other means by which we could get this rebate by contacting the Shipping Corporation of India personally, but with no result. Since all the consignments were received under irrevocable letter of credit, no deduction could be made from their payments. The only course was to file a suit and the same is now being pursued regularly.”

5.21. The Mills further stated that—

“Legal proceedings were instituted on 19th November, 1971 against the party in the Civil Court at Burhanpur for recovery of the disputed amount. Summons issued by the Court have not been served on M/s. Interasia and efforts are still in progress. M/s. G. Williams & Co., on whom

*At the time of the factual verification, the Audit informed as follows :
 “The Suppliers (M/s. G. Williams—agents of M/s. Interasia Inc. New York) reduced their rate only for unbleached sulphite pulp and not for mechanical groundwood pulp”.

the summons have been served have filed an application on 29th June, 1972 in the court requesting Nepa Mills for filing of certain documents. The case is in progress and is being vigorously pursued."

5.22. The Committee note that in June, 1968, the Nepa Mills had to import 4750 tons of unbleached sulphite pulp and 2500 tons of mechanical groundwood pulp under U.S. Aid Plan through M/s. G. Williams, agents of M/s. Interasia Inc. New York and 2500 mechanical groundwood pulp from M/s. Sterling International. The Committee also note that under U.S. Aid Plan the supplies of unbleached sulphite pulp and mechanical groundwood pulp were to be made in U.S. and Indian Vessels in the ratio 60 : 40 and that cargo supplied to Indian Government by Indian Flagships would be charged at a concessional rate (normal rate less 25 per cent rebate). The Committee note that although the suppliers shipped all the consignment by Indian Vessels, the Mills had to pay extra freight charges amounting to Rs. 7.93 lakhs in foreign exchange (Rs. 2.17 lakhs to M/s. Sterling International and Rs. 5.76 lakhs to M/s. G. Williams) on account of non-insertion of break-up of cost and freight charges in the purchase order and also note that the Mills had to lose a sum of Rs. 21,478 in foreign exchange from the local representatives of one of the firms on account of freight charges as compared to the actual charges paid by the firm to the Shipping Corporation of India. The Committee regret to observe that on account of failure on the part of the Mills in not having obtained the break-up of cost and freight charges and inserted them in the purchase order, the Mills had been put to a loss of Rs. 7.93 lakhs in foreign exchange. The Committee are surprised that while the Nepa Mills had initiated legal action in the case of one of the firms, they had not taken similar action in the case of the other firm and lost their claim for refund of Rs. 2.17 lakhs.

5.23. The Committee are much concerned with the indifferent way in which the Nepa Mills had handled the entire transaction and entered into defective purchase agreements with foreign firms. The Committee recommend that Government should ensure that the terms of contract are precise and definite without any room for misconstruction and ambiguity therein and suggest that Government should arrange to fix responsibility for this serious lapse leading to the huge loss of valuable foreign exchange.

5.24. The Committee would also like that the Shipping Corporation of India—a Public Undertaking, should also notify from time to time, if it is not already doing so, the changes in the Shipping freight rates all over the world to the Public Undertakings for their information and guidance to avoid Public Undertakings entering such costly commitments in future.

VI

FINANCIAL MATTERS

A. Capital Structure

6.1. The paid-up capital of the Mills at the close of 1971-72 stood at Rs. 494.52 lakhs and was contributed by the following parties:—

	Rs. in lakhs	Percentage of paid-up capitals
Government of India	255.00	51.56
Government of Madhya Pradesh	169.73	34.32
Private investors	64.49	13.25
Shares forfeited	4.30	0.87
	494.52	100.00

6.2. The Government of India have also advanced to the Mills unsecured loans amounting to Rs. 632.20 lakhs up to 31st March, 1972. The loans carry interest at the rate of 7 per cent except for Rs. 48.95 lakhs advanced in the months of September, 1971 (17.79 lakhs) and March, 1972 (Rs. 31.16 lakhs) which carry interest @ 6½ per cent. The repayment of loans commenced in the year 1970-71. During the two years ending 31st March, 1972 the Mills repaid an amount of Rs. 60.30 lakhs leaving a balance of loan of Rs. 571.90 lakhs as on 31st March, 1972.

6.3. The Government of India have also issued two guarantees—one for £ 1,616,581-8-10 (equivalent to Rs. 306.66 lakhs as on 31st March, 1972 @ Rs. 18.9698) and the other for Rs. 80 lakhs to the State Bank of India, Bombay for the Plant & Machinery to be supplied on deferred payment basis by M/s. Wartsila, Helsinki, Finland and M/s. Elof Hansson, respectively, which stood at £ 645,221-14-0 (equivalent of Rs. 122.40 lakhs as on 31st March, 1972 @ Rs. 18.9698) and Rs. 38.99 lakhs respectively as on 31st March, 1972.

6.4. The debt equity ratio of the Mills upto 1968-69 was 1.15:1, but at the close of the last three financial years it increased as follows:—

1969-70	1.35:1
1970-71	1.42:1
1971-72	1.49:1

6.5. The unsecured loans obtained from 1966-67 onwards from Government of India were to finance investment in the expansion scheme for increasing the capacity of newsprint production from 30,000 to 75,000 tonnes per annum.

6.6. As per the original estimate, the expansion scheme was to be financed mainly from internal resources. With the increase in cost of production, without a corresponding rise in the selling price, the internal resources gradually dwindled and the Company had to depend more and more on Government loans for investment and this affected the overall debt equity ratio.

6.7. The Company took up the re-organisation of the capital structure with the Government of India *vide* letter No. Act/Gen/96/10040 dated 26/27th August 1970 proposing an increase of Rs. 2 crores in equity capital by conversion of an equivalent amount from the Government loans to bring the debt equity ratio to the ratio of 1:1.

6.8. During the evidence, the Secretary of the Ministry informed as follows in this regard:—

“The fact of the matter is that for the expansion of the newsprint mills we are giving them the money required from time to time as a loan. So long as the debt-equity ratio was of the order of 1:1 the problem was not so bad; but a position has now been reached when the debt-equity ratio is 1.49:1 and we are taking it up with the Ministry of Finance that the equity should be increased so that the debt can be reduced and 1:1 ratio is maintained. Till now, in order that their expansion programme may not suffer on account of lack of funds, whenever they asked for funds we were releasing the money as loan. We shall now take up the question of equity to see that it is kept at 1:1 ratio.”

6.9. The Committee note that equity capital of Rs. 494.52 lakhs has practically remained unchanged since 1965-66 except for a marginal increase during the period from 1960-61 to 1965-66 raising the equity capital from Rs. 494.51 lakhs to Rs. 494.52 lakhs. On the

other hand, the unsecured loans obtained from Government of India have steadily increased from Rs. 25 lakhs in 1966-67 to Rs. 577.63 lakhs at the end of 1971-72. The debt equity ratio became 1:1.49 against the accepted ratio 1:1.

6.10. The Committee regret to note that though the Company took up the reorganisation of capital structure with the Government of India as far back as in August, 1970, the Government of India have not so far taken a decision in the matter. The Committee hope that Government will take immediate steps to settle the reorganisation of the capital structure so that the burden on the Company for payment of higher interest charges which has bearing on the cost of newsprint, is reduced.

B. Financial Results

6.11. The following table summarises the financial position of the Mills for the last five years:—

	(Rupees in Lakhs)				
	1967-68	1968-69	1969-70	1970-71	1971-72
LIABILITIES					
(a) Paid-up capitals:					
(i) Subscribed by the Government of India	255.00	255.00	255.00	255.00	255.00
(ii) Subscribed by the Government of Madhya Pradesh	169.73	196.73	169.73	169.73	169.73
(iii) Subscribed by the Public	65.49	65.49	65.49	65.49	65.49
(iv) Amount received on shares forfeited	4.30	4.30	4.30	4.30	4.30
(b) Reserves and surplus	112.12	113.77	65.79	65.73	65.43
(c) Borrowings:					
(i) From the Government of India	177.00	333.25	463.25	524.24	577.63
(ii) From the Government of Madhya Pradesh	11.00	..	..	..	..
(iii) Deferred payment liability	253.02	230.44	202.47	177.52	161.38
(iv) From Bank-cash credit		5.39		17.34	10.70
(d) Trade dues and other current liabilities including provisions	71.67	111.50	87.39	92.23	89.72
	1,199.33	1,288.87	1,313.42	1,371.58	1,399.38

	1	2	3	4	5	6
ASSETS						
(e) Gross assets	681.58	1,157.76	1,183.45	1,199.04	1,215.50	
(f) Less: Depreciation	340.25	367.99	431.30	489.48	549.78	
(g) Net fixed assests	341.33	789.77	752.15	709.56	666.02	
(h) Capital Works-in-progress (including plant and machinery under or awaiting erection and in transit	500.72	233.09	346.88	404.76	457.18	
(i) Investments	0.99	0.99	0.99	..	..
(j) Current assets, loans and advances	276.29	265.02	175.28	167.12	195.10	
(k) Loss . . . . .	..	..	38.12	90.14	81.08	
	1,119.33	1,288.87	1,313.42	1,371.58	1,399.38	
Profit (+)/Loss (—) during the year	+19.48	+20.97	—92.45	—52.25	+2.72	
Capital Employed	545.95	943.29	840.04	784.45	771.40	
Net worth	606.64	608.29	522.19	470.11	478.87	

NOTES:—(1) Capital employed represents net fixed assets plus working capital.

(2) Net worth represents paid-up capital plus reserves less intangible assets.

(3) The profit/loss does not include the contingent liability towards payment to the Forest Department, Government of Madhya Pradesh as under:

	1967-68	1968-69	1969-70	1970-71	1971-72
<i>Contingent Liability</i>					
1. Payment of Royalty	3.58	4.18	5.05	6.05	6.87
2. Replacement Cost	15.25	17.44	20.76	26.95	49.51
TOTAL	18.83	21.62	25.81	33.03	56.38

(4) 'No provision has been made in the accounts in respect of estimated total future liability for gratuity payable in accordance with the company's rules as under:

	1967-68	1968-69	1969-70	1970-71	1971-72
..	13.17	10.07	11.37	12.62	14.93

C. Cost of Production and Sale Price

6.12. The acquisition, sale and consumption of newsprint are regulated by the Government of India through the Newsprint Control

Order of 1962. The Mills have no independent pricing policy as the price of newsprint is being determined by Government from time to time on the basis of representations made by the Mills after taking into consideration various aspects. The price of Nepa newsprint was first fixed at Rs. 1050/- per tonne in 1958.

6.13. The following table gives the cost of production and the selling prices per tonne of newsprint from 1963-64 to 1971-72:—

Year	Cost of production		
	Excluding financing charges	Including financing charges	Selling price
1	2	3	4
1963-64	821.26	907.50	1,050
1964-65	850.24	931.30	1,050
1965-66	880.23	961.55	1,050
1966-67	931.82	994.20	1,050
1967-68	898.09	988.67	1,050
1968-69	1,001.93	1,101.13	1,100 Effective from 1st May, 1968.
1969-70	1,285.66	1,350.88	1,100
1970-71	1,207.00	1,266.76	1,100
1971-72	1,218.96	1,273.32	1,000 Upto 31-8-1971 Rs. 1362/- from 1-9-71..

6.14. The price of newsprint was fixed at Rs. 1,050 per tonne (ex-works) in the year 1958 by the Government of India. Since the price of materials like Chemicals, cost of power and steam had risen considerably and also the price of imported newsprint and imported chemical pulp had gone up from Rs. 914 and Rs. 808 in 1958 to Rs. 1243 and Rs. 1480 respectively in 1966-67, the mills approached the Government of India in January, 1967 to increase the selling price by Rs. 190 to bring it at par with imported newsprint.

6.15. The Government of India allowed an increase of Rs. 50 per tonne with effect from 1st May, 1968. This increase was considered inadequate by the Mills especially when the pulp and recovery plant was not ready and the second paper machine was working on imported pulp. Based on production of 31,000 tonnes from the first machine with indigenous pulp and 25,000 tonnes from the second machine with imported pulp the Management worked out the cost of production at Rs. 1357.55 per tonne (subsequently revised to

Rs. 1,276.13 per tonne in September, 1969) and again approached the Government of India in April, 1969 to increase the selling price of the newsprint to Rs. 1,350 per tonne.

6.16. The Cost Accounts Officer of the Ministry of Finance who made the cost study of the working of the Mills in October, 1969, however, suggested an increase of Rs. 63 per tonne as a result of devaluation until such time the Mills continue to use the imported pulp for the second paper machine. (The landed cost of newsprint was stated to be Rs. 1,248 per tonne in the Report). The selling price of newsprint has been revised by the Government of India to Rs. 1,362|- per tonne with effect from 1st September, 1971.

6.17. In the meantime, cost of production (including financing charges) has increased from Rs. 1101.13 in 1968-69 to Rs. 1350.88 in 1969-70 (i.e. 22.68 per cent). The Management stated in November, 1970 that "the cost of production has been increasing mainly as a result of increase in prices of chemicals and other materials, increase in the tariff for power and steam and increase in the minimum guarantee payment per month by the Madhya Pradesh Electricity Board with effect from 1st August, 1968 and increase in the salary and wages, etc. With the increase in the loans from the Government and Banks for the expansion programme and to meet the working capital requirement the financial charges burden has also gone up..... Besides these common factors for the rise in the cost of production in all these years, in 1969-70 the cost of production has also gone up on account of usage of costly imported chemical and mechanical pulp, increase in maintenance expenditure due to frequent break-downs and other teething troubles of 2nd Paper Machine, additional unabsorbed depreciation of the 2nd Paper Machine, extra expenditure due to kraft paper packing instead of our own Mill made wrap-per etc.....

6.18. Mills management has increased the selling price of newsprint from Rs. 1100 to Rs. 1350 per tonne for supplies to agents|distributors and publishers of books of general interest with effect from 1st June, 1970. However, under this category, the Mill is authorised to supply only a limited quantity of newsprint."

6.19. The Mills have in written replies stated that perhaps the criterion followed for increasing the selling price of Nepa newsprint from Rs. 1100|- to Rs. 1362|- per tonne with effect from 1st September, 1971 was based on the landed cost of imported newsprint. This consideration was, however, not followed when an increase of Rs. 50|- per tonne was given in May, 1968.

6.20. During the course of evidence of the representatives of Nepa Mills, the Committee enquired how the price of Nepa newspaper compared with the price of imported newsprint. The Managing Director informed the Committee as follows:—

“At present, the prices are comparable. Our paper is inferior to the paper that we get from the Scandinavian countries. It compares favourably with the paper which we get from socialist countries.....

The quality as a whole is very good for the raw materials that we have. The prices used to be much lower than the prices of imported paper. But, now, it is more or less on par. The latest figure that I have got with me is that we have paid Rs. 1356 for the paper we are importing from Russia; about Rs. 1380 for paper from Holland; Rs. 1350 from Yugoslavia; Rs. 1341 from Bangla Desh.

We have been asking for an increase in price since 1967. Initially we were given an increase only by Rs. 50 i.e. the price was raised to 1100 from 1st May, 1968. Then as our cost of production which we could not reduce, was higher than the selling price, we had to press the Government that this way the Company will not be able to exist.”

6.21. To an enquiry of the Committee as to how the price of Nepa newsprint was fixed, the Secretary of the Ministry of Industrial Development informed the Committee during the evidence that:—

“Actually we took it up last year that the price of imported newsprint was Rs. 1350 and hence there should be an increase for our newsprint also. After processing through Finance and the Bureau of Public Enterprises, this was agreed to by the Cabinet. From October last year, we are now getting Rs. 1362 per tonne which is approximately the imported price of newsprint. So far the time being, the problem is solved.

Here I would say that in most other things manufactured in the country the prices are higher than the import price. In fact, in regard to many things, a certain margin of up to 25 per cent over the landed cost is specifically allowed by Government to public sector enterprises as a sort of policy decision. Here we are only charging the landed cost. Last year without this we made the small profit of

Rs. 4.5 lakhs; this year when the increase operates for a whole year, we expect to be able to make a bigger profit.

Now we have got parity with the imported price. I do not know if we should revise it so often. In October last, we have revised it. Now we cannot say that we are running at a loss. Let us see how it works for a year or two."

6.22. The Committee note that the Mills have been approaching the Government of India for the revision of selling price of newsprint and the Government of India took considerable time to grant an *ad hoc* increase of Rs. 50 per tonne in May, 1968 which brought the price to Rs. 1100 per tonne when the cost of the imported newsprint was Rs. 1,243 per tonne. When the Nepa Mills again approached the Government of India in April, 1969 for a further increase it was only in September, 1971 that the Government of India raised the selling price to Rs. 1362 per tonne which was almost the same as the imported price, after a lapse of two years apparently after the matter was raised through the Audit Report (July, 1971). The Committee regret to observe that there was hardly any justification in compelling the Nepa Mills to continue to sell the newsprint at less than the imported price in the intervening period especially when they were running at a loss. The Committee would like Government to evolve suitable guidelines for fixing the price of an essential commodity like newsprint keeping in view the overall interest of the public as well as the public undertaking. They need hardly point out that the Cost Accounts Organisation of the Ministry of Finance should be effectively used for this purpose. The Committee would also like to stress that concerted measures should be taken by Nepa Mills to bring down the cost of production by putting to full use the installed capacity and taking the necessary measures to effect economy in materials and processes and in general by stepping up productivity.

D. Charges for Steam

6.23. Consequent on the approval of the Preliminary Project Report for the expansion scheme, the Company intimated to the Madhya Pradesh Electricity Board in August, 1963 its requirements of power and steam for the expanded manufacturing capacity. The matter remained under correspondence and ultimately the Madhya Pradesh Electricity Board forwarded to the Company a draft agreement on 6th December, 1967 and the new tariff schedule on 21st May, 1968 effective from 1st August, 1968.

6.24. The draft agreement (which had not been signed till November, 1970) stipulates the payment of minimum demand charges per month at the rate of Rs. 3,02,833 for steam. Due to delay in installation of the new paper machine (which went into trial production in February, 1969) and curtailment of production even after the commissioning of the machine the actual consumption of steam has been much less than the minimum charges payable under the draft agreement. As a result, during the period from 1st August, 1968 to 31st March, 1970 the Mills have paid an extra amount of Rs. 18.16 lakhs for steam and during the years 1970-71 and 1971-72 the Mills paid an extra amount of Rs. 5.33 lakhs and Rs. 1.13 lakhs respectively to the Madhya Pradesh Electricity Board (representing the difference between the minimum demand charges and the amount payable on the basis of actual consumption).

6.25. The Management stated in August, 1970 that the matter was under discussion with the Madhya Pradesh Electricity Board and the Ministry stated in January, 1971 that "though the matter is still under negotiation there is not much hope that they will concede to our request". No decision has however, yet been taken in the matter.

6.26. In a written reply, the Mills have stated that the demand of steam was based on the average consumption of steam on old mill and the standard practice in the paper industry. The fluctuations in the consumption of steam originally estimated were due to delay in the expansion of various plants.

6.27. It was also stated that the agreement with the Madhya Pradesh Electricity Board had not been signed and the points of dispute were brought to the notice of Madhya Pradesh Government through the Industries Department. The payments so far made to Madhya Pradesh Electricity Board were under protest. The question of reducing the minimum charges for consumption of steam and also charging at actuals was still stated to be under correspondence with M.P. Electricity Board and State Government.

6.28. During the course of evidence of the representatives of the Ministry of Industrial Development on the working of the National Newsprint and Paper Mills Ltd. the Committee pointed out that the Government of Madhya Pradesh had 34.32 per cent of the equity capital of the Mills and nominate their Directors for the Board of Directors of Nepa Mills and asked as to why matters like fixation of price of steam, fixation of price of land for raising plantations, extraction of bomboos to the fullest extent could not be settled till

now. To this query the Secretary of the Ministry replied as follows:—

“As far as public sector enterprises are concerned, we like to leave them free to tackle their problems themselves. We do not want as a matter of policy, Government to interfere or go to their rescue unless they ask for it. If we take the initiative they lose the initiative and they think that by referring everything to Government, their responsibility is finished. In this matter, they have not yet approached Government for any help. They have been carrying on the negotiations and I think the Managing Director is quite confident that he will be able to settle it with the State Government.”

6.29. To an enquiry as to whether the possibility of the Nepa Mills having their own power house was examined, the Secretary of the Ministry of Industrial Development, during the course of evidence informed the Committee as follows:—

“I myself some months ago suggested to the Chairman and Managing Director that this question of buying over the power station from the M.P. Electricity Board should be investigated and they should also negotiate with the Board about the price at which they would sell the power station. Wherever we need steam, it would be economical to produce the steam ourselves, pass it through the turbines used for generating electricity and with the low pressure you use steam for your processing. They are carrying out that study and also negotiation with the State Electricity Board about their willingness to sell and the price. On that basis, they will work out the economics, because much will depend upon the price at which the Board would sell the station to us. If we were to put up a new power station, it would be very expensive because today prices are very high. But the M.P. Electricity Board is using this power station only partially; they are not using steam for producing electricity except sometimes when there is failure of power in the grid. So I hope they will be willing to sell it to us and we shall work out the economics at the price quoted whereby we can use it for both steam and power.”

6.30 The Committee regret to note that no definite agreement had so far been entered into with Madhya Pradesh Electricity Board for the requirements of power and steam. The Committee were informed that the demand of steam was based on the average consumption

of steam on old mill and the standard practice in the paper industry. Although a draft agreement was prepared on the 6th December, 1967 and new tariff schedule effective from the 1st August, 1968, the draft agreement had not taken into account the realistic requirement of steam with the result that the Mills had to incur an extra expenditure of Rs. 24.62 lakhs towards payment to Madhya Pradesh Electricity Board. The Committee suggest that the Mills/Ministry should take immediate steps to work out the minimum requirements of steam on a realistic basis based on the experience of the working of two machines and finalise the agreement with Madhya Pradesh Electricity Board. The Committee need hardly emphasise the importance of expeditious settlement with the State Government of the issues which vitally affect the working results of the Mills and entering into contract for a more realistic demand for steam. The Committee would also suggest that the Ministry should use their good offices with the Madhya Pradesh Government for an adjustment of the amounts so far overpaid in the absence of a definite agreement with the Madhya Pradesh Electricity Board.

6.31. The Committee also note that the Mills are already negotiating with Madhya Pradesh Electricity Board about the purchase of a power station for the Mills. The Committee would like that, before a decision is taken in the matter, the economics of utilisation of power and steam through this power station should be carefully gone into to ensure that these do not unnecessarily add to the cost of production.

E. Demurrage Charges

6.32. On 28th August, 1968 the Mills established a letter of credit with validity period up to 31st December, 1968 (later extended to 31st March, 1969) with the State Bank of India, Bombay for import of 2500 tonnes of mechanical ground-wood pulp from M/s. Sterling International USA. The firm shipped the last consignment on 24th March, 1969 but presented the documents to the Bank on 1st April, 1969. Since the letter of credit was valid up to 31st March, 1969 the Bank did not make the payment to the suppliers. On hearing from the firm on 18th April, 1969 the matter was taken up by the Mills with the Government of India, which *vide* their letter dated 16th May, 1969 extended the period of letter of credit up to 30th June, 1969. The letter was received by the Mills on 21st May, 1969 and the Mills completed the formalities regarding transfer of funds at Bombay and countersignature by Bank of the Indemnity Bond executed in the Name of Shipping Corporation of India, Bombay by 30th May, 1969.

6.33. The Ship arrived at the port on 9th May, 1969 and the last free date expired on 24th May, 1969. The consignments were cleared between 30th May, 1969 and 3rd June, 1969 resulting in payment of demurrage charges amounting to Rs. 60,002.

6.34. It has been stated by the Nepa Mills in a written note that the party was notified immediately after the despatch of the goods in April, 1969 that in case there would be any demurrage charges due to non-receipt of the documents, the party would have to bear the demurrage charges. The supplier took the plea that since the delay in submission of the documents was due to force majeure, i.e. death of the President Eisenhower, they were not liable for payment of demurrages.

6.35. Since the documents were submitted after the expiry of letter of credit and letter of authority, the letter of authority had to be got amended before the Bankers could be authorised to extend the letter of credit. Under the USA aid procedure this took time and the letter of credit could not be amended in time to release the payment. In apprehension of non-release of the payment, M/s. Sterling International had instructed the shippers not to release the consignment. Hence the shippers were reluctant to do so. After much persuasion they finally allowed the Nepa Mills to get the consignment cleared on indemnity bond. All these formalities had taken long time, which ultimately resulted in demurrage charges.

6.36. The Nepa Mills have consulted their solicitors, who after going through the entire case, advised that the cost of instituting legal action in the matter would be disproportionate to the amount proposed to be recovered from M/s. Sterling-International which was a company situated in USA without any office or assets in India.

6.37. The Indo-American Chamber of Commerce, whose advice was also sought in the matter advised the Nepa Mills to approach the Government of India. Accordingly the Nepa Mills wrote to the Economic Adviser, Government of India on 3rd July, 1972. On his request some further information, as asked for by him, was furnished on 22nd July, 1972. The advice of the Economic Adviser was awaited.

6.38. The Committee note that although the shipment arrived at the port on the 9th May, 1969, the consignments were cleared between the 30th May and 3rd June, 1969 resulting in payment of demurrage charges to the extent of Rs. 60,002. The Committee feel that, had the Nepa Mills taken timely action to clear the consignments on indemnity bond earlier, such a heavy payment of demurrage charges could have been avoided. The Committee note that

the matter is still pending advice from the Economic Adviser of the Government of India on the question of recovery of charges from the firm. The Committee are unable to appreciate the leisurely manner in which the whole matter has been dealt with and hope that the matter would be settled without further delay.

F. Internal Audit

6.39. The Internal Audit Section was established in October, 1965 under the control of Financial Controller. The scope and functions of the Internal Audit as laid down in the Accounting Manual do not cover items like process wastage/rejections, damaged paper, consumption of raw materials and chemicals, inventory control, etc. Besides, there is no system of issue of periodical inspection notes or of consideration of the findings of the Internal Audit Department at the top managerial level and at the level of Board of Directors.

6.40. The Mills have, however, stated in a written note as follows:—

“The Accounts Manual, which lays down the scope and functions of the Internal Audit, has been amended to cover a review of consumption of raw-materials, chemicals, process wastes, damaged paper rejections etc. and inventory control. The Internal Audit have also reviewed the above aspects.

Nepa mills is a single unit concern and all its important departments are set up at Neapanagar. The Internal Audit is therefore, concurrently carried out in the various departments. The Audit Reports/Notes are issued as and when checking of one Record/Department is completed and it is put up through the Financial Controller so that rectification action could be initiated immediately. Irregularities and important suggestions of the Internal Audit are, however, placed before the Managing Director and Board of Directors along with action taken. Besides the monthly Audit programme, a quarterly Activity Report of the Internal Audit showing a summary of the audit work done and the list of important audit observations made during the quarter is also placed before the Managing Director with effect from 30-9-1971.”

6.41. The Committee note that on the suggestion of Audit, the Nepa Mills have amended the scope and functions of internal audit. The Committee would like to stress that the comments of Audit should receive serious consideration at all levels and necessary follow up action should be taken in each case promptly.

VII

MISCELLANEOUS

A. Effluent Disposal

7.1. While discussing the increased capacity of Nepa Mills with the representatives of the Mills, the Committee enquired about the difficulties relating to the effluent discharge. The Managing Director informed the Committee as follows:—

“About effluent discharge we have been having difficulty because we draw our water from Tapti. We try our best to allow the black liquor to flow bare into the river. We have got an affluent disposal scheme prepared; we have had the consultations done and we propose to put up an effluent disposal treatment plant in the Fifth Five Year Plan.”

7.2. To another enquiry of the Committee whether the effluent was fatal to human beings and animals the Managing Director stated that it was fatal.

7.3. The complaint that effluent discharge of Nepa Mills was creating pollution problems was also brought to the notice of the Secretary of the Ministry of Industrial Development, during the evidence of the representatives of the Ministry. The representatives of the Ministry informed the Committee as follows:—

“Sir, the chemicals are recovered to the extent possible but there are some losses; even in spite of this, water pollution problem has arisen. The Deptt. concerned have taken it up with the Public Health Research Institute in Nagpur. I may submit here that so far nowhere in the world has it been possible to find a process by which the pollution is completely avoided. Every attempt is being made to keep this within permissible limits.”

7.4. The Secretary of the Ministry further added that:—

“We shall certainly study this. I have made a note of this. My submission is that of course the wealthy countries and well advanced countries can afford to spend a lot of

money. But we have to see what is economically feasible within our means. We cannot spend all that money which the advanced countries can spend. If it is within our means and within our country's means, we shall certainly do it."

7.5. After the evidence, the Ministry of Industrial Development submitted the following note on the effluent disposal—both the present practice and the future plan *inter alia* stating the compensation paid to Burhanpur Municipal Commis...

"As is known, the effluent is a mixture of water and other organic and organic materials. These are the residuals after the recovery of chemicals in the recovery plant, washing of the mechanical pulp, processing the stock in the paper machine and those from the caustic soda and chlorine plant."

In order to remove the injurious organic matters in the effluents, the method adopted at present is to oxidise it by the process of passing it through a channel about 15000 feet long before it meets the river Tapti. During this movement from the mills to the river, natural oxidation of the organic substances takes place. The oxidised effluent then mixed with the river water and gets diluted and so rendered quite harmless.

The effluent treatment of the Mills waste water was examined by the late Dr. N. V. Modak, an expert on Public Health Engg. and later by the Central Public Health Engg. Research Institute, Nagpur. After completing the investigations, the Central Public Health Engg. Research Institute, Nagpur have submitted their final report suggesting alternative methods of treatment. They have also recommended the setting up of a Pilot Plant before putting up a full scale plant. Their proposal for the pilot plant has been approved by the Board and further necessary action is being taken. The whole scheme is estimated to cost about Rs. 52 lakhs and is proposed to be taken up in the Fifth Five Year Plan.

This proposal is being examined in the Ministry with a view to making necessary provision in the Fifth Five Year Plan.

The municipality of Burhanpur had filed a suit against NEPA for making provisions for payment to them for digging wells for meeting the drinking water requirements of the

people, pending the proper treatment of the effluent. The Civil Court has decided that NEPA should pay to the Committee compensation at the rate of Rs. 1.25 lakhs per year for the construction of wells. The Nepa Mills have gone in appeal against this judgement, which is pending."

7.6. The Committee note that effluent from the Mills is being drained straight into the river Tapti through a 15,000 feet long open channel, which created pollution problems, whenever the flow of river was low. The Committee were informed that it was only recently that a scheme costing Rs. 52 lakhs for effluent treatment has been approved and a pilot plant is proposed to be set up in this connection. The Committee feel quite concerned that because of the delay in tackling the pollution problem, the Mills are required to pay, according to the judgment of the Civil Court, compensation at the rate of Rs. 1.25 lakhs per year to the Municipality of Burhanpur. The Committee are not able to appreciate the dilatory manner in which the pollution problem has been handled by the Mills. Although the Mills are going in appeal against the judgment, the Committee feel that the Mills should have tackled this social problem even at the initial stages and in any case before the scheme for expansion was considered. The Committee feel that Public Undertakings should set a model in resolving such problems and should not be a contributory factor towards pollution of environments. As it is a health hazard, the Committee would like that Nepa Mills would view this matter seriously and evolve effective and economic solution on permanent basis.

B. Research & Development

7.7. The Estimates Committee had in their 157th Report 2nd Lok Sabha, recommended as far back as in 1961-62 that "in view of the proposed expansion in the newsprint and paper manufacturing industry in the country, it would be desirable if a specialised research centre on paper technology is set up."

7.8. Government then replied in the Ninth Report of the Committee on Public Undertakings (Third Lok Sabha):

"The Cellulose and Paper Branch of the Forest Research Institute, Dehra Dun are engaged in fostering research development and technology of pulp, paper and allied industries. It has been proposed that the Advisory Committee of the Forest Research Institute should include a representative of Nepa Mills in order that problems connected with newsprint production receive adequate

attention in the research programmes of Cellulose and Paper Branch of the Forest Research Institute.”

7.9. Accordingly the Nepa Mills are represented on the Advisory Committee and the Technical-Sub-Committee of the Forest Research Institute, so that problems connected with newsprint production receive adequate attention in the reach programmes of the Cellulose and Paper Branch. The Nepa Mills contribute regularly towards the recurring expenses of the Forest Research Institute at the rate of Rs. 0.25 per tonne of newsprint produced at the Mills.

7.10. To an enquiry of the Committee about the research being conducted in the country to develop other sources of raw material for production of newsprint with a view to become self-reliant in the field of newsprint, the Committee were informed during the evidence of the representatives of the Ministry of Industrial Development that:—

“The Forest Research Institute in Dehra Dun have a pilot plant for paper manufacture and they keep on carrying on some research work. Apart from that, there is some small research work in Jorhat and Poona CSIR laboratories. But I agree that this is not sufficient for an important industry like paper. This matter has recently been taken up by the National Council of Science and Technology which has constituted a committee under Dr. Tilak of CSIR. It is looking into the question of setting up some organised research in the field of paper. They are also considering whether they should have a cess on paper the proceeds of which could be used for research on paper production.”

7.11. The representative of the Ministry also stated that research for pre-treatment of wood with a view to improving its quality was being conducted at the Forest Research Institute, Dehra Dun, but this was only on a laboratory scale trial and not a commercial scale trial.

7.12. In this connection, the Nepa Mills stated in a written note as follows:—

“We have carried out a large number of trials on pretreatment of wood in our Mill Laboratory. The results indicated that the strength of the mechanical pulp did improve with the increased intensity of the pre-treatment but this improvement was invariably accompanied with the deterioration of the colour.

The pre-treatment trials on chips has also been conducted in the laboratory. The pre-treatment was found to give encouraging results. The process has been incorporated in the expansion programme of the Mill. The results obtained by our laboratory have since been confirmed by many laboratories in Japan, Sweden, West Germany etc."

7.13. In regard to development of unconventional resources of raw material, the Nepa Mills stated as follows:—

"We have carried out trials on various conventional wood species which are not used anywhere for the production of various types of the pulps from various areas such as:—

- (i) Mainly wood species available from the surrounding areas of the Mill;
- (ii) For pre-investment Survey of forest Resources Woods from Bastar region;
- (iii) For Hindustan Paper Corporation for their Kerala Newsprint Project.

We have not carried out any pulping trials on other types of unconventional resources of raw material such as Bagasse or Salai gress because they are not available around the Mills in sufficient quantity and the areas where they are available are beyond economic limits."

7.14. The Committee are firmly of the view that a concerted effort is required to be made in the matter of identifying the best source of pulp available in India for manufacture of newsprint as also to develop suitable varieties of forests which would provide the essential raw material for manufacture of newsprint of requisite quality. The Committee suggest that there should be a close liaison between the Ministry of Industrial Development and the Forest Research Institute. The Committee stress that the perspective plan for reaching self-reliance in this crucial sector should be drawn up and implemented so as to be able to produce newsprint of the requisite quality and quantity to meet the country's entire requirements before the end of the Sixth Five Year Plan.

VIII

CONCLUSION

8.1. The Committee have noted that, at present, out of a total demand of 2,20,000 tonnes of newsprint in the country, Nepa Mills were meeting only about 18 per cent of the demand and the rest of the requirements were being met by imports, and a sum of Rs. 23.20 crores was spent thereon in the year 1971-72. In view of the growing demand for newsprint in the country and the indigenous production not registering any appreciable increase, precious foreign exchange would continue to be expended on import of newsprint. In order to stop the drain on flow of foreign exchange, it is essential that concerted efforts are made to achieve the target of manufacture of 75,000 tonnes per annum by the National Newsprint and Paper Mills Ltd. without loss of any further time. The Committee desired that Government should keep a careful watch on the progress made by the private Sector projects so as to ensure that they keep upto the Schedule for installation of machinery and production of newsprints. The Committee have stressed that there should be a time-bound programme with a view to making newsprint of acceptable quality available within the country to meet the requirements in full and obviate dependence on imports.

8.2. As regards the demand of paper, the Committee have noted that the demand for paper was currently of the order of 8.5 lakh tonnes and it was expected to go up to 13.3 lakh tonnes by the end of the Fifth Five Year Plan whereas the existing indigenous production was only of the order of about 7.4 lakh tonnes. The current production was thus short of the requirements by about a lakh of tonnes. The Committee would like to point out the difficulties in obtaining paper which are being experienced not only by the ordinary consumer but also by Government users particularly the Government of India Presses. The Committee have stressed the need for implementation of the crash programme so as to make good the existing gap between demand and indigenous production and have also stressed that concrete and effective measures should be taken to ensure that the additional capacity of 8.5 lakh tonnes which has recently been licensed results in production of additional paper to the extent of at least 7 lakh tonnes to meet the additional requirements by the end of Fifth Five Year Plan. As paper is a capital intensive industry with a long gestation period there is need

for advance planning and implementation to ensure that paper required for public purposes is made available in adequate quantities and at competitive prices, to obviate any scarcity conditions developing in this essential commodity. The Committee have also stressed that the Hindustan Paper Corporation, a Public undertaking, which had been formed for undertaking manufacture of paper in the public sector should take a lead in developing the manufacture of paper and supplying it at most competitive rates to meet the ever-growing requirements of the public.

8.3. The Committee noted that there had been lapses in preparation of the preliminary project estimates. The Committee were surprised that the Mills had been allowed to continue with the expansion programme without a firm financial sanction of the Detailed Project estimates. The Committee have expressed a feeling that the entire issue had been dealt with both at the Mills and the Government level in a leisurely manner and therefore, the expansion scheme had not been implemented in earnest. The Committee have deprecated such delays and desired Government to make a case study of the delay and lapses which had occurred in this case to obviate their recurrence. The Committee have regretted to observe that due to the delay in the erection and commissioning of the pulp plant, foreign exchange to the extent of Rs. 4.7 crores had to be expended on import of paper which could have been manufactured if additional pulp was available. The Committee were of the view that had advance planning accompanied by timely procurement of steel been done, such costly delays would not have occurred.

8.4. The Committee have recommended that Government should fix responsibility for delayed action which resulted in underutilisation of the capacity of the plant to manufacture newsprint which had to be imported by expending precious foreign exchange.

8.5. The Committee have also regretted to note that renovation of the old Paper Machine scheduled to be completed by 1968 had not been completed even after four years for one reason or other. The Committee have expressed the hope that the Nepa Mills would be able to adhere to the schedule and complete the necessary renovation of Machine No. 1 by 1973 along with the matching pulping plant under expansion as without sufficient pulp, the capacity of the renovated plant would be lying idle.

8.6. The Committee found that Nepa Mills could not attain the full rated production of 75000 tonnes of newsprint because of delay in undertaking the renovation and modification of the old paper

machine and because of the defects in the new paper machine, and the delay of more than one year in the commissioning of the new paper machine. The Committee have urged that Nepa Mills should immediately take all the necessary steps to see that the new paper machine was made capable of attaining the rated capacity by providing the essential spares and rectifying the defects.

8.7. The Committee find that the main hinderance in attaining the rated capacity of the paper machine was the inadequacy of the pulp.

8.8. The Committee are at a loss to understand the sequence in the planning of the paper plant by putting the paper machine first and erecting the pulp plant one year later. The Committee emphasised the need for synchronisation in commissioning the paper plant along with the pulp plant in order to achieve the maximum utilisation of the paper plant. The Committee have pointed out that Government should learn from this experience and at least in the future planning of paper projects, realise the need for an integrated approach in setting up pulp plant simultaneously with the paper plant. Had the construction and commissioning of the new Pulp Plant been as per schedule, the Nepa Mills would not be facing shortage of pulp which was keeping down the production of newsprint. The Committee have emphasised that the additional capacity created for the production of newsprint should be put to productive use at the earliest by expediting completion of the new pulp plant and thereby save the precious foreign exchange which is being expended at present in importing newsprint.

8.9. The Committee have expressed the hope that the Nepa Mills would keep in view the cost aspects and the strength of the newsprint while introducing the new process in improving the shade of newsprint. Since brightness and quality of paper are important in the interest of general health of the reading public, the Committee have stressed that continuous efforts should be made by the Nepa Mills to improve the quality and make it comparable if not superior to the imported newsprint.

8.10. The Committee were distressed to note that the bulk of the machine capacity had remained unutilised mainly due to shortage of pulp because of the delay in erection and commissioning of pulp plant with the result that the country had been put to the necessity of importing newsprint. The Committee hoped that the Pulp Plant would at least now be commissioned according to

the present schedule and the maximum utilisation of machinery ensured.

8.11. The Committee regretted to note that on account of the Nepa Mills not having initially examined the necessity for bleaching nor explored other methods of improving the shade and quality of newsprint, the Mills had to acquire plant and machinery for groundwood bleaching at a cost of Rs. 11.79 lakhs even though the provision therefor did not exist in the original project. The Committee have noted that even after acquisition, only a portion of the plant valued at Rs. 3.05 lakhs could be installed and commissioned after a lapse of six years. The Committee felt doubtful about the need for utilisation of the Groundwood Bleaching Plant itself in view of the reduction in the percentage of groundwood pulp under the expansion programme also because the earlier operation proved costly without any commensurate improvement in the quality of newsprint. The Committee have suggested that the matter regarding this purchase should be investigated carefully.

8.12. The Committee have expressed regret that, soon after take over of the Nepa Mills, the Management acquired during 1958-59 and 1959-60 a Milk of Lime Plant at a cost of Rs. 5.10 lakhs without going into the economics of the process. The Committee felt that the entire transaction was rather hasty and illconceived, specially because the Mills had themselves admitted that the quality of newsprint produced from salai cannot be improved even by technological process.

8.13. The Committee have pointed out that the Estimates Committee in their 157th Report of 2nd Lok Sabha and Public Accounts Committee in their 23rd Report of 3rd Lok Sabha emphasised the need for assessing the existing reserves of salai wood and taking measures for increasing them and also for growing alternative woods to meet the requirements of the Nepa Mills.

8.14. The Committee have regretted to observe that in spite of these recommendations and those of the Ranganathan Committee and Seetharamiah Committee the Mills had not taken so far any effective steps to ensure a continuous supply of salai wood and to develop techniques to grow salai by special cultivation. The Committee failed to understand why piecemeal and *ad hoc* arrangements only were being made with the Governments of Madhya Pradesh and Maharashtra for securing even their bamboo requirements. Since the economic functioning of the plant was dependent on the availability of raw materials in proximity of the Mills and considering the importance of salai as a major raw material for the production of newsprint the Committee stressed that in the in-

terest of long term planning, Government should tackle the problem with the utmost expedition and arrange to develop techniques for growing saplings of suitable species and other suitable trees by cultivation if necessary with the assistance of Forest Research Institute, Agricultural Research Institutes and Agricultural Universities.

8.15. The Committee regretted to note that the Nepa Mills had contracted for extraction of 30,000 tonnes of bamboo annually at a rate of royalty of Rs. 5 per tonne without actually ascertaining the yielding capacity of the leased areas. When the Mills found the yield did not exceed even 28,000 tonnes, the Mills took on lease additional areas at a higher rate of royalty of Rs. 12 per tonne for extraction. The Committee were informed that "there was, no commitment that this rate would not exceed Rs. 12 per tonne". The Committee understood that for a 30 years' lease in Vindhya Pradesh Region a Mill in the private sector was paying royalty at Rs. 6 per tonne only. The Committee were surprised at the differential rates of royalty charged by the Madhya Pradesh Government, one rate to the public sector plant and another to the private sector plant. The Committee have suggested that the Ministry of Industrial Development should take up the matter with the State Government of Madhya Pradesh to secure most favourable rates of royalty for the Nepa Mills.

8.16. The Committee were surprised to note that though the Mills could not extract bamboo even to the extent of 28,000 tonnes, the Mills had to pay the full royalty according to the contract and thereby incur a loss of Rs. 1.94 lakhs upto 1969-70. The Committee suggested that the Mills should make a realistic assessment of the yielding capacity of the leased area before entering into fresh agreements.

8.17. The Committee have suggested that the Nepa Mills should persist in their efforts to compile data regarding consumption of materials systematically and closely analyse them with a view to taking remedial measures to avoid excess consumption of raw materials and chemicals and also review the norms periodically.

8.18. The Committee were surprised to find that not only no effective steps have so far have been taken to fix norms for the consumption of raw materials and stores, but the Mills have adopted an unusual method of regulating the inventories with reference to cost of production, which itself has been varying from time to time. The Committee recommended that the Nepa Mills should immediately take steps to assess their minimum requirements of stores.

and raw materials consistent with their needs of production and fix appropriate levels of inventory on a scientific basis.

8.19. The Committee are surprised that the Mills had been accumulating the non-moving stores of value of Rs. 47.29 lakhs even after the Mills had changed the processes and specification of materials. The Committee suggested that the Mills should immediately undertake a review of all the non-moving items and take action for the disposal of surplus items.

8.20. The Committee noted that under U.S. Aid Plan the supplies of 4750 tons of unbleached sulphite pulp and 5000 tons of mechanical groundwood pulp were to be made in U.S. and Indian Vessels in the ratio 60 : 40 and that cargo supplied to Indian Government by Indian Flagships would be charged at a concessional rate. The Committee have expressed regret that on account of failure on the part of the Mills in not having obtained the break-up of cost and freight charges and inserted them in the purchase order, the Mills had been put to a loss of Rs. 7.93 lakhs in foreign exchange.

8.21. The Committee are much concerned with the indifferent way in which the Nepa Mills had handled the entire transaction and entered into defective purchase agreements with foreign firms in regard to purchase of pulp. The Committee would also like that the Shipping Corporation of India—a Public Undertaking, should also notify from time to time if it is not already doing so, the changes in the Shipping freight rates all over the world to the Public Undertakings for their information and guidance to avoid Public Undertakings entering such costly commitments in future.

8.22. The Committee have noted that the Mills have been approaching the Government of India for the revision of selling price of newsprint and the Government of India took considerable time to grant an *ad hoc* increase of Rs. 50 per tonne in May, 1968 which brought the price to Rs. 1100 per tonne when the cost of the imported newsprint was Rs. 1,243 per tonne. When the Nepa Mills again approached the Government of India in April, 1969 for a further increase it was only in September, 1971 that the Government of India raised the selling price to Rs. 1362 per tonne which was almost the same as the imported price, after a lapse of two years apparently after the matter was raised through the Audit Report (July, 1971). The Committee expressed regret to observe that there was hardly any justification in compelling the Nepa Mills to continue to sell the newsprint at less than the imported price in the intervening period especially when they were running at a loss. The Committee would like Government to evolve suitable guidelines for fixing the price

of an essential commodity like newsprint keeping in view the overall interest of the public as well as the public undertaking. They have pointed out that the Cost Accounts Organisation of the Ministry of Finance should be effectively used for this purpose. The Committee would also like to stress that concerted measures should be taken by Nepa Mills to bring down the cost of production by putting to full use the installed capacity and taking the necessary measures to effect economy in materials and processes and in general by stepping up productivity.

8.23. The Committee noted that the Mills were already negotiating with Madhya Pradesh Electricity Board about the purchase of a power station for the Mills. The Committee suggested that, before a decision was taken in the matter, the economics of utilisation of power and steam through this power station should be carefully gone into to ensure that these do not unnecessarily add to the cost of production.

8.24. The Committee felt quite concerned that because of the delay in tackling the pollution problem, the Mills were required to pay, according to the judgment of the Civil Court, compensation at the rate of Rs. 1.25 lakhs per year to the Municipality of Burhanpur. The Committee felt that the Mills should have tackled this social problem even at the initial stages and in any case before the scheme for expansion was considered. The Committee expressed the view that Public Undertakings should set a model in resolving such problems and should not be a contributory factor towards pollution of environments.

8.25. The Committee were firmly of the view that a concerted effort was required to be made in the matter of identifying the best source of pulp available in India for manufacture of newsprint as also to develop suitable varieties of forests which would provide the essential raw material for manufacture of newsprint of requisite quality. The Committee have suggested that there should be a close liaison between the Ministry of Industrial Development and the Forest Research Institute. The Committee have stressed that the perspective plan for reaching self-reliance in this crucial sector should be drawn up and implemented so as to be able to produce newsprint of the requisite quality and quantity to meet the country's entire requirements before the end of the Sixth Five Year Plan.

SUBHADRA JOSHI,
Chairman.

NEW DELHI;
March, 23rd 1973.

Committee on Public Undertakings.

2. Chaitra 1895 (Saka).

APPENDIX

Summary of conclusions|recommendations of the Committee on Public Undertakings contained in the Report

S. No.	Reference to paragraph No. in the Report	Summary of conclusions/recommendation
1	2	3
1	1.20.	<p>The Committee note that, at present, out of a total demand of 2,20,000 tonnes of newsprint in the country, Nepa Mills are meeting only about 18 per cent of the demand and the rest of the requirements are being met by imports, and a sum of Rs. 23.20 crores was spent thereon in the year 1971-72. In view of the growing demand for newsprint in the country and the indigenous production not registering any appreciable increase, precious foreign exchange would continue to be expended on import of newsprint. In order to stop the drain on flow of foreign exchange, it is essential that concerted efforts are made to achieve the target of manufacture of 75,000 tonnes per annum by the National Newsprint and Paper Mills Ltd. without loss of any further time. The Committee note that Government have as a first step to achieve self-reliance in the matter of newsprint, under consideration a project for the manufacture of newsprint and magazine paper for a capacity of 80,000 tonnes in Kerala and which is to be completed by end of 1976. The Committee feel that the Public Sector Project to manufacture newsprint in Kerala should have been set up earlier. The Committee need hardly stress that serious efforts should be made to accelerate the progress of work both in the expansion scheme of Nepa Mills and the public sector project in Kerala. The Committee would also like Government to keep a careful</p>

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watch on the progress made by the private sector projects so as to ensure that they keep upto the schedule for installation of machinery and production of newsprint.

The Committee also stress that there should be a time-bound programme, with a view to make newsprint of acceptable quality available in the country to meet the requirements in full and obviate dependence on imports.

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1.25

The Committee note that the demand for paper is currently of the order of 8.5 lakh tonnes and it is expected to go up to 13.3 lakh tonnes by the end of the Fifth Five Year Plan. The Committee also note that the existing indigenous production is only of the order of about 1.4 lakh tonnes. The current production is thus short of the requirements by about a lakh of tonnes. The Committee note that Government have approved a crash programme for expansion of the existing units which is expected to generate an additional capacity of 1,23,750 tonnes per annum. Government have also approved proposals for setting up new units and for effecting substantial expansion of existing units for an additional total capacity of 8.5 lakhs tonnes. The Committee would like to point out the difficulties in obtaining paper which are being experienced not only by the ordinary consumer but also by Government users particularly the Govt. of India Presses. In this connection, the Committee would like to draw attention to paragraph 1.71 of 38th Report of Public Accounts Committee (Fifth Lok Sabha). The Committee cannot therefore, too strongly stress the need for implementation of the crash programme so as to make good the existing gap between demand and indigenous production. The Committee also stress that concrete and effective measures should be taken to ensure that the additional capacity of 8.5 lakh

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tonnes which has been licensed results in production of additional paper to the extent of at least 7 lakh tonnes to meet the additional requirements by the end of Fifth Five Year Plan. As paper is a capital intensive industry with a long gestation period there is need for advance planning and implementation to ensure that paper required for public purposes is made available in adequate quantities and at competitive prices, to obviate any scarcity conditions developing in this essential commodity. The Committee would also like to stress that the Hindustan Paper Corporation, a Public undertaking, which has been formed for undertaking manufacture of paper in the public sector should take a lead in developing the manufacture of paper and supplying it at most competitive rates to meet the ever-growing requirements of the public.

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The Committee note that the Preliminary Project Report for the expansion scheme was approved by the Government in May, 1964 and the Detailed Project Report, along with the finally revised estimates, was approved on the 4th April, 1972 after several revisions resulting in an increase of nearly 56 per cent due to various factors like inclusion of interest on deferred payment, interest on loans, increase in rates of custom duty, addition of miscellaneous equipment. Even then the revised project estimate as sanctioned did not include provision for township which was sanctioned separately. It has been admitted by the Mills as well as by the Government that there had been lapses in preparation of the estimates. The Committee are surprised that the Mills had been allowed to continue with the expansion programme without a firm financial sanction of the Detailed Project Estimates. The Committee have a feeling that the entire issue has been dealt with both at the

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Mills and the Government level in a leisurely manner and it is, therefore, no surprise that the expansion scheme has not been implemented in earnest. The Committee deprecate such delays and desire Government to make a case study of the delay and lapses which have occurred in this case to obviate their recurrence.

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and
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The Committee note that although the contract for supply of pulping plants was finalised in June, 1967, the management took two years in finalising the appointment of consultants for supervision and design of civil construction and award of contract for civil works and structural and AC sheeting work. The Committee note that even then the management had to foreclose the contract due to civil contractor backing out on account of non-availability of steel and also to terminate the contract with a private company to whom the contract for structural and AC sheeting work was awarded and allot the structural work to M/s. Triveni Structurals Ltd. a public sector undertaking. The Committee fail to understand why the services of Triveni Structurals Ltd. could not be availed of in the very first instance when, according to the Ministry, they were slightly better placed in procuring steel for the job. The Committee regret to observe that due to the delay in the erection and commissioning of the pulp plant, foreign exchange to the extent of Rs. 4.7 crores had to be expended on import of paper which could have been manufactured if additional pulp was available. The Committee are of the firm view that had advance planning accompanied by timely procurement of steel been done, such costly delays would not have occurred.

The Committee recommend that Government should fix responsibility for delayed action which resulted in under-utilisation of the capacity of

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the plant to manufacture newsprint which had to be imported by expending precious foreign exchange. The Committee would like to be informed of the action taken against the parties at fault and the remedial measures taken to ensure that such costly lapses do not recur.

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The Committee regret to note that renovation of the old Paper Machine scheduled to be completed by 1968 has not been completed even after four years for one reason or other. The Committee hope that the Nepa Mills would be able to adhere to the schedule and complete the necessary renovation of Machine No. 1 by 1973 along with the matching pulping plant under expansion as without sufficient pulp, the capacity of the renovated plant would be lying idle.

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3.38
and
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The Committee find that Nepa Mills was to attain the rated production of 75,000 tonnes of newsprint from the old and new paper machines in 1969-70. However, the Mills could not attain the full rated production because of delay in undertaking the renovation and modification of the old paper machine and the defects in the new paper machine. The Committee note that renovation and modification of the old paper machines would now be taken up in 1973. The Committee also note that there has been a delay of more than one year in the commissioning of the new paper machine. Even after commissioning, the new paper machine could not work to the rated capacity because of the teething troubles in the machine and the inadequacy of the pulp. The Committee were informed that even now the difficulties have not been overcome and the erectors could not give the performance guarantee. The Committee urge that Nepa Mills should immediately take all the necessary steps to see that the new paper machine

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is made capable of attaining the rated capacity by providing the essential spares and rectifying the defects.

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to

3.43

The Committee find that the main hinderance in attaining the rated capacity of the paper machine is the inadequacy of the pulp. The Committee were informed that the new pulp plant is expected to be commissioned by 1973-74. The Committee note that the preliminary project report for the expansion scheme indicated the possibility of completion of the expansion of the paper section a year or so earlier than that of the pulp section and the utilisation of imported pulp during the intervening period. However, because of the high cost of imported pulp, the Nepa Mills found it uneconomical to produce newsprint from the imported pulp. The Committee are at a loss to understand the sequence in the planning of the paper plant by putting the paper machine first and erecting the pulp plant one year later. The Committee cannot but emphasise the need for synchronisation in commissioning the paper plant along with the pulp plant in order to achieve the maximum utilisation of the paper plant. The Committee need hardly point out that Government should learn a lesson from this experience and at least in the future planning of paper projects, realise the need for an integrated approach in setting up the pulp plant simultaneously with the paper plant to secure the maximum utilisation of the paper plant.

The Committee also find that even though the preliminary project report contemplated the setting up of the Pulp Plant a year or so later than the paper machine i.e. by January, 1969. they were informed that the pulp plant would be commissioned by 1973-74 i.e. after a delay of more than five years.

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The Committee are surprised that even the placing of orders for the new pulp plant had taken more than two years and the order was placed only in June, 1967, when the erection of the new paper machine was in progress. Had the construction and commissioning of the new Pulp Plant been as per schedule, the Nepa Mills would not be facing shortage of pulp which is keeping down the production of news print.

The Committee cannot too strongly emphasise that the additional capacity created for the production of newsprint should be put to productive use at the earliest by expediting completion of the new pulp plant and thereby save the precious foreign exchange which is being expended at present in importing newsprint.

8. 3.48
and
3.49

The Committee would like to emphasise that the expenditure involved in changing over to the new formula for production of pulp after the expansion is completed, should be commensurate with the improvement in shade and finish of the newsprint produced by the Nepa Mills. The Committee hope that the Nepa Mills would keep in view the cost aspects and the strength of the newsprint while introducing the new process in improving the shade of newsprint.

Since brightness and quality of paper are important in the interest of general health of the reading public, the Committee need hardly stress that continuous efforts should be made by the Nepa Mills to improve the quality and make it comparable if not superior to the imported newsprint.

9. 3.57

The Committee note that quantity of paper demand during process increased from 131,912 tonnes in the year 1967-68 to 522,962 tonnes in

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1970-71 and came down to 391,909 tonnes in 1971-72. The Committee were informed that the increase in the quantity of damaged paper during 1968-69 was due to the commissioning of the new paper machine on which the trial operations were started sometime in February 1969 and which was finally commissioned on 27th March, 1969. The Committee are surprised that so far no records have been maintained to indicate separately the extent of damage of newsprint produced by the two paper machines. Although it has been stated that the percentage of rejects to the total production during 1970-71 and 1971-72 was of the order of 5 to 6 per cent and has not been considered abnormal by the Mills, the Committee need hardly stress the need for maintaining separate records for each paper machine to assess as accurately as possible the extent of paper damaged and fix realistic norms for rejection in respect of each machine. The Committee would also suggest that the Nepa Mills should ascertain the norms from the foreign suppliers of Machinery and other Mills which are using this machinery.

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3.86

The Committee note that in the case of old machine idle machine hours on account of shortage of salai and pulp had increased from 55.88 per cent of the total idle machine hours in 1969-70 to over 80 per cent in 1971-72 and that this had also caused the shut down of Caustic Soda Chlorine Plant. The Committee also note that even in regard to the new paper machine, the percentage of total idle hours to available machine hours had increased from 28.7 per cent in 1970-71 to 30.1% in 1971-72. The Committee are distressed to note that the bulk of the machine capacity has remained unutilised mainly due to shortage of pulp because of the delay in erection and commissioning of pulp plant with the result

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that the country has been put to the necessity of importing newsprint. The Committee hope that the Pulp Plant would at least now be commissioned according to the present schedule and the maximum utilisation of machinery ensured.

11.

3.85.

The Committee note that the agreement with M/s. Wartsila Finland for the supply of plant and machinery for the paper mill under the expansion scheme stipulated that the suppliers would be responsible for replacement of any defective machinery within 12 months from the date of commissioning or 24 months from the date of shipment of last consignment. Accordingly the guarantee period expired on 8th May, 1968. The Committee regret to point out that because of the delay in the installation of plant and machinery and the commissioning of the new paper machine only in March, 1969, the Nepa Mills were not in a position to check the performance of the motor within the period of guarantee stipulated in the agreement. The Committee also regret to note that the agreement with the suppliers did not incorporate the words, "whichever is later" and this led to a long drawn out correspondence between the suppliers and the Nepa Mills resulting ultimately in the replacement of the motor and partial reimbursement of its cost besides the cost of the repair of the old motor. In spite of the replacement, the Committee are constrained to point out that the guaranteed performance is yet to be established. The Committee are also surprised to note that even before testing the guaranteed output of the new paper machine the payment of one third of the cost of the second motor had been made. The Committee hope that the Nepa Mills would draw a lesson from such costly delays and defective agreements and avoid such lapses in future.

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12. 3.93. The Committee regret that on account of the Nepa Mills not having initially examined the necessity for bleaching nor explored other methods of improving the shade and quality of newsprint, the Mills had to acquire plant and machinery for groundwood bleaching at a cost of Rs. 11.79 lakhs even though the provision therefor did not exist in the original project. The Committee note that even after acquisition, only a portion of the plant valued at Rs. 3.05 lakhs could be installed and commissioned after a lapse of six years. The Committee were informed that the remaining plant and machinery of the Groundwood Bleaching Plant would be utilised in the Cold Soda Pulp Plant under the expansion scheme. The Committee however, feel that doubtful about the need for utilisation of the Groundwood Bleaching Plant itself in view of the reduction in the percentage of groundwood pulp under the expansion programme also because the earlier operation proved costly without any commensurate improvement in the quality of Newsprint. The Committee would therefore like that the matter regarding this purchase should be investigated carefully and suggest that measures should be evolved for an economic utilisation of the plant with a view to keeping down the cost of production.
13. 3.97. The Committee regret to observe that soon after the take over of the Nepa Mills, the management acquired during 1958-59 and 1959-60 a Milk of Lime Plant at a cost of Rs. 5.10 lakhs without going into the economics of the process, on the assumption that chlorine could be purchased from a private party, which was to set up a project for the purpose but which never materialised. The Committee note that a part of the plant was utilised after a period of 4 to 5 years and the remaining in September, 1971 only. The Committee feel that the entire tran-
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saction was rather hasty and illconceived, specially because the Mills had themselves admitted that the quality of newsprint produced from salai cannot be improved even by technological process.

14. 4.21. The Committee note that the Estimates Committee in their 157th Report of 2nd Lok Sabha and Public Accounts Committee in their 23rd Report of 3rd Lok Sabha emphasised the need for assessing the existing reserves of salai wood and taking measures for increasing them and also for growing alternative woods to meet the requirements of the Nepa Mills.
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4.22.

The Committee regret to observe that in spite of these recommendations and those of the Ranganathan Committee and Seetharamaiah Committee the Mills have not taken so far any effective steps to ensure a continuous supply of salai wood and to develop techniques to grow salai by special cultivation. The Committee fail to understand why piecemeal and ad hoc arrangements only are being made with the Governments of Madhya Pradesh and Maharashtra for securing even their bamboo requirements. Since the economic functioning of the plant is dependent on the availability of raw materials in proximity of the Mills, the Committee need hardly emphasise the desirability of undertaking in time adequate plantation operations in appropriate places of species suitable for the plant. Considering the importance of salai as a major raw material for the production of newsprint and the emphasis that was being laid since 1953 by the two Expert Committees and the two Parliamentary Committees (Estimates Committee in their 157th Report (2nd Lok Sabha) and Public Accounts Committee in their 23rd Report (3rd Lok Sabha), the Committee cannot resist the conclusion that the time taken for conducting

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comprehensive surveys for the assessment and development of raw materials for the Mills has been unduly long. The Committee would, therefore, stress that in the interest of long term planning, Government should tackle the problem with the utmost expedition and arrange to develop techniques for growing salai of suitable species and other suitable trees by cultivation if necessary with the assistance of Forest Research Institute, Agricultural Research Institutes and Agricultural Universities.

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4.32.
and
4.33.

The Committee regret to note that the Nepa Mills had contracted for extraction of 30,000 tonnes of bomboos annually at a rate of royalty of Rs. 5 per tonne without actually ascertaining the yielding capacity of the leased areas under the prescriptions laid down by the Forest Department of Madhya Pradesh. When the Mills found the yield did not exceed even 28,000 tonnes, the Mills took on lease additional areas at a higher rate of royalty of Rs. 12 per tonne for extraction. The Committee note that when the question of royalty rate on bamboo was discussed with the Government of Madhya Pradesh, the representatives of the Government of Madhya Pradesh agreed that the difficulty of Nepa Mills would be kept in mind while fixing the royalty but at the same time added that the royalty of Rs. 12 was at a provisional rate, and a final decision in the matter was yet to be taken. The Committee were informed during evidence that "there was, however no commitment that this rate would not exceed Rs. 12 per tonne". The Committee understand that for 30 years' lease in Vindhya Pradesh Region a Mill in the private sector is paying royalty at Rs. 6 per tonne only. The Committee are surprised at the differential rates of royalty charged by the Madhya Pradesh Government one rate to the public sector plant and another to the private sector plant. The

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Committee would suggest that the Ministry of Industrial Development should take up the matter with the State Government of Madhya Pradesh to secure most favourable rates of royalty for the Nepa Mills so that payment of royalty does not become a source of burden to the Mills and thereby increase the cost of production.

The Committee are also surprised that against a contractual quantity of 30,000 tonnes of bamboos annually, the Mills could not extract even to the extent of 28,000 tonnes except in one year with the result that the Nepa Mills had to incur a loss of Rs. 1.94 lakhs upto 1969-70 by way of extra payment of royalty. The Committee suggest that the Nepa Mills should make a realistic assessment of the yielding capacity of the areas allotted to them for bamboo extraction before entering into fresh contractual commitments.

16.

4.45.

The Committee note that the actual consumption of raw materials and chemicals varied from year to year and in certain years the consumption was excessive. The Committee regret to observe that in the absence of norms, the extent to which there was excessive consumption of chemicals in the manufacture of newsprint, unbleached paper, etc. from year to year could not be worked out. The Committee note that compilation of data regarding consumption of raw material has revealed that because of a number of variables such as moisture, quality of wood, etc. it has not been found possible to work out a working norm. While the Committee appreciate the difficulties inherent in working out a uniform norm, they feel that if figures are compiled systematically these should help considerably, in framing the norms on realistic basis and of judging the performance, when the quality of material consumed is similar.

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The Committee were, however, informed that to watch the consumption of various types of raw materials, chemicals, etc. the mills have recently prescribed certain norms. The Committee suggest that the Nepa Mills should persist in their efforts to compile data regarding consumption of materials systematically and closely analyse them with a view to taking remedial measures to avoid excess consumption of raw materials and chemicals. The Committee also suggest that the Nepa Mills should periodically review the norms with the data so compiled with the view to have a stricter check on the consumption of raw material and derive full benefit of economies of scale, when the second paper machine is also commissioned.

17. 4.50. The Committee note the various steps being taken by the Nepa Mills to ensure weighing of material through weigh bridges and meters at the different stages of receipt and supply of material. The Committee need hardly emphasise the importance of maintaining proper accounts of materials either raw or finished at different stages for purposes of accurate costing and ensuring economic use of raw materials in the interest of efficiency. The Committee hope and trust that all the measures enumerated by the Ministry in their note would be strictly observed both by the Management and the field-staff.
18. 5.4. The Committee note that the inventory of raw materials and stores in terms of months' consumption has risen from 6.7 in 1969-70 to 11 in 1970-71 and has slightly come down to 10.9 in 1971-72. The Committee were informed that norms of inventory holding have been prescribed only from the years 1971-72 and 1972-73 and generally inventories have remained at four months cost of production. The Committee are surprised to find that not only no effective steps

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have so far been taken to fix norms for the consumption of raw materials and stores, but the Mills have adopted an unusual method of regulating the inventories with reference to cost of production, which itself has been varying from time to time. The Committee would, therefore, recommend that the Nepa Mills should immediately take steps to assess their minimum requirements of stores and raw materials consistent with their needs of production and fix appropriate levels of inventory on a scientific basis taking into account the lead time required for the procurement of the materials.

19.

5.13.

The Committee note that out of stores of the total value of Rs. 125.35 lakhs at the end of March, 1972 stores valued at Rs. 5.91 lakhs did not move for the period between 1 to 2 years and those valued at Rs. 38.96 lakhs for 2 years and over and that surplus stores to the extent of Rs. 2.42 lakhs were awaiting disposal. The Committee also note that the reasons for accumulation of such surplus were (i) change over of specification of material (ii) slight excess purchases to the actual requirements and (iii) discontinuance of certain process etc. The Committee are surprised that the Mills had been accumulating the non-moving stores even after the Mills had changed the processes and specification of materials. The Committee would suggest that the Mills should immediately undertake a review of all the non-moving items and take action for the disposal of surplus items by notifying through the Bureau of Public Enterprises and intimating other Public Undertakings.

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5.22.
and
5.23.

The Committee note that in June, 1968, the Nepa Mills had to import 4750 tons of unbleached sulphate pulp and 2500 tons of mechanical

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groundwood pulp under U.S. Aid Plan through M/s. G. Williams, agents of M/s. Interasia Inc. New York and 2500 mechanical groundwood pulp from M/s. Sterling International. The Committee also note that under U. S. Air Plan the supplies of unbleached sulphite pulp and mechanical groundwood pulp were to be made in U.S. and Indian Vessels in the ratio 60:40 and that cargo supplied to Indian Government by Indian Flagships would be charged at a concessional rate (normal rate less 25 per cent rebate). The Committee note that although the suppliers shipped all the consignment by Indian Vessels, the Mills had to pay extra freight charges amounting to Rs. 7.93 lakhs in foreign exchange (Rs. 2.17 lakhs to M/s. Sterling International and Rs. 5.76 lakhs to M/s. G. Williams) on account of non-insertion of break-up of cost and freight charges in the purchase order and also note that the Mills had to lose a sum of Rs. 21,478 in foreign exchange from the local representatives of one of the firms on account of freight charges as compared to the actual charges paid by the firm to the Shipping Corporation of India. The Committee regret to observe that on account of failure on the part of the Mills in not having obtained the break-up of cost and freight charges and inserted them in the purchase order, the Mills had been put to a loss of Rs. 7.93 lakhs in foreign exchange. The Committee are surprised that while the Nepa Mills had initiated legal action in the case of one of the firms, they had not taken similar action in the case of the other firm and lost their claim for refund of Rs. 2.17 lakhs.

The Committee are much concerned with the indifferent way in which the Nepa Mills had handled the entire transaction and entered into defective purchase agreements with foreign

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firms. The Committee recommend that Government should ensure that the terms of contract are precise and definite without any room for misconstruction and ambiguity therein and suggest that Government should arrange to fix responsibility for this serious lapse leading to the huge loss of valuable foreign exchange.

21. 5.24. The Committee would also like that the Shipping Corporation of India—a Public Undertaking, should also notify from time to time, if it is not already doing so, the changes in the Shipping freight rates all over the world to the Public Undertakings for their information and guidance to avoid Public Undertakings entering such costly commitments in future.

22. 6.9 and 6.10. The Committee note that equity capital of Rs. 494.52 lakhs has practically remained unchanged since 1965-66 except for a marginal increase during the period from 1960-61 to 1966 raising the equity capital from Rs. 494.51 lakhs to Rs. 494.52 lakhs. On the other hand, the unsecured loans obtained from Government of India have steadily increased from Rs. 25 lakhs in 1966-67 to Rs. 577.63 lakhs at the end of 1971-72. The debt equity ratio became 1:1.49 against the accepted ratio of 1:1.

The Committee regret to note that though the Company took up the reorganisation of capital structure with the Government of India as far back as in August, 1970, the Government of India have not so far taken a decision in the matter. The Committee hope that Government will take immediate steps to settle the reorganisation of the capital structure so that the burden on the Company for payment of higher interest charges which has bearing on the cost of newsprint, is reduced.

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6.22.

The Committee note that the Mills have been approaching the Government of India for the revision of selling price of newsprint and the Government of India took considerable time to grant an ad hoc increase of Rs. 50 per tonne in May, 1968 which brought the price to Rs. 1100 per tonne when the cost of the imported newsprint was Rs. 1,243 per tonne. When the Nepa Mills again approached the Government of India in April, 1969 for a further increase it was only in September, 1971 that the Government of India raised the selling price to Rs. 1362 per tonne which was almost the same as the imported price, after a lapse of two years apparently after the matter was raised through the Audit Report (July, 1971). The Committee regret to observe that there was hardly any justification in compelling the Nepa Mills to continue to sell the newsprint at less than the imported price in the intervening period especially when they were running at a loss. The Committee would like Government to evolve suitable guidelines for fixing the price of an essential commodity like newsprint keeping in view the overall interest of the public as well as the public undertaking. They need hardly point out that the Cost Accounts Organisation of the Ministry of Finance should be effectively used for this purpose. The Committee would also like to stress that concerted measures should be taken by Nepa Mills to bring down the cost of production by putting to full use the installed capacity and taking the necessary measures to effect economy in materials and processes and in general by stepping up productivity.

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6.30.

The Committee regret to note that no definite agreement had so far been entered into with Madhya Pradesh Electricity Board for the requirements of power and steam. The

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		<p>Committee were informed that the demand of steam was based on the average consumption of steam on old mill and the standard practice in the paper industry. Although a draft agreement was prepared on the 6th December, 1967 and new tariff schedule effective from the 1st August, 1968, the draft agreement had not taken into account the realistic requirement of steam with the result that the Mills had to incur an extra expenditure of Rs. 24.62 lakhs towards payment to Madhya Pradesh Electricity Board. The Committee suggest that the Mills/Ministry should take immediate steps to work out the minimum requirements of steam on a realistic basis based on the experience of the working of two machines and finalise the agreement with Madhya Pradesh Electricity Board. The Committee need hardly emphasise the importance of expeditious settlement with the State Government of the issues which vitally affect the working results of the Mills and entering into contract for a more realistic demand for steam. The Committee would also suggest that the Ministry should use their good offices with the Madhya Pradesh Government for an adjustment of the amounts so far over-paid in the absence of definite agreement with the Madhya Pradesh Electricity Board.</p>
25.	6.31.	<p>The Committee also note that the Mills are already negotiating with Madhya Pradesh Electricity Board about the purchase of a power station for the Mills. The Committee would like that, before a decision is taken in the matter, the economics of utilisation of power and steam through this power station should be carefully gone into to ensure that these do not unnecessarily add to the cost of production.</p>
26.	6.38.	<p>The Committee note that although the</p>

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shipment arrived at the port on the 9th May, 1969, the consignments were cleared between the 30th May and 3rd June, 1969 resulting in payment of demurrage charges to the extent of Rs. 60,002. The Committee feel that, had the Nepa Mills taken timely action to clear the consignments on indemnity bond earlier, such a heavy payment of demurrage charges could have been avoided. The Committee note that the matter is still pending advice from the Economic Adviser of the Government of India on the question of recovery of charges from the firm. The Committee are unable to appreciate the leisurely manner in which the whole matter has been dealt with and hope that the matter would be settled without further delay.

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6.41.

The Committee note that on the suggestion of Audit the Nepa Mills have amended the scope and functions of internal audit. The Committee would like to stress that the comments of Audit should receive serious consideration at all levels and necessary follow up action should be taken in each case promptly.

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7.6.

The Committee note that effluent from the Mills is being drained straight into the river Tapti through a 15,000 feet long open channel which created pollution problems, whenever the flow of river was low. The Committee were informed that it was only recently that a scheme costing Rs. 52 lakhs for effluent treatment has been approved and a pilot plant is proposed to be set up in this connection. The Committee feel quite concerned that because of the delay in tackling the pollution problem, the Mills are required to pay, according to the judgement of the Civil Court, compensation at the rate of Rs. 1.25 lakhs per year to the Municipality of Burhanpur. The Committee are not able to appreciate the dilatory manner in which the

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pollution problem has been handled by the Mills. Although the Mills are going in appeal against the judgement, the Committee feel that the Mills should have tackled this social problem even at the initial stages and in any case before the scheme for expansion was considered. The Committee feel that Public Undertakings should set a model in resolving such problems and should not be a contributory factor towards pollution of environments. As it is a health hazard, the Committee would like that Nepa Mills would view this matter seriously and evolve effective and economic solution on permanent basis.

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7.14

The Committee are firmly of the view that a concerted effort is required to be made in the matter of identifying the best source of pulp available in India for manufacture of newsprint as also to develop suitable varieties of forests which would provide the essential raw material for manufacture of newsprint of requisite quality. The Committee suggest that there should be a close liaison between the Ministry of Industrial Development and the Forest Research Institute. The Committee stress that the perspective plan for reaching self-reliance in this crucial sector should be drawn up and implemented so as to be able to produce newsprint of the requisite quality and quantity to meet the country's entire requirements before the end of the Sixth Five Year Plan.
