

SIXTH REPORT

STANDING COMMITTEE ON DEFENCE
(1999-2000)

(THIRTEENTH LOK SABHA)

MINISTRY OF DEFENCE

*[Action Taken on the Recommendations contained in the 6th Report
of the Committee (Twelfth Lok Sabha) on 'Ordnance Factories']*

Presented to Lok Sabha on 28 November, 2000

Laid in Raiva Sabha on 28 November, 2000

LOK SABHA SECRETARIAT
NEW DELHI

October, 2000/Asvina, 1922 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE
(1999-2000)

Dr. Laxminarayan Pandey — *Chairman*

MEMBERS

Lok Sabha

2. Shri S. Ajaya Kumar
3. Shri Raj Babbar
4. Shri S. Bangarappa
5. Col. (Retd.) Sona Ram Choudhary
6. Smt. Sangeeta Kumari Singh Deo
7. Shri Jarborn Gamlin
8. Shri Indrajit Gupta
9. Shri Raghuvir Singh Kaushal
10. Shri Mansoor Ali Khan
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12. Shri Vinod Khanna
13. Shri K.E. Krishnamurthy
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16. Shri Hannan MoHah
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18. Shri Gajendra Singh Rajukhedi
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25. Shri C. Sreenivasan
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27. Dr. Jaswant Singh Yadav
28. Dr. (Smt.) Sudha Yadav
29. Shri Vijayendra Pal Singh Badnore
30. Smt. Raneer Narah

Rajya Sabha

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34. Dr. RaJa Ramanna
35. Shri S. Peter Alphonse
36. Shri Shanker Roy Chowdhuiy

37. Dr. Y. Lakshmi Prasad
38. Sardar Gurcharan Singh Tohra
39. Shri T.N. Chaturvedi
40. Sint. Ambika Soni
41. Shri Nilotpal Basu
42. Shri Janeshwar Misra
- *43. Smt. Sushma Swaraj
44. Shri Kripal Parmar

SECRETARIAT

- | | | |
|-----------------------|---|----------------------|
| 1. Dr. A.K. Pandey | — | Additional Secretary |
| 2. Shri P.D.T. Achary | — | Joint Secretary |
| 3. Shri Ram Autar Ram | — | Director |

* Ceased to be a Member of the Committee consequent upon her appointment a w.e.f: 30.9.2000.

INTRODUCTION

I, the Chairman, Standing Committee on Defence (1999-2000) having been authorised by the Committee to submit the Report on their behalf, present this Sixth Report on Action Taken by Government on the recommendations contained in the Sixth Report of the Committee (Twelfth Lok Sabha) on the subject 'Ordnance Factories'.

2. The Sixth Report was presented to Lok Sabha on 5 March, 1999 and laid on the Table of Rajya Sabha on 8 March, 1999. The Government furnished their replies indicating action taken on the recommendations contained in the Report on 30 July, 1999. The Draft Report was considered and adopted by the Standing Committee on Defence (1999-2000) at their sitting held on 5 October, 2000.

3. An analysis of action taken by Government on recommendations contained in the Sixth Report of the Standing Committee on Defence (Twelfth Lok Sabha) is given in Appendix.

4. For facility of reference and convenience, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
October 6, 2000
Asvina 14, 1922 (Saka)

DR. LAXMINARAYAN PANDEY
Chairman
Standing Committee on Defence

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations/observations contained in their Sixth Report (Twelfth Lok Sabha) on 'Ordnance Factories', which was present to Lok Sabha on 5th March, 1999 and laid on the Table of Rajya Sabha on 8th March, 1999.

2. Action taken notes have been received from the Government in respect of all the 17 recommendations/observations contained in the Report. These have been categorized as follows:—

- (i) Recommendations/Observations which have been accepted by Government (Please *see* Chapter-11):

Sl. Nos. 3 to 6, 8 to 14, 16 and 17

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies (Please *see* Chapter-111):

Sl. Nos. I and 7

- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee (Please *see* Chapter-IV):

Sl. Nos. 2 and 15

- (iv) Recommendations/Observations in respect of which final replies of Government are still awaited (Please *see* Chapter-V):

Nil.

3. The Committee will now deal with the action taken by the Government on some of their recommendations.

Representation of Army on Ordnance Factory Board

Recommendation (SI. No. 2, Para No. 57)

4. The Committee were not convinced by the oral clarification of the Government in regard to assigning an active role to the representatives of the Army in the Ordnance Factory Board and recommended that two Army Officers of suitable rank should be appointed as members on the Board for constantly participating in the deliberations of the Board instead of granting them the *ex-officio* status at Special Board Meetings.

5. The Ministry of Defence have in their action taken reply *inter-alia* stated that in 1989, a Special Board of Ordnance Board was constituted to provide representation of two senior Army Officers viz. Master General of Ordnance (MGO) and Director General of Quality Assurance (DGQA), representing the Users and their interest on quality aspects. In addition senior Ministry Officials at the level of Joint Secretary & Additional Financial Advisor and CCR&D representing DRDO, are members of Special Board for dealing with issues relating to improved consumer satisfaction and to ensure more co-ordination of efforts. Periodicity of this Special Board specified was biannual which is being changed to quarterly. The meetings of the Special Board can even be convened more frequently should the need arise.

6. This Special Board provides for close and meaningful interaction with MGO, responsible for forecasting the demands of Army (the largest indenter) DGQA on quality related aspects, defect investigation etc., DRDO on new product developments and Ministry officials on financial & policy issues including co-ordination with other Ministries/departments. Such interactions, which had been of immense benefit, provides insights to futuristic requirements of Armed Forces, helps in planning budgetary requirements and investments needed for upgrading technology profile of products and plants & machineries in Ordnance Factories.

Further, Service officers are invariably associated in policy matters and other important issues like investments, indigenous production of new systems, selection of technology, product improvement etc.

7. Induction of two members from the Army necessitating their attendance at every board meeting will not result in any additional contribution from them. Since the Board meets at least every month, their attendance at such frequent intervals may not be possible. Necessary inputs from the Army are available in the Special Board meetings.

8. The Committee are not convinced by the reply of the Government that a Special Board of Ordnance Factory Board was constituted to provide representation of two senior Army Officers viz. Master General of Ordnance (MGO) and Director General of Quality Assurance (DGQA) represent the users

and their interest on quality aspects. Induction of two members from the Army necessitating their attendance at every board meeting will not result in any additional contribution from them. Since the OFB meets at least every month, the attendance at such frequent intervals may not be possible. Necessary inputs from the Army are available in the Special Board Meetings.

9. The Committee reiterate their recommendation that Army is the largest indenter of arms and ammunition and it is logical and desirable that two Army officers of suitable rank should be appointed as members on the Ordnance Factory Board. The Committee feel that regular interaction of the Army officers with the Board would make better co-ordination with the greater involvement of the Armed Forces in more realistic and suitable production planning and processes of the Ordnance Factories.

Modernisation of Ordnance Factories

Recommendation (SI. No. 15, Para No. 75)

10. The Committee had noted that the Government had constituted a Committee on Modernisation to upgrade the technologies/facilities in Ordnance factories. The Committee felt that due representation to the professionals/scientists from non-defence areas particularly from premier academic and other research institutions should be given and so that the task once undertaken should be valid for at least 15 to 20 years. The Committee further felt that it was only appropriate for the Government to place the blue print prepared by the Modernisation Committee before them.

11. The Ministry of Defence in their Action Taken Replies have stated that the Committee so far has submitted two reports which deal with Armoured Vehicles and Ammunition Hardware items respectively. OFB is now internally compiling investments required for the balance of the areas *viz.* Weapons items, clothing explosive and filling of ammunition.

12. The Ministry have further stated that OFB have been authorised to avail the services of outside consultants for carrying out the Study/analysis of organisational changes required to achieve desired objectives. The subject is of technical nature could be best studied by experts, and in this regard the expertise/suggestion of such of the Hon'ble Members of the Standing Committee who are interested in modernisation/upgradation of OFB will be welcomed.

13. The Committee note that the Committee on Modernisation to upgrade the technologies/facilities in Ordnance Factories has submitted two reports which deal

with Armoured Vehicles and Ammunition Hardware items respectively. OFB is now internally compiling investments required for the balance of the areas viz. Weapon items, clothing, explosive and filling of ammunition.

14. The Committee desire that in view of technology denial regimes imposed on us by the advanced countries, it has become very crucial for OFB to vigorously pursue 100% indigenisation and modernisation in defence production. The Committee further desire that the OFB should review the working conditions of the Scientists and technocrats suitably in order to attract the best talent .available in the country with a view to convert OFB into a world class organisation so that the task of modernisation is undertaken perfectly and comprehensively in the remaining areas of defence productions.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (SI. No. 3, Para No. 58)

Realising the need for orienting the Ordnance Factory Board to attend to urgent modernisation programmes involving the latest and hi-tech areas of Science and Technology, the Committee recommend to the Government to expand the operating Divisions and staff functions so that senior professionals, particularly in cost accounting and marketing areas, and scientists, particularly in information and digital technology as well as optics, working in Government, semi-Government and autonomous organisations in suitable rank are taken on deputation for a period of three years to serve on the Board as full time members in the newly created operating divisions/staff functions.

Reply of the Government

Lateral/Horizontal induction at suitable levels of Senior Professionals in certain specialist areas into an organised cadre of Indian Ordnance Factory Services (IOFS) will not be feasible under existing rules. In areas like Cost Accounting, Marketing, Information Technology and specialised areas like Optics, OFB have already started ipduction of professionals with technical qualification & experience in the areas of Cost Accounting, Information Technology, Design & Development and Optics (Physicist) at entry level who, with the passage of time are going up the ladder.

So far as marketing is concerned. Officers with flare for marketing are being selected and will be sent to leading institutions like Indian Institute of Management and other Management Institutes for appropriate period to get exposure and qualification in marketing. Besides, the officers connected with marketing will also be sent to attend various seminars/workshops wherein they will have opportunity to get indepth knowledge on latest trends in marketing techniques.

Also whenever there are specific problems concerning specific areas like Information Technology, Marketing, R&D of a store like machine ..tool development. Optics etc., the assistance and active participation of experienced personnel from country-wide Research and Development organisations like Central Machine Tool Institute (CM71), DRDO Labs is always taken. Where required, the services of consultants are also being taken.

The present set up of OFB comprising of 5 Operating Divisions and 4 Staff Functional Divisions is considered adequate to meet any need of the Armed Forces in future and adding up more Operating Divisions or Staff Divisions may not be necessary. However, keeping in view the recommendation of the Committee creation of few additional temporary posts in identified areas/activities to enable obtaining the expert services of professionals on a contract basis, would be examined.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-I) dated 8.6.99]
 Recommendation (SI. No. 4, Para No. 60)

The Committee are disturbed over the fact that the ordnance factories are still functioning in a sub-industrial environ especially when the factories' production is considerably affected by power failures. The Committee have been informed that this problem has been partially overcome by installing diesel generating sets for essential/critical machines. Appreciating the fact that power is an essential input in production in ordnance factories, the Committee urge the Government to urgently study the pattern of power failures in the ordnance factories over the past five years and how these have affected the production and also to provide all necessary supporting devices in adequate quantities for uninterrupted power supply in contingencies of power failure.

Reply of the Government

The power supply position in U.P. Group of factories and the other factories for the last five years is tabulated below:

Hours lost due to power interruptions

Year	Hrs lost in 10 Fys of U.P.	% of working Hrs in UP Group	Hrs lost in other Fys	% of total working Hrs
1994	1304.8 Hrs.	2.72	320.6	0.23
1995	1644.0 Hrs	3.42	513.4	0.37
1996	1760.1 Hrs	3.67	436.6	0.31
1997	1313.4 Hrs	2.74	492.6	0.35
1998	1514.1 Hrs	3.15	453.4	0.32

It will be evident from above that the Z wer problem is comparatively more pronounced in U.P. Group of factories compared to factories in other States.

During the year 1995-96 some of the Ordnance Factories situated in Uttar Pradesh, especially those connected with production of clothing and general stores, faced certain production constraints due to frequent shut down and interruption in power supply.

However sustained interaction of factory officials and Ordnance Equipment Factory (OEF) Group HQrs situated at Kanpur with the State Electricity Board of UP at Lucknow had improved the situation. To overcome the problem and to take care of critical production requirements, diesel generating sets have been installed in U.P. Group of factories.

In respect of other ordnance factories the State Electricity authorities are in a position to give some preferential treatment to Ordnance Factories being defence production units in the allocation of power. This is based on the two correspondence from the Ministry of Power dated 13th May, 1974 and 11th September, 1995 wherein the Chief Secretaries of respective State Governments and also the Chairman of respective State Electricity Boards have been directed to allocate priorities to defence production units.

The situation is not so alarming now-a-days causing disruption in production. However, close vigil is being kept and OFB, OEF HQrs and AV HQrs for taking alternative action whenever necessary.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 5, Para No. 61)

The Committee also urge upon the Government to incorporate a clause in all future supply contracts for levying heavy demurrage on foreign and domestic suppliers if they fail to keep to the schedule in feeding our ordnance factories with critical material.

Reply of the Government

The supply order conditions invariably include a definite clause in the form of 'Liquidated damages' to tackle the cases of delayed supplies, and is imposed based on the quantum of delay. Moreover Tender Purchase committee while placing fresh orders take into consideration the past performance and existing load. List of approved suppliers is also reviewed periodically and names of perpetually defaulting suppliers are deleted from the list of short listed approved suppliers for issue of limited tender enquiries.

Besides, there are occasions with inordinate delay in supplies beyond stipulated period (inspite of number of extensions), the supply order on the firm is cancelled after due notice and risk purchase actions are also being initiated. Implementation of these measures have substantially improved the supply situations in the recent past.

Moreover penal actions have to be kept in line with rules, regulations and guidelines formulated based on sale of Goods Act and Contract Laws and those followed uniformly in all other Govt. department.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 6, Para No. 62)

The Committee also urge upon the Government to study the feasibility of creating underground testing facilities or bunkers of suitable size for providing limited proximal testing ranges inside or near the ordnance factories to obviate the queuing of components at testing ranges located at distant places which contributes to delay in completing the products.

Reply of the Government

After seeing the quantum of delays that have taken place in the proof ranges during the years 1995 and 1997, a committee to co-ordinate the proof schedules and programmes was constituted in December, 1998 comprising of representative/officials from OFB, Chief Controller of Research & Development (CCR&D), Controllerate of Quality Assurance (Ammunition) and Proof Establishment (PXE), Balasore. This committee meets once in a month to discuss the bottleneck occurring and also suggests remedial measures.

However, an Expert Group is being constituted to examine the suggestion for creating any additional/underground testing facilities or bunkers to store/proof components in close proximity of Ordnance Factories including provision of simulators/full scale testing.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 8, Para No. 67)

The Committee also recommend that simultaneously the Government should explore all avenues for leasing out the unutilised portion of plant & machinery and manpower for a price at par with cost at least, to interested undertakings in civil sector so that capacity of the ordnance factories remains fully utilised.

Reply of the Government

As regards committee's recommendation to lease out plant & machinery and manpower to civil sector, it may be stated that capacity created in Ordnance Factories are generally product specific with little scope of utilisation by civil sector. For example, the production facilities set up in Ordnance Factories for explosives manufacture, explosives filling, small arms manufacture, medium calibre gun manufacture, cannot be gainfully utilised by civil sector. However, as suggested by the Committee, endeavour is being made so that the civil sector comes forward wherever feasible to utilise the capacity available in Ordnance Factories for those machines having state of art CNC technology and also having size and capability which are not readily available elsewhere in the country. Thus, the plant and machinery available at Ordnance Factory Project, Medak and Heavy Vehicle Factory, Avadi are being released to outside agencies like Aeronautical Development Agency, BHEL, Railways etc. whenever it was seen that the

facilities available in these factories are sparable. These measures will continue in future also.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (Sl. No. 9, Para No. 68)

The Committee are concerned over the increased inventory holdings in ordnance factories while there is reduction in utilisation of capacity of the ordnance factories. The average holdings in ordnance factories in terms of number of days exceeded the standard norms of 180 days to 210 days. The Committee recommend that the Government should keep the inventory holdings in ordnance factories under constant review and should take all corrective measures to bring these down to standard norms of 180 days or below.

Reply of the Government

Inventory level in Ordnance Factories is generally guided by certain norms like:

- | | |
|---|----------|
| (a) Stores in hand Inventory for Ordinary Indigenous items | 180 days |
| (b) Stores in hand Inventory for difficult Indigenous items | 270 days |
| (c) Stores in hand Inventory for items of Imported origin | 365 days |

Out of the total inventory carried by Ordnance Factories, slow moving and non-moving stores, (amounting to around Rs. 134 crores and Rs. 110 crores respectively) account for 33 days of inventory in terms of consumption of material in a year. This is mainly due to fluctuation in production, non-indication of targets causing interruption in manufacture by the Armed Forces, especially the Army, where indents for more than 2 to 3 years requirements for certain stores are held by Ordnance Factories.

Directives have since been issued to various Ordnance Factories to identify these stores and in consultation with the Technical Committees to decide action for disposal so that the inventories in respect of these items are brought down to minimum. Besides, during various Target Fixation Meetings, this issue was taken up with the Armed Forces to get certain targets for these stores for utilising available stock gainfully. These efforts have borne fruit with targets being obtained in respect of some such stores in the recent past.

Besides above, different types of stores have different inventory levels of stock in the Ordnance Factories. Especially in the Armoured Vehicle group of factories, by virtue of having very long lead time both for procurement and process, per force they have to keep

inventory stock comprising of both difficult indigenous and imported items beyond the level of 180 days. For the year 1997-98 the total inventory in the group of factories under Armoured Vehicles came to 332 days active stores.

Similarly for other group of factories the levels of active inventory are given below:

A&E Group	192 days
M&C Group	173 days
WV&E Group	138 days
OEF Group	87 days

For OFB as a whole, the active stock level was 198 days.

With the measures now initiated as given above *i.e.* by constant monitoring of the slow moving and non-moving items coupled with getting certain targets for these items procured based on the extracts already placed by Armed Forces, it is expected in the next couple of years the inventory for the organisation as a whole will be brought down to the desired level of 180 days.

Appointment of a committee of experts/consultants to look into the inventory management in totality and to suggest measures to reduce level of inventory holdings will be examined.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-I) dated 8.6.99]

Recommendation (Sl. No. 10, Para No. 69)

The Committee note with concern that 0.32 per cent of the total value of production goes waste as losses due to faulty production mainly on account of internal defects in the input material and sudden change in design parameters. The Committee feel that though this is a low percentage, in terms of money value it cannot be ignored. The Committee, accordingly, recommend that in the case of losses due to faulty production ascribable to internal defects in input material, the value of losses should be debited from the payments made to the material suppliers. The Committee further feel that the design and development of the product should be undertaken with further care so that losses due to faulty production exclusively on account of sudden change in design parameters are kept to the minimum.

Reply of the Government

The figure of 0.32 percent of the total value of production cost as waste/losses on account of faulty production, was based on the loss statements sanctioned during the year for the occurrences taken place in the past.

After getting ISO-9002 certificate by various ordnance Factories after 1993-94, there have been considerable improvement in the procedures adopted for auditing the incoming material into the factory before undertaking production, checking process control and also adherence to definite quality standards of the outgoing material through proof. All these measures implemented consequent to ISO-9002 certification procedure, resulted in improvement in the areas of quality that has direct impact on the rejection value due to faulty production.

Besides, an awareness campaign has been introduced to enable the Chief Executive of the factory to know the "Cost of Quality" comprising of:

- Value of rejection during process/manufacture.
- Charges for testing input material and in process gauging/ testing etc.
- Cost of rectification, when detected, to conform to quality.
- Rectification cost of items returned by customer through warranty/guarantee.

The concept of evaluating the cost of quality, it is hoped, will lead to significant improvements in the years to come thereby eliminating chances of faulty material gaining entry into production. All these measures comprising of total quality management will enhance the quality parameters of the products of the Ordnance Factories in the years to come.

For development of new items required from design and development organisation, guidelines have been given to the concerned producing units to undertake small batches initially to prove the design parameters before undertaking manufacture of large batches. This will eliminate chances of items being kept aside due to changes in design parameters at a later date.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (Sl. No. II, Para No. 70)

The Committee note that for the supplies made by the ordnance factories to the Armed Forces, the element of profit is nil. However, the ordnance factories charge some profit from the other Departments and State Police Organisations. The profits in prices quoted for civil market or for export are little more than those quoted for the other Department and State Police Organisations. The Committee recommend that marketing

and costing analysis should be involved in drawing up the prices of ordnance factories' products for the sectors other than the Armed forces so that a reasonably realistic profit is made by the ordnance factories.

Reply of the Government

The execution of orders against civil sector in Ordnance Factories is comprising of products from two types of sectors:

- (a) The products which are a spin off to the current range of products like small arms ammunition sold through dealers and items like revolvers & pistols which are also sold to civil & State Police authorities. By virtue of these being by- product, the chances of their cost exceeding the quoted price are minimal and do not exist. Because of persistent & high demand from civil sector and MHA, Ordnance Factories are in a position to have reasonable high profit margin for these items. Pricing is based on capacity of the market to bear particular prices.
- (b) In certain factories, orders from civil sector are undertaken to utilise the spareable manpower which otherwise will become idle thereby increasing the overhead cost of the factory to be debited through products issued to sister ordnance factories. To minimise the extent of under-utilisation of labour, certain items like axle shafts & brake shoe for railways, turbine shafts for PSUs are also undertaken on prime cost basis which include cost of material, labour and a portion of overheads. The prices for such items are arrived at after evaluating the market trend including the price at which orderer is making purchases. For these items OFB has to necessarily take into account the prices which the competitive suppliers can offer.

Pricing of the product in the factory is done by a committee comprising a Finance Member who has got indepth knowledge of costing of the products. The trend of prices in the market for similar product is obtained through Regional Marketing Centres situated in various parts of the country. With above trend of pricing by Ordnance Factories it will be clear, all measures are taken into account like market trend, capability of the purchaser to make purchases etc. before orders are obtained.

The Department is of the view that the pricing of OFB products for civil trade/export for utilising spareable capacities should be guided by the market forces. To utilise the spareable capacity and to offer competitive prices, the approach should be to recover at least the direct cost *i.e.* the cost of basic inputs like raw materials, direct labour, etc. and if possible some part of the fixed cost. Utilisation of the spareable capacities shall ensure that no additional loss accrue to the OFB on account of non-

utilisation of capacities. OFB has been asked to submit an approach paper on the pricing policy on civil trade/export for consideration of Govt.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 12, Para No. 72)

The Committee note the Government's admission that the total indents which the Ordnance Factory Board places on the civil industry is about Rs. 1800 crore. The Avadi Tank Factory outsources from private sector to 35% of the components for production of T-72 tanks. The Heavy Vehicle Factory outsources to the extent of 55 per cent from SAIL (Steel Authority of India Limited) and other Government departments. The Government further admitted that they have a mechanism for interacting with the FICCI, ASSOCHAM and CII for increased interfacing of the ordnance factories with the civil industries. The Government conceded the point of the Committee that interaction with industries should not be selectively restricted to some industrial associations but extended to specialised organisations like the All India Engineering Association etc., and there should be a combined meeting with all the industrial groups. The Committee recommend that the interaction of the ordnance factories with civil industries should be frequent, continuous and on a high organisational platform for reaping the intended benefits. The Committee further recommend that the idle manpower in unutilised capacities should be identified for deployment on short term basis to civil industries for production related industrial/trade training for upgrading the skills.

Reply of the Government

The interaction between Ordnance Factory Board and civil sector is taking place in various forums through participation of Ordnance Factories in the industrial exhibitions arranged by the civil sector from time to time wherein the products manufactured by Ordnance Factories are exhibited, thereby giving ample evidence to outside agencies about the capability of Ordnance Factories in rendering assistance to civil sector wherever there are needs.

Through institutions like CII wherein OFB is a member, assistance is also taken in deputing various personnel of Ordnance Factories to participate in seminars arranged by them, thereby exposing the OFB personnel to modern trends in technology, process, productivity, cost control and other aspects of management. The process being an ongoing one, it is hoped dividends of this interaction will be expected in the coming years.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 13, para No. 73)

The Committee also desire that the Government should off-load low technology items to civil sector and concentrate on production of high technology items. The Committee also feel that an intensification of the interfacing of the ordnance factories and the civil industries will not only be in the larger interest of the nation, but will also helping reinforcing each other. The civil sector plays an important role in manufacturing intermediate products, components and spare parts for the defence sector. The Committee feel that in regard to a number of sophisticated areas particularly electronics and optics, there is much in common in technologies for civil and defence use. The development of an integrated industrial sector could be greatly stimulated by encouraging and promoting this commonality which would also help in avoiding incidence of new investments by the Government on the same technologies already available in civil sector.

Reply of the Government

Ordnance Factories, have always been taking assistance and are in many way dependent on civil sector for supply of necessary input materials and components. Cost effective and quality supply in consistent manner from civil sector have always been taken into account while planning for capacities in Ordnance Factories. Wherever ample capacities exists in civil sector, facilities are not created in Ordnance Factories by way of backward integrated. In the areas of electronics the available capability both in PSUs and private sector are being tapped to the maximum extent for incorporation into Ordnance Factories products. In the field of optics also the capacity existing in public sector and private sector are being made use of for meeting the requirement of Armoured Vehicles etc.

As regard Ordnance Equipment Factories (OEF) manufacturing clothing and general stores for the defence forces, and impracticability of its offloading to civil sector, comments against Para 66 may also be seen.

In a nutshell, before any investment for creating new capability/capacity is envisaged the existing capability/capacity in civil sector including public sector undertakings are studied and taken into account to avoid duplication.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (Si. No. 14, Para No. 74)

The Committee note with concern that the Government have not been able to successfully tap the markets abroad for export of ordnance factories' products. The

Committee recommend to the Government to provide a special waiver of licence restrictions currently applicable to export of OFB (Ordnance Factory Board) items. Once these restrictions are removed, the export of OFB goods, the Committee feel, may grow. The Committee also recommend to the Government to gear up our High Commissions/Embassies to formulate strategies for defence exports to the respective countries and also set up a separate marketing division in the Ordnance Factory Board for boosting their sales potential in the international market. If necessary, the Government should also have a re-look at the negative list of countries maintained by the Ministry of External Affairs for pruning it to the minimum.

Reply of the Government

The various defence equipment manufactured in the Ordnance Factories under licence from the country of their origin cannot be exported without their prior approval unless such an export is permitted in the licence agreement itself. Efforts are made with the concerned countries to give permission for export of such products.

A defence export division already exists in Ordnance Factory Board. OFB also participates in various international defence exhibitions abroad for boosting their sales potential in international market. The need for enhancing our defence exports by adopting suitable strategies is periodically emphasised on our missions abroad.

The list of negative countries maintained by MEA is constantly under review and periodically updated.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 16, Para No. 76)

Research and Development is the backbone for indigenisation and modernisation in any industry. The Committee note with concern the paltry sums earmarked for in-house research purposes in ordnance factories. Constant and continuous training programmes in workshops. Universities and other Institutes of higher learning is a prerequisite for the manpower to engage themselves in research and development. Opportunities for such learning exercises should be increased and special departmental programmes should be chalked out for encouraging manpower to diversify into research. The Committee, therefore, recommend that the sums earmarked for research and development should be increased for achieving these objectives and the current ceiling on amounts spent on research and development should be removed.

Reply of the Government

The basic R&D work pertaining to indigenous development of arms/ammunition/weapon systems etc. as required by the Armed Forces, is carried out by Defence Research and Development Organisation (DRDO). The Ordnance Factories, on the other hand, undertake in house R&D activities mainly for process/product improvement, indigenisation and some reverse engineering activities.

Primary responsibility of R&D is of the DRDO, not under control of OFB/DDP&S. Being a production organisation, OFB does not have infrastructure/wherewithall for undertaking original R&D works. The R&D budget will have to be project specific and the R&D activity can not be judged only by the amount spent.

The cost of in house R&D project in OFB includes only the material and labour inputs without overheads. This is the main reason for small value of these projects unlike in other organisations wherein the total expenditure of all the manpower involved is also taken into account. As brought out above, the Research & Development activities in Ordnance Factories are confined to:

- (a) Improvement in the process by value engineering to minimise the input cost of material.
- (b) To carry out modifications on the basic design based on the feed back received from the User from time to time about the performance of the product issued earlier.
- (c) To develop the product/components by reverse engineering where specific documentation is not available.

To *meet* their enhanced requirements. The following are some of the items wherein the users have asked for certain product improvements:

- (a) Use of 30 mm Cannon for ground role.
- (b) Use of 12.7 mm gun for anti-terrorist operation.
- (c) Extended range of Mortar Ammunition (81 mm).
- (d) Development of .22" Rifle for sporting purposes.
- (e) Development of Mine Proof Vehicle for Army and para-military forces.

The above projects are in the advance stages of completion. They are akin to the products which are under manufacture in Ordnance Factories and as such not much of problems are anticipated in the execution.

With confidence and success obtained in the projects given above, it is proposed to enhance the induction of identical projects in future. This in turn will call for enhanced amount required to be spent on Research & Development. There are no constraints, on date, regarding the availability of funds for R&D in Ordnance Factories.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 17, Para No. 78)

The Committee recommend to the Government that all surplus manpower particularly in higher age groups should be phased out. A golden hand shake scheme specifically targeting the higher age groups should be introduced. The Committee note with concern the unrest amongst workers in some ordnance factories which has a detrimental effect on defence production. The Committee, therefore, recommend that laws should be suitably amended so that interests of the nation are harmoniously reconciled to the interests of the individual workers. It should be considered whether posts falling vacant because of retirements should at all be filled and whether the need of skilled workers could be met by transferring staff from one ordnance factory to another. Only after examining this possibility recruitment should be undertaken. A personnel policy valid for next 25 to 30 years should be immediately drawn up to meet the challenges posed by the present problems in manpower planning.

Reply of the Government

It is to be stated that with wastage taking place due to retirement, the total strength of manpower at Ordnance Factories will dwindle down to less than one lakh in the next 10 years.

Unlike for public sector undertakings, there are no scheme of VRS in Governmental undertakings like Ordnance Factories since there are no definite proposals for retrenching surplus manpower as of date due to fluctuations in load pattern.

At the same time, in order to manage and man the plant and machinery being inducted to meet the revised pattern of arms and ammunition requirements projected by the Armed Forces, skilled personnel with requisite qualifications are being inducted in a need-based manner in factories where there is induction of both new technology and new product. This will enable Ordnance Factories to sustain the skill acquired over the years. A lean and thin organisation is expected to emerge in the next 10 years with better capabilities in areas of production and new products.

The industrial relations in the organisation as a whole has been cordial and harmonious through periodical interactions with various federations and associations. The unrest which was indicated and noted by the Committee was due to the uncertainty in the load at Vehicle Factory, Jabalpur for keeping the existing employees engaged. The issue has since been resolved with the induction of two types of transport vehicles as required by the Army and the same are in full flow including the backward integration for manufacturing sub-assemblies required for the vehicle.

Regarding the transfer of staff from one Ordnance Factory to another Ordnance Factory, the same is being done as per the rules. In respect of skilled workers wherever possible the adjustments are done amongst the factories in the same location or region.

Regarding the broad based personnel policy, at the first instance, for restructuring the industrial employees and staff, sub-committees have been appointed with the inclusion of members from federations. The Committee will go into various issues like multi-skilling, re-deployment and having a compressed structure of trades to facilitate multi-skilling and training to meet job needs. The proposals of the sub-committee will be deliberated at the Joint Council Meeting comprising of representatives from employees' federation and associations and will be further considered for evolving the personnel policy.

(Ministry of Defence O.M. No. 2(5)/99/D(*ProL-1*) dated 8.6.99)

CHAPTER III

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

Recommendation (Sl. No. I, Para No. 56)

The Committee, therefore, recommend that the full time Chairman and full time Members of the Board should have a tenure of not less than 3 years of service as Chairman/Member; appointments/promotions should be so made to the Board that this principle is complied with, without granting extensions in service. All those who could not fulfil this condition should be granted the pay which they would have received on promotion and not the powers and duties of functioning as Chairman/Member; they may even be adjusted suitably in the Ministry of Defence. This would ensure continuity of the decisions taken by the Board. The Committee strongly disapprove of the appointment of an officer as Chairman/member when he has only three months or so to retire. The Committee consider that such a practice is against the larger public interest.

Reply of the Government

At present appointment to the posts of the Chairman and full time Members of the O.F. Board, which are selection posts, is considered by appropriate Departmental Promotion Committee as per the guidelines of Department of Personnel and Training (DOPT). These guidelines stipulate a minimum service of 3 months before retirement for all promotions/appointments which are effected with the approval of the Appointments Committee of the Cabinet. Being one of the Central Govt. Service, the rules of promotion applicable to OPB officers cannot be different from those being applied to other Central Services. Any stipulation for a minimum tenure of say, three years for the post of Chairman and Member of Ordnance Factory Board, for which there are no separate Govt. rules, will create a situation when a large number of officers of Indian Ordnance Factory Services (IOFS) will be prevented from holding higher posts of Member or Chairman only for the reason for having a tenure of less than three years. This is likely to give rise to serious discontentment amongst officers. In the event of a large number of supersessions (which is likely in the present configuration of the service) the number of supernumerary posts which would need to be created would be very large. This would also create a distortion in the IOFS.

[Ministry of Defence O.M. No. 2(5)/99/.D(Proj.-1) dated 8.6.99]

Recommendation (SI. No. 7, Para No. 66)

The Committee, therefore, recommend that the Government pay serious attention to identifying all low and obsolete technologies either for the purpose of shutting down or for transferring the production line on export to needy Third World countries and re-invest the realisations in modernising the middle and high level technology based ordnance factories for meeting sophisticated requirements of the Armed Forces.

Reply of the Government

There is a view that production of clothing & equipment by OEF Group is of low technology and should be off-loaded to civil sector and the factories concerned should induct products directly connected with Arms/Ammunition/Armoured vehicles. The implications of such an approach need to be kept in view such offloading will lead to a large surplus of manpower, which can not be laid off; they being govt. employees guided by rules uniformly applicable to all Central Govt. organisations.

It may be mentioned that in 1989, 152 items of clothing & equipment group of factories were off-loaded to civil sector. However, due to unsatisfactory performance of civil sector in maintaining schedules and quality parameters by the Army, these items were once again brought back into OEF group of factories. Based on quality and delivery aspects, it is the experience of Armed Forces, especially the Army, that ordnance Factories should continue to manufacture the clothing items. The trend of production and the target fixation in the last 4 years itself is an indication about the dependence of Army on OEF group of factories for supply of clothing items. The total value of production/issues from OEF group of factories has risen from Rs. 383.93 crore in 1995-96 to Rs. 479.50 crore in the year 1998-99 and the target for the 1999-2000 is fixed at Rs. 539.43 crore. The capacity utilisation has risen from 82% in 1995-96 to 99.28% in 1998-99. The capacity utilisation in OEF group of factories is one of the highest among all Ordnance Factories.

If the defence forces have to obtain clothing and general store; from the Civil Sector, they will have to process a large number of tenders/orders whereas, with the present system, they have to deal with one source viz. OFB in respect of quality/quantity of these supplies. It is also brought out that the basic cloth, which is almost 65% of cost of product, is in any case purchased by Ordnance Equipment Factories from trade and hence "off-loading" talked about is for balance 35% of value addition by OFB only.

Clothing group of factories are now inducting state of art machinery for stitching and other operations besides introduction of latest CAD/CAM technology for cutting material in an optimum manner for manufacture of uniforms. These measures will improve productivity as well as quality. OFF group of factories have also been able to maintain the issue price level in order to keep the customer (Armed Forces) satisfied.

So far as the obsolete technologies are concerned, ordnance factories; have been inducting state of art technology. Cold Chasing technology) for manufacture of 5.56 mm rifle barrels, CNC Machining with flexible toolings, investment castings & metal injection mouldings are some of the technologies introduced in factories concerned with manufacture of 5.56 mm INSAS system. Continuous product line with in built gauging for small arms ammunition production, thermo-pressing & laser cutting of armour plates in AV Group, Electro-slag refining for clean & purified steel for tank gun barrels, are some of the state of art technologies introduced. A policy decision has been taken to go in for CNC technology, wherever feasible, so as to achieve flexibility with consistent quality of end product. Ordnance Factories have not hesitated to upgrade/replace the erstwhile obsolete technology with state of the art technologies.

Investment for technology up-gradation, replacement and fresh investment are made out of depreciation fund called Renewal & Replacement (RR) fund. Selling obsolete machines/production line in the country to get funds for modernisation does not appear to be feasible, since there will not be any buyer to purchase equipment having obsolete technology.

[Ministry of Defence O.M. No. 2C5)/99/dCProi.-1) dated 8.6.99]

CHAPTER IV

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

Recommendation (Sl. No. 2, Para No. 57)

The Committee are not convinced by the oral clarifications of the Government in regard to assigning an active role to the representatives of the Army in the Ordnance Factory Board and recommend that two Army officers of suitable rank should be appointed as members on the Board for constantly participating in the deliberations of the Board instead of granting them the ex officio status at special Board meetings. The Committee feel that since a Member (Finance) is already a full time member on the Board, the Additional Financial adviser of the Department of Defence Production and Supplies need not additionally be associated with the Board as ex officio member at special Board meetings. The Committee, however, favour the continued participation of the Joint Secretary (Ordnance Factories) and the Chief Controller of the Research and Development as ex officio members at special Board meetings.

Reply of the Government

The Ordnance Factory Board (OFB) had been constituted in 1979 in terms of recommendations of the Rajadhyaksha Committee. Members of OFB are full time functional members and have specified responsibilities/areas of control. For discharge of functions/taking responsibilities, the functional members need to meet frequently.

In 1989, a Special Board of Ordnance Factory Board was constituted to provide representation of two senior Army Officers *viz.* Master General of Ordnance (MGO) and Director General of Quality Assurance (DGQA), representing the Users and their interest on quality aspects.

In addition senior Ministry officials at the level of Joint Secretary & Addl Financial Advisor and CCR&D representing DRDO, are members of Special Board for dealing with issues relating to improved consumer satisfaction and to ensure more coordination of efforts. Periodicity of this Special Board specified was biannual which is being changed to quarterly. The meetings of the Special Board can even be convened more frequently should the need arise.

This Special Board provides for close and meaningful interaction with MGO, responsible for forecasting the demands of Army (the largest indenter), DGQA on quality related aspects, defect investigation etc., DRDO on new product developments and Ministry officials on financial & policy issues including co-ordination with other Ministries/Departments. Such interactions, which had been of immense benefit, provides insights to futuristic requirements of Armed Forces, helps in planning budgetary requirements and investments needed for upgrading technology profile of products and plants & machineries in Ordnance Factories.

Further, Service officers are invariably associated in policy matters and other important issues like investments, indigenous production of new systems, selection of technology, product improvement etc.

Induction of two members from the Army necessitating their attendance at every board meeting will not result in only additional contribution from there. Since the Board meets at least every month, their attendance at such frequent intervals may not be possible. Necessary inputs from the Army are available in the Special Board meetings.

Regarding the participation of Additional Financial Adviser from the Ministry besides Member/Finance of O.F. Board, it is to be stated that Member/Finance, OFB has the total responsibility for projecting all the financial management issues to the Ministry in time. Additional Financial Adviser on the other hand, has continuous interaction amongst other Addl. Financial Advisors and Financial Adviser (Defence Services) at Ministry level, about total budgetary requirements and projections of other wings of defence like Army, Navy, Air Force etc. In the absence of participation of Additional Financial Adviser from Ministry, it is apprehended that this vital link will not be available *for* effective discussions at OFB. It is, therefore, considered that for the quarterly review of performance of OFB by the full fledged Board (Special Board) along with MGO, DGQA, Jt. Secretary (OF) and CCR&D, the presence of Additional Financial Adviser from the Defence Finance is necessary for the efficient functioning of OFB and should therefore continue.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-1) dated 8.6.99]

Comments of the Committee

(Please *see* Para Nos. 8 and 9 of Chapter I of the Report)

Recommendation (SI. No. 15, Para No. 75)

The Committee are aware that the Government have constituted a Committee on Modernisation to upgrade the technologies/facilities in ordnance factories. The Committee feel that due representation to the professionals/scientists from non-defence areas particularly from premier academic and other research institutions should be given so that the task of modernisation is undertaken perfectly and comprehensively. The Committee also feel that modernisation once undertaken should be valid for at least 15 to 20 years. The Committee further feel that it is only appropriate for the Government to place the blue-print prepared by the Modernisation Committee before them or before a select group of them so that Honourable Members some of whom are scientists themselves could offer their valuable suggestions particularly in the fast changing technological areas like optics etc.

Reply of the Government

The Committee so far has submitted two reports which deal with Armoured Vehicles and Ammunition Hardware items respectively. OFB is now internally compiling investments required for the balance of the areas *viz.* weapons item, clothing, explosive and filling of ammunition.

OFB have been authorised to avail the services of outside consultants for carrying out the study/analysis of organisational changes required to achieve desired objectives.

The subject is of technical nature which could be best studied by experts, and in this regard the expertise/suggestion of such of the Hon'ble members of the Standing Committee who are interested in modernisation/upgradation of OFB will be welcome.

[Ministry of Defence O.M. No. 2(5)/99/D(Proj.-I) dated 8.6.99]

Comments of the Committee

(Please *see* Para Nos. 13 and 14 of Chapter I of the Report).

CHAPTER V

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

-NIL-

NEW DELHI;
October 6, 2000
Asvina 14. 1922 (Saka)

DR. LAXMINARAYAN PANDEY
Chairman
Standins Committee on Defence

MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE
ON DEFENCE (1999-2000)

The Committee sat on Thursday, the 5th October, 2000 from 1500 hrs. to 1730 hrs.

PRESENT

Dr. Laxminarayan Pandey — *Chairman*

MEMBERS

Lok Sabha

2. Shri S. Ajaya Kumar
3. Shri S. Bangarappa
4. Col. (Retd.) Sona Ram Choudhary
5. Smt. Sangeeta Kumari Singh Deo
6. Shri Jarbom Gamlin
7. Shri Mansoor Ali Khan
8. Shri K.E. Krishnamurthy
9. Shri Ashok N. Mohol
10. Shri Hannan MoUah
11. Shri Rajendrasinh Rana
12. Prof. Rasa Singh Rawat
13. Shri A.P. Jithender Reddy
14. Shri Ramjiwan Singh
15. Dr. Jaswant Singh Yadav
16. Dr. (Smt.) Sudha Yadav
17. Smt. Ranee Narah

Rajya Sabha

18. Shri Kapil Sibal
19. Shri Adhik Shirodka
- 20.
21. Sardar Gurcharan Singh Tohra
22. Shn T.N. Chaturvedi
23. Shri Ambika Soni
24. Shri Nilotpal Basu
25. Shri Kripal Paimar

SECRETARIAT

APPENDIX

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SIXTH REPORT OF THE STANDING COMMITTEE ON DEFENCE (TWELFTH LOK SABHA) ON 'ORDNANCE FACTORIES'

		<i>Percentage of Total</i>
(i) Total Number of Recommendations	17	
(ii) Recommendations/Observations which have been accepted by Government <i>(Vide recommendations at SI. Nos. 3 to 6, 8 to 14 and 16 & 17)</i>	13	76.48
(iii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies <i>(Vide recommendations at SI. Nos. 1 and 7)</i>	02	11.76
(iv) Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee <i>(Vide recommendations at SI. Nos. 2 and 15)</i>	02	11.76
(v) Recommendations/Observations in respect of which final replies of Government are still awaited	NIL	