

NATIONAL ALUMINIUM COMPANY LIMITED

MINISTRY OF MINES

**COMMITTEE ON PUBLIC UNDERTAKINGS
(2011-2012)**

THIRTEENTH REPORT

(FIFTEENTH LOK SABHA)



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

C.P.U. No. 946

13**THIRTEENTH REPORT****COMMITTEE ON PUBLIC UNDERTAKINGS****(2011-2012)****(FIFTEENTH LOK SABHA)****NATIONAL ALUMINIUM COMPANY LIMITED****MINISTRY OF MINES**

(Action taken by the Government on the recommendations contained in the Fifth Report of the Committee on Public Undertakings (15th Lok Sabha) on National Aluminium Company Limited)

**Presented to Lok Sabha on 20.12.2011****Laid in Rajya Sabha on 19.12.2011****LOK SABHA SECRETARIAT****NEW DELHI****19 December 2011/ 28 Agrahayana 1933 (S)**

**COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS
(2011-2012)**

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Shri Jagdambika Pal

Members, Lok Sabha

- 2 Shri Hansraj G. Ahir
- 3 Shri Vijay Bahuguna
- 4 Shri Ramesh Bais
- 5 Shri Ambica Banerjee
- 6 Shri Shailendra Kumar
- 7 Smt. Ingrid Mcleod
- 8 Shri Vilas Baburao Muttemwar
- 9 Shri Baijayant Panda 'Jay'
- 10 Shri Adhalrao Shivajirao Patil
- 11 Shri Ponnamp Prabhakar
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- 14 Dr. Prabha Kishor Taviad
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- 16 Shri Janardan Dwivedi
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- 22 Shri N.K. Singh

Secretariat

- | | | |
|---|--------------------|-----------------|
| 1 | Shri Ashok Sarin | Joint Secretary |
| 2 | Shri Rajeev Sharma | Director |

INTRODUCTION

I, the Chairman, Committee on Public Undertakings have been authorized by the Committee to submit the Report on their behalf, present their 13th Report on Action Taken by Government on the recommendations contained in the 5th Report of the Committee on Public Undertakings (15th Lok Sabha) on National Aluminium Company Limited

2. The Fifth Report of the Committee on Public Undertakings was presented to Lok Sabha on 21st April, 2010. Replies of the Government to the recommendations contained in the Report were received on 20th October 2010. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 21 October 2011. The minutes of the sitting are given in Appendix-I.

3. An analysis of the action taken by Government on the recommendations contained in the 5th Report of the Committee (2010-2011) is given in Appendix-II.

NEW DELHI:
21 October 2011
Ashwina 1933 (S)

JAGDAMBIKA PAL
CHAIRMAN,
COMMITTEE ON PUBLIC UNDERTAKINGS

CHAPTER – I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Fifth Report (Fifteenth Lok Sabha) of the Committee on Public Undertakings, which was presented to Lok Sabha on 21st April 2010.

2. Action taken notes have been received from the Government in respect of all the 18 recommendations contained in the Report. These have been categorized as follows:

- (i) Observations/Recommendations that have been accepted by the Government (Chapter-II)
Sl. Nos. 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, 15, and 17 (Total 12)
- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies: (Chapter-III)
Sl. Nos. 10, 13 and 18 (Total 3)
- (iii) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration: (Chapter-IV)
Sl. Nos. 1 and 2 (Total 2)
- (iv) Observations/Recommendations in respect of which final replies of the Government are still awaited: (Chapter-V)
Sl. No. 16 (Total 1)

3. The Committee desire that the final replies in respect of the recommendations contained in Chapter I of this Report as well as the recommendations for which only interim replies have been furnished by the Government should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on some of the recommendations in the succeeding paragraphs.

Recommendation No. 1

Organizational Leadership

5. The Committee in their 5th Report have recommended the following with regard to the importance of stable organizational leadership;

“For any PSU, a clear-cut organizational leadership is a *sine qua non*. The Committee observe that NALCO during the past four years had been without a full-time Managing Director. The Committee are distraught to note that the delay in appointment of a full-time CMD, as informed by the Secretary, Mines during the deposition, was due to a frivolous Vigilance Case against the selected candidate who was ultimately found to be innocent. The Committee also note that high level appointments in most PSUs are often held to ransom by such vigilance cases against aspirants, most of which curiously surface when the process of selection for appointments are in motion. As it emerges, no vigilance enquiry is due or even contemplated till an officer reaches up to the post of CMD. There are two aspects to such a scenario. If something is amiss with regard to a particular officer, why is it that vigilance enquiry is done only when the issue of his promotion to the post of CMD comes up, or is it the case that till such time the particular officer gets away with irregularities? On the other hand a *bona fide* officer can fall prey to a motivated enquiry. There do appear to be such cases/instances, as the Secretary, Mines conceded during the deposition. The Committee, therefore, feel that the process of short listing prospective candidates for the post of a CMD, including vigilance clearance, should be completed well before retirement of incumbent CMDs.

The Committee feel that in the selection of CMD, NALCO, the focus should have been merit and talent irrespective of the candidate being in-house or external. The Committee are also constrained to observe that the prolonged uncertainty that prevailed over the appointment of regular CMD in NALCO was bound to impact the performance of the company.

The Committee, therefore, recommend that the Ministry of Mines should take steps to ensure that the absence of a full-time CMD, jeopardizing the organization to a possible state of disarray and adhocism, does not recur in future. The Committee desire that the Ministry should take concrete steps to work out a future strategy which rules out/minimize such situations.”

Reply of the Government

6. Ministry of Mines in their Action Taken reply on the above recommendation has stated as follows:-

“The Government of India has laid down clear cut guidelines for filling up Board level posts i.e. Director and Chairman-cum-Managing Director (CMD), in a Central Public Sector Enterprise (CPSE) like NALCO i.e. through selection interview by Public Enterprises Selection Board (PESB) and subsequent approval of the Appointments Committee of the Cabinet(ACC) after complying with all necessary pre-requisites.

In view of allegations of sexual harassment made by a lady employee, the then CMD, NALCO was asked to proceed on leave in February, 2004. Additional charge arrangements for the post of CMD were made by appointing a functional Director in his place. In view of an injunction from the Delhi High Court, on a case filed by the Charged Officer (Shri C. Venkataramana), the process for regular filling up of the post of CMD, National Aluminium Company Ltd.(NALCO), could not be initiated, till the expiry of the tenure of the charged officer on 25.6.2007. Requisition was placed with PESB for filling up the post on regular basis by treating 26.6.2007 as the date of vacancy. PESB conducted the selection interview for the post on 5.10.2007 and recommended 2 candidates. After receipt of vigilance clearance in respect of the recommended candidates, a Note was sent to Department of Personnel & Training {DoP&T(ACC)} on 5.5.2008. In view of change in vigilance status of the candidate recommended at No.1 in the PESB panel, DoP&T requested for a fresh proposal on 26.5.2008. Subsequently, on receipt of vigilance clearance from Central Vigilance Commission(CVC), a proposal for regular appointment to the post of CMD, NALCO was moved to the DoP&T(ACC) on 5.6.2009. On receipt of approval from ACC, orders for appointing Shri Pradhan as CMD, NALCO on regular basis up to 30.9.2009, i.e. the date of his superannuation was issued on 3.8.2009. Subsequently, as approved by ACC, orders for appointing Shri A.K. Srivastava as CMD, NALCO w.e.f. 1.10.2009 for a period of 5 years or till the date of his superannuation or till further orders was issued on 11.8.2009. After the superannuation of Shri Pradhan, Shri Srivastava has assumed charge as CMD, NALCO, who has been given a tenure of more than four years i.e. upto the date of his superannuation.

It is apparent from the above that the delay in filling up the post of CMD, NALCO on regular basis was first due to court case filed by Shri Venkataramana, former CMD, NALCO and later, due to some vigilance cases pending against Shri Pradhan(No.1 candidate in the PESB panel) i.e., extraneous circumstances beyond the control of the Ministry of Mines.

Considering the importance of regular filling up of Board level vacancies in the CPSEs, the Government {Department of Public Enterprises(DPE)} has already laid down an effective procedure for timely filling up all such forthcoming vacancies. All Ministries and Departments are required to initiate action for filling up Board level posts coming under their administrative purview at least two years in advance of the date of occurrence of the vacancy in order to ensure that the PESB recommendations are available at least six months in advance of the date of vacancy so as to enable the Administrative Ministry for completing other

formalities and obtaining the approval of ACC well before the due date. For regular monitoring of action initiated for filling up vacancies, which require approval of ACC (including Board level posts in CPSEs), concerned Administrative Ministry/Department are required to upload requisite data into the ACC Vacancy Monitoring System(AVMS) in the website of DoP&T. The Government by putting in place these measures, hopes to ensure timely filling up of all crucial posts which require approval of ACC, including Board level posts in CPSEs.

In a recent development, Shri A.K.Srivastava, CMD, NALCO has been placed under suspension vide this Ministry's order dated 26.2.2011 in view of his arrest by the CBI in a trap case. Consequently, the Government has entrusted additional charge of the post of CMD, NALCO to the senior most functional Director in order to ensure that the working of the Company does not suffer due to the resultant vacuum"

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Comments of the Committee

6. The Committee note that under existing procedures laid down by the Department of Public Enterprises (DPE) vide DPE/Guideline/II(b)/35 dated 27th September 2005, all Ministries and Departments are required to initiate action for filling up Board level posts coming under their administrative purview at least two years in advance of the date of occurrence of the vacancy to ensure smooth transition at top echelons of Public Enterprises. The Committee also note that the concerned administrative Ministries / Departments are required to upload requisite data into the Appointments Committee of the Cabinet (ACC) Vacancy Monitoring System (AVMS) in the website of DoP&T. The DPE guidelines stipulating initiation of action for filling Board level appointments "at least 2 years in advance" were in place w.e.f. 27 September, 2005. When it was quite clear that the then CMD (who was asked to proceed on leave in February, 2004) was scheduled to superannuate on 25.6.2007, the Committee are at a loss to understand as to why no action was initiated for filling up the post of CMD in October, 2005. In this connection, the Committee regret to observe that in clear violation of the said guidelines, the process for filling up the post of CMD, NALCO, which was to fall vacant on 25.6.2007 was initiated only on 26.6.2007. Further more, when the CMD was due to retire on 25.06.2007, the PESB conducted the selection interview for the post on 5.10.2007 and note to DOPT sent only on 5.5.2008. This time lag of intervening seven months as also non initiation of any action in 2005 in the first place has not been explained for. The Committee are constrained to seek from the Ministry a full justification for such a serious lapse of procedure along with details, if any, of the action taken on those responsible for the same. The Committee would like to reiterate that the Ministry of Mines should take concrete steps to ensure that vacancies are uploaded in

time and action for filling up Board level posts are initiated 'at least two years in advance' of the occurrence of vacancy.

In a related matter, the Committee have been informed vide the Ministry's OM No. 29(17)/2008-Met.I dated 24.5.2011, which was in response to a further clarification sought by the Committee, that no action has been initiated by the Ministry to fill up the vacancy after the retirement of the present CMD who is currently under suspension and is due to retire on 31.1.2014. The Ministry had also stated that the process for selection of next CMD of NALCO has not been started as more than two years are left for superannuation of the incumbent CMD. The Committee would like to point out that the DPE guidelines, with the objective of doing away with delays in appointments to Board level posts in PSUs, had earlier stipulated a time frame of 6 months in advance of the occurrence of such vacancies in their guideline issued on 30th July, 1999, revised it to 12 months on 22.12.1999 and re-emphasized the importance of timely appointments vide a revised guideline issued on September 2005 by stipulating that necessary action to fill up Board level posts should be initiated "at least two years in advance of the date of occurrence of the vacancy with a stipulation that the PESB recommendations in respect of such Board level vacancies should be made at least six months in advance of the date of vacancy."

The Committee strongly emphasise that the key clause in the DPE stipulation is "at least two years in advance" which evidently means that the process of initiating action for filling Board level posts could commence even before the "two year advance period". In exigent circumstances, such as the one prevailing in NALCO, where their CMD is under suspension, there is all the more reason for considered advance action. Under the circumstances, the Committee are constrained to observe that the Ministry's stance of delaying the initial process till within two years of the occurrence of vacancy is a sluggish approach grounded on misinterpretation of the guideline, which is violative of the spirit of the guidelines. The Committee desire that earnest steps should be taken so that timely action is initiated for all Board level posts in PSUs under the Ministry and they be apprised of tangible actions taken by the Ministry in this regard.

Recommendation No. 2

Checking frivolous and motivated investigations

8. The Committee in their 5th Report had recommended the following with regard to the delay in finalization of appointments to top posts in PSUs due to vigilance cases.

"The Committee further recommend that the Ministry should take up the issue of frivolous vigilance cases particularly against aspirants for top jobs in PSUs at appropriate inter-ministerial fora and push for a viable mechanism to eliminate the element of vested interests stalling the process of selection of CMDs. In case there are serious complaints with substantial evidence, the investigations should be fast-tracked so that the process of selection is not delayed."

Reply of the Government

9. Ministry of Mines in their Action Taken reply on the above recommendation has stated as follows:

“Keeping in view the concerns to scrutinize carefully the complaints received against Chief Executives and Functional Directors of the Public Sector Enterprises and CMDs and Functional Directors of Public Sector Banks and Financial Institutions, whether pseudonymous or otherwise, the Government {Department of Public Enterprises(DPE)} vide their OM No. 15(1)/2010-DPE(GM) dated 11.3.2010 read with amendments made vide their OM No. 15(1)/2010-DPE(GM) dated 12.4.2010 has decided to constitute a Group under the Chairmanship of Secretary(Coordination), Cabinet Secretariat to take a view on the same.

In terms of the procedure laid down, complaints against these officials received by the Cabinet Secretariat or the DPE or the Prime Minister’s Office will be first scrutinized by the Group headed by the Secretary(Coordination) in the Cabinet Secretariat. If there is no substance in the complaints or the complaint is frivolous in nature, the Group would close the complaint. In case the preliminary scrutiny of the complaint indicates that there is some substance in it or there are verifiable allegations, the Group may seek the comments of the Secretary of the concerned Ministry/Department or call for the concerned files or call for the relevant records including annual property returns, other reports, etc. The Group, on the basis of the appropriate inputs received, may either close the complaint if there is no substance in it, or make appropriate recommendation to the Disciplinary Authority regarding the nature of the investigation called for on the basis of substance found in the allegations made. The Group constituted will also be looking into the complaints received by the Cabinet Secretary from Central Vigilance Commission (CVC) under the CVC Act or the Public Interest Disclosure Resolution and the CVC shall be kept informed at regular intervals about the status of the scrutiny/review undertaken by the Group into complaints forwarded by CVC.

Although it may not be possible to stop complaints against aspirants for top jobs, however, with the constitution of a detailed mechanism by the Government as elaborated in the foregoing para, action on such complaints would now be expedited.”

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Comments of the Committee

10. **The Committee note that in an effort to check avoidable delays in appointments to top positions in PSUs, the government has decided to constitute a Group under the Chairmanship of the Secretary (Coordination) Cabinet Secretariat, to address the concerns vis-à-vis judicious and expeditious scrutiny and processing of the complaints received against top executives of PSUs, as per**

DPE OM No. 15(1)/2010-DPE(GM) dated 12.4.2010. The Committee, while appreciating this initiative, are constrained to observe that no further action has been taken by the government as of 20.10.2010 in this direction. The Committee find it pertinent to emphasize here that howsoever laudable an initiative might be, the same would be meaningful only if it is effectively implemented. They, therefore, desire that the government should earnestly pursue the same and apprise them of the latest steps taken in this regard.

Recommendation Serial No.16

National Policy on Aluminium

11. The Committee in their 5th Report had recommended the following with regard to the absence of a National Policy on Aluminium.

“The Committee note that there is no National Aluminium Policy in place to steer the course of the aluminium industry in the country. The Committee further note that Ministry of Mines have taken initiatives in setting up a Centre for Techno-Economic Mineral Policy Options (C-TEMPO), which will involve all major sectoral stakeholders in evolving policy options.

The Committee recommend that the C-TEMPO should be made fully functional at the earliest and should be adequately strengthened to churn out viable policy options for the country so far as the minerals sector is concerned, including aluminum.”

Reply of the Government

12. Ministry of Mines in their Action Taken reply on the above recommendation has stated as follows:

“The Ministry of Mines has made fresh endeavors to frame aluminium policy as recommended by the Hon’ble Committee. Aluminium Association of India (AAI), the apex body representing the entire spectrum of aluminium industry has submitted a Mission Plan document 2010-2020 to the Ministry for promotion of aluminium in the country. The Ministry of Mines is considering to organize a one day seminar with concerned stakeholders i.e. the primary aluminium producers of the country viz. NALCO, HINDALCO and Vedanta Group (BALCO, VAL & MALCO), downstream industries, along with officials of concerned Ministries of Government of India as well as major bauxite producing States, in order to chalk out requisite policy level intervention by the Government to fulfill the objectives for promotion of aluminium as outlined in the Mission Plan document submitted by AAI. The seminar, would in a way, be the 1st step towards framing an aluminium policy.”

Comments of the Committee

13. The Committee, while appreciating the Ministry's 'fresh endeavors' to frame the national aluminium policy, are disconcerted to note that even the proposed one day seminar with stakeholders, which was statedly under consideration as of 20. 10. 2010, has yet to materialize as on 22.03 2011, the date on which updated replies of the Ministry had been finalized. The Committee find a lack of interest on the part of the Ministry, which is indicative from the Ministry's inability to even take what would have been the first step towards framing an aluminium policy for the country. The Committee re-emphasize the importance of having in place a national policy on aluminium, which, they believe, will go a long way in addressing the needs of the sector for an optimal planned growth required to successfully meet the growing demands of the domestic market and also to maintain a global competitive edge. The Committee, therefore, desire that urgent necessary steps should be taken by the Ministry in this direction.

CHAPTER-II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No.3

Selection process of CMD

With regard to the recent filling up of the post of CMD in NALCO, the Committee observe that the officer who was at the second place in the panel was allowed to take over as CMD in violation of all established norms, the validity of the panel in which he was placed second having lapsed by the time the incumbent was to retire. The Committee find that the justification given by the Ministry of the need to allow the person who had held additional charge of CMD for the past four years to retire as CMD is irrelevant. The Committee suspect that certain circumstances were willfully created to facilitate elevation of the officer who was second in panel to take over as CMD. Needless supervising as evident herein points to attempts at short circuiting the recruitment process.

The Committee take note of Ministry's clarification that the final call was taken by PESB and the Cabinet Committee. The Committee feel that in real terms, the crucial factor in such cases is the recommendation made by the Ministry to CCA, and the Ministry cannot conveniently take refuge in the endorsements given on the matter by the PESB and the CCA. It appears that the full facts have either not been projected or glossed over while making requisite recommendations to the PESB and eventually to the Cabinet Committee on Appointments. The Committee feel that the Ministry cannot be allowed to find a convenient scapegoat in the PESB and CCA nor can they be allowed to get away with their inaccurate briefing of the PESB and the CCA. The Committee, therefore, express grave concern over the irregular appointment of two candidates from the same panel as CMDs in succession, disregarding the fact that the validity of the panel had already lapsed, and apprehend that it could set an unhealthy precedent liable to be misused in future.

Considering the gross irregularity and the possibility of such a precedent being misused by vested interests in future, the Committee recommend that the circumstances leading to the picking of two CMDs from the same panel may be thoroughly scrutinized by an appropriate authority with a view to fix accountability and to ensure that the potentially hazardous precedent being set in this case is revoked.

Reply of the Government

As already stated in action taken notes in respect of Recommendation No.1, it is reiterated that the Government has a very well defined and transparent procedure for making recruitment to Board level posts in CPSEs ie recommendation of a panel of two candidates made after selection interview by PESB and thereafter approval of ACC, in respect of the recommended candidate by the Administrative Ministry. As per guidelines of PESB, Internal candidates are generally given preference in respect to

external candidates unless the performance of the latter is remarkably better than the former.

PESB after selection interview for the post of CMD, NALCO on 5.10.2007 had recommended a panel of two candidates viz. Shri C.R. Pradhan and Shri A.K. Srivastava in the order of merit. It may be noted that Shri Pradhan was holding the post of Director(P&T), NALCO and also held the additional charge of CMD, NALCO since January, 2005. The Ministry of Mines had recommended the name of Shri C.R. Pradhan to the ACC for appointment as CMD, NALCO.

The ACC taking note of the fact that Shri C.R. Pradhan has been holding the additional charge of the post of CMD, NALCO since 1.2.2005 i.e. more than 4-1/2 years with their approval and in view of his vast experience deemed it appropriate to appoint Shri Pradhan as regular CMD till his date of superannuation as he had just two months to retire on superannuation. Moreover, keeping in view the fact that the process of selection of a new incumbent would have taken at least six months, the ACC approved Shri A.K. Srivastava, Sl. No. 2 in the panel to be appointed as CMD, NALCO w.e.f. 1.10.2009 i.e. after retirement of Shri C.R. Pradhan on 30.9.2009. Nothing irregular was committed given the fact that the ACC had also directed not to treat it as a precedent for future appointments. As far as PESB's recommendation is concerned, it recommended two names for the post of CMD, NALCO as per the existing policy.

Two petitions were filed viz. W.P.(C) No. 13583 of 2009 filed in the High Court of Orissa and OA. No. 2711 of 2009 filed in Central Administrative Tribunal, Principal Bench, New Delhi on the perceived illegality committed in the appointment of CMD, NALCO due to two appointments having been made from the same PESB panel. The Hon'ble CAT after scrutinizing all relevant records vide its order dated 27th November, 2009 dismissed the said application inter-alia on the grounds that the validity of the panel had not expired and appointment of Shri A.K. Srivastava, who had cleared all hurdles, would be in the interest of NALCO as he would have a tenure of nearly five years. A copy of the order dated 27th November, 2009 is given at **Annexure**. The other Writ application filed in the High Court of Cuttack was dismissed on 6.1.2010, as it was not pressed by the petitioner.

It may be appreciated that the perceived illegality in the appointment of CMD, NALCO has been scrutinized in a Court of Law and the same has been dismissed. As the appointment of Shri A.K. Srivastava as CMD, NALCO has already been upheld by the Hon'ble CAT, it may not be appropriate to further scrutinize the same.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No. 4

Forward and Backward integration

A futuristic and forward looking vision is a *sine qua non* for any company/PSU to be competitive. One of the crucial indicators of the existence of such a vision, the Committee feel, is in the integration of activities, both forward and backward. For instance, upstream units manufacturing caustic soda can be set up instead of the company buying it from other producers. Such backward integration could very well save some costs for the company besides generating a market for caustic soda.

Similarly, the company can explore the possibility of setting up downstream manufacturing units producing a host of value added products from its billets, i.e., primary aluminium. Such units would create an alternative market for the billets/ingots produced by the company and could save the company from high costs of holding stocks or dumping them at throw away prices when the LME prices are down. Money saved through backward integration and on the other hand revenue generated through forward integration, would boost the economies of NALCO. HINDALCO is a case in point.

The Committee are of the considered view that the Company could also work out better beneficial use of ash which is produced as a result of production of alumina. Besides achieving forward integration, this would also result in environmental benefits. On the other hand forward integration would also lead to peripheral development, which in turn would boost the goodwill for NALCO.

The Committee regret to note that NALCO had lagged behind private players in both areas of forward and backward integration of business. The Committee therefore recommend that NALCO should expedite their plans for integration of business activities, both backward and forward, and go into setting up both upstream and downstream manufacturing units around their refineries and smelters to generate local employment, contribute to periphery development, create a cycle of demand and supply for their products and stimulate domestic consumption of aluminium.

Reply of the Government

NALCO has set plans in its Corporate Plan and Vision 2020, for integration of business activities, both backward and forward, and go into setting up both upstream and downstream manufacturing units around its refinery and smelter to generate local employment, contribute to periphery development, create a cycle of demand and supply for its products and stimulate domestic consumption of aluminium. Towards this direction, the following action has been taken:

The Company has identified specific forward and backward integration projects for caustic soda, coal tar pitch, aluminium alloy, fly ash based cement plant, specialty alumina, etc. Although actions for the projects were initiated during the period 2004-08, the projects have not fructified due to variety of reasons. However, with renewed focus

and efforts since 2007, it is expected that the projects would materialize gradually. The present status of the projects is furnished below:

(i) Caustic Soda Project:

The renowned chemical engineering consultants M/s. Lurgi was engaged who prepared the Detailed Feasibility Report(DFR) in 2007. Expression of Interest(EOI) was invited for establishment of caustic soda plant in 2007. 13 firms responded to the EOI invitation. As per the EOI respondents, value addition of derivative chlorine (by-product) is necessary for viability of the project. Presently, there is no use of chlorine for the volume expected from the plant, in eastern sector. In absence of end use of chlorine, disposal or use/transport of huge quantity of chlorine would be big problem. Chlorine generated {100,000 tonnes per annum(TPA)} from the caustic soda plant can be utilized for production of two main derivatives which are ethylene dichloride (EDC) using ethylene from oil refinery, which is main raw material for polyvinyl chloride (PVC) and synthetic rutile. In order to explore the possibility for end use of chlorine, discussions have been held with Indian Oil Corporation (IOC) and Hindustan Petroleum Corporation Ltd. (HPCL). Chlorine can be used in the proposed petro-chemical complex of IOC at Paradeep. Further development would be possible after ensuring an end user of chlorine only. Over and above, shortage of raw materials like salt in Eastern India would also be a constraint for establishment of the plant on east coast and scale would have to be adjusted. The progress therefore largely is linked to the progress of IOC petro-chemical complex at Paradeep. In case, the complex is further delayed, the location would be reconsidered on western coast. Since the DFR is almost 5 years old, the financial analysis is being rerun with current figures.

(ii) Coal Tar Pitch plant:

EOI was invited in May, 2008 for selection of a joint venture(JV) partner for establishment of coal tar pitch plant. Eight (8) offers were received in response to the EOI. Four (4) firms were short listed to whom Request for Proposal (RFP) was issued. Offers received from the four short-listed firms are under evaluation. An understanding has been reached with Neelachal Ispat Nigam Ltd. (NINL) for sourcing 30,000 million tonnes per annum (MTPA) crude tar to partly meet the raw material requirement of the plant. The plant is most likely to come up in aluminium park being set up in JV with State Government of Orissa.

(iii) Fly ash based cement plant:

More than 2 million tonnes of fly ash is generated in captive power plant (CPP) every year. For utilization of fly ash in cement, NALCO invited EOI in July, 2007. The fly ash based cement plant at Angul was contemplated subject to grant of lime stone mining lease in Orissa. As of now, non-committed lime stone mines are available only in Malkanagiri district, which are not being allotted by State Government because of strategic reasons. Due to non availability of lime stone resources in vicinity of CPP, Angul, the clinker is not viably sourceable for mixing.

However, some other cement manufacturers evinced interest to set up cement grinding unit (CGU) at Angul transporting lime clinker from nearby States like Chhatishgarh. Pursuing this development, fresh action was initiated to set up a CGU in JV mode. Land for this purpose has been identified inside CPP premises. Accordingly, RFP was issued in March, 2010 for selection of the JV partner. Three proposals have been received and are under evaluation.

Few cement manufactures have also shown interest to set up CGU in Damanjodi, if land for this purpose is made available. Land for the CGU has been identified. Two firms have submitted RFQ in response to our EOI invitation. RFP has been issued to both the firms. Accordingly, RFP was issued in March, 2010 for selection of the JV partner. Three proposals were received. One of the firms has been provisionally identified for the project. Application has been submitted to district authorities seeking permission for sub-leasing of land to the JV to be formed for the project.

Similarly, land has been identified to set Cement Grinding Unit at Damanjodi for utilization of fly ash. Two firms submitted RFQ in response to our EOI invitation. RFP issued to both the firms. However, only one firm has submitted commercial offer, which is under evaluation.

Apart from setting up CGU in JV, some firms have also requested for supply of fly ash on long term basis. Both the possibilities are being explored as well.

(iv) Aluminium Alloy Plant:

Detailed Feasibility Report (DFR) was prepared for establishment of an aluminium alloy ingot manufacturing plant in April, 2010. It is proposed to set up the plant in JV with firms having expertise in alloy manufacturing, particularly high end alloys or end user of the products. Action will be initiated for identification of suitable partner for the project after Aluminium park is established at Angul.

(v) Aluminium Park:

In order to facilitate, backward and forward integration of business activities of smelter and power plant and to promote establishment of medium and small scale industries around smelter plant based on aluminium, NALCO has collaborated with State Government of Orissa to set up an aluminium park at Angul. Memorandum of Understanding (MOU) was signed with Orissa Industrial Infrastructure Development Corporation (IDCO) in September, 2009. Memorandum and Articles of Association are under preparation. JV Company has been registered on 30th July, 2010. The action for acquiring land has already been started.

(vi) Specialty Alumina:

Specialty alumina is niche products having good market realization. Alumina produced at Damanjodi refinery would be the input material for specialty alumina.

Market rates of high end specialty alumina products are normally not influenced by commodity price fluctuations. In view of the intrinsic advantage, NALCO plans to set up a specialty alumina plant in JV with some strategic partner. EOI was invited in May, 2008 to select the partner for the JV. Two short listed firms have submitted offers. The evaluation process got stuck due to one of the two proposers having gone with insolvency process. The process has been re-started and selection of JV partner would be done after due diligence.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.5

Inputs management

The Committee observe that NALCO's performance in inputs management warrants some serious review. The primary inputs being bauxite and coal for power, the immense delay in the commencement of mining bauxite from Pottangi Mines and the protracted process hindering the company from mining coal from its allotted Utkal-E Block, the Committee feel, are completely unacceptable. The Committee note that these delays are due to various factors involving different agencies, e.g., the Departments of Environment and Forests of the State and the Centre for environmental clearance, the State government for granting mining leases, water tax, etc. and the local population for settling rehabilitation and resettlement issues. The Committee are left to ponder whether such outrageous delays are the norm with Public enterprises or despite their being Public enterprises. In the opinion of the Committee, the Ministry of Mines should have made more concerted efforts with the concerned agencies to minimize delays in both the projects.

The Committee while condemning the delay in commencement of mining of both Bauxite and Coal, recommend that the government should consider evolving a mechanism to issue single window clearances to allottee companies of captive/leased Mines in future to eliminate the huge time and cost escalations engendered by such delays.

Reply of the Government

NALCO management has been continuously monitoring the consumption norms of various input materials used in the process of bauxite mining, alumina refinery, captive power plant and aluminium smelter. In fact, consumption norms have been fixed by a Board level Committee constituted specifically for this purpose. The actual consumption of various input materials are compared periodically with the consumption norms fixed. The variations, if any, are analysed for taking corrective action and the same is also placed before the CMD during the monthly review meetings and before the Audit Committee and the Board of the Company at regular intervals.

Even for procurement of various input materials, NALCO follows the tendering system for procuring the materials at the best possible rates.

Status of ML for Pottangi mines

NALCO had submitted the application for mining lease of Pottangi in 1992. The State Government of Orissa had conveyed its in-principle recommendation for grant of Pottangi Bauxite mines in favour of NALCO on 30.07.2004 with 5 conditions which were suitably clarified by NALCO on 27.02.2006 after several rounds of discussions. Thereafter, the Company has been pursuing with the State Government at its own level for expediting the mining lease. Gazette Notification was issued on 27th April, 2007 by Government of India for reserving Pottangi deposit in favour of NALCO for 10 years. Thereafter, the Ministry of Mines has also been impressing upon the State Government from time to time for sending a proposal as expeditiously as possible for obtaining prior approval of the Central Government for allotment of Pottangi bauxite deposits in favour of NALCO.

Further, Government of Orissa vide letter dated 17.04.10 has agreed in principle for the reservation of Pottangi bauxite deposit area of Koraput for NALCO and has asked NALCO to give its consent to float a Special Purpose Vehicle (SPV) for Peripheral Development with certain conditions:-

The conditions put forward by the State Government have been examined and the State Government has been replied to accordingly. The Company has requested the State Government to forward its mining lease case to Govt. of India for grant of mining lease under MMD&R Act, 1957.

Status of Utkal-E coal block

The coal block was allotted by Ministry of Coal, Government of India(GoI) in August, 2004. The approval of mining lease by the State Government got initially stuck up due to land dispute by M/s Tata Sponge Iron Limited (allottee of Utkal-F, located in Western boundary of Utkal-E) which required modification in mining plan. Mining lease application was recommended by State Government to Ministry of Coal, Government of India on 27.01.2010. The Ministry of Mines has taken up the matter with Ministry of Coal for expediting the same.

Environmental clearance was granted by Ministry of Environment and Forest (MoEF), Government of India on 10th December, 2009. For land acquisition, 6(1) declaration for all the affected 5(five) villages has been completed in February, 2010. Section 7 declaration by Government of Orissa has been issued on 17.05.2010 for 03(three) villages. The Forest De-Reservation Proposal (FDP) has been recommended by Govt. of Orissa, to Secretary, Ministry of Environment & Forest, Govt. of Orissa, on 25/09/2010

As per the progress made, the major milestones/action plan for commissioning of the project is as follows:

Forest Clearance	30.11.2010
Land Acquisition	31.12.2010
Mining Lease	31.12.2010
Nalla Diversion	31.12.2011
Overburden Removal	31.03.2012

Evolving of mechanism for minimizing delays on grant of necessary clearances for captive leased mines to allottee companies

So far as Ministry of Mines is concerned, there is already a Central Co-ordination-cum- Empowered Committee for minimizing delays for grant of mineral concessions in respect of schedule I minerals(including bauxite). Meetings are held with stakeholders including Ministry of Environment & Forests, Ministry of Steel in the Central Government and concerned State Government, at regular intervals for keeping necessary checks on delays. In view of the specific concerns expressed by the Committee in this regard, the Ministry of Mines has impressed upon Ministry of Coal to evolve a similar mechanism for expediting necessary clearances in respect of execution of lease of coal mines.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.6

Alternate power source

The Committee appreciate the initiatives NALCO has taken to go into mining uranium in joint venture with the Uranium Corporation of India. The Committee are apprised that efforts are on to gain access to rich uranium and copper reserves abroad.

In view of the usefulness of Uranium as an alternative source of power to coal, and given the grim coal situation in the near future, the Committee recommend that the company should earnestly pursue its uranium projects. The Committee further recommend that the Government should render all possible support to facilitate NALCO in this regard.

Reply of the Government

The vision of the Company envisages NALCO to be a reputed global Company in the metal and energy sectors. In line with the same, NALCO is collaborating with Nuclear Power Corporation of India Limited (NPCIL), a Public Sector Enterprise under

the Department of Atomic Energy, Government of India for commercial power generation through a nuclear power plant.

In this regard, the Company has signed an Memorandum of Understanding (MoU) with NPCIL on 26.11.2009 to form a 49% : 51% equity participation Joint Venture Company. The JV agreement has been negotiated and is expected to be signed. NALCO Board has recommended for approval of investment to Ministry of Mines.

NALCO is also trying to pursue Company's interest in Uranium abroad in Mongolia, Namibia and other African Countries. Discussions are going on with Uranium Corporation of India Ltd. to forge a Joint Venture to facilitate the process. All possible support is being provided by Government of India to NALCO in this regard.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.7

Diversification

The Committee note that NALCO is in the process of redefining the scope of its activities vide its Corporate Plan 2009-2020 to go beyond Aluminium into other sectors like non-ferrous metals and power generation. The Committee also note that the Company's strengths in engineering and mining can gainfully be put to additional utility through diversification of activity into related fields/sectors like non-ferrous metals and power generation. The Committee appreciate the rationale behind these initiatives, which combines the objective of growth with those of optimum utilization of resources and competencies gained.

The Committee therefore recommend that the company should proceed with their diversification plans, albeit after careful planning and thorough analysis. The Committee also recommend that the Government should facilitate the growth plans of the Company by providing enhanced support and effective liaison between different ministries concerned on their behalf.

Reply of the Government

NALCO has prepared Vision and Corporate Plan 2020 document and a plan to diversify into power and non-ferrous metal sectors after taking into account the strengths of the Company and considering the market opportunities. The said plan has been approved by the Board of NALCO in 2009. It is expected that the experience gained by the Company over more than two decades in mining, mineral processing and in power generation could be leveraged to enter into new areas. The diversified sectors are expected to provide support to stability of operations as against exposure to a single commodity which is in turn subject to high degree of volatility in its prices.

The Ministry is supporting these initiatives of the Company to diversify its activities into power and non-ferrous sectors.

Diversification plan as spelt out in the Corporate Plan is being pursued vigorously. Diversification projects, which are likely to fructify soon are Wind Power Plant and Nuclear Power Plant. Status of these projects is furnished below:

(i) Wind Power Plant:

Among the different renewable energy sources, wind has emerged as a viable and cost effective option for grid connected power generation. As part of its green energy initiative, NALCO is pursuing to generate power from the wind resources available in the country. Detailed Feasibility Report (DFR) has been prepared for setting up of a 50 MW power plant at a suitable location any where in India having wind power potential. Estimated investment for the project is Rs. 300 crores.

As the project has been found to be viable, action has been initiated for selection of the wind farm developer for the project. Tender was issued in May, 2010 and extended bid due date was 15th Sep'2010. Two offers received, out which one of the bidders was disqualified for not meeting the pre-qualifying criteria. The price bid of the qualified bidder has been opened. Consultant has been engaged for financial appraisal of the techno-economic evaluation report and legal due diligence of land. The Wind Power Plant is likely to be commissioned in end of 2011.

(ii) Nuclear Power Plant:

Nuclear power is fast emerging as viable source of energy. Sensing the prospects in nuclear power generation, NALCO has been an initial mover in joining hands with Nuclear Power Corporation of India (NPCIL) for establishment of Nuclear Power Plant in JV. MoU has been signed with NPCIL in November, 2009. Nuclear Power Project, in which NALCO would participate, has been identified. JV agreement will be signed on receipt of approval from Govt. of India. NALCO Board has recommended for approval of investment to Ministry of Mines. All possible assistance is being provided by Government of India to NALCO in this regard.

(iii) Kolar Gold Mines:

Company has undertaken preliminary due diligence on taking over the gold mines at Kolar which was closed in 2001. A formal interest has been submitted to the Ministry of Mines for consideration. Board of Directors of the Company in the 246th meeting held on 20th Nov'10 deliberated on the matter of acquisition of BGML and decided to keep the proposal on hold as the sale of assets of BGML is sub-judice.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.8

Capacity Expansion

The Committee note that while NALCO continues to deliver profits, its comparative performance *vis-à-vis* the private competitors raises some amount of concern. The Committee also note with deep concern that the relegation of the Company, once the leader in the Aluminium sector, to third place in the domestic market was triggered by its failure to add adequate capacity in time to meet the strong private competition.

The Committee however feel that the lack of adequate capacity is reflective of a larger malaise of complacency, both of the management and the Ministry. The Committee would like to caution that one cannot afford to be complacent merely by the fact that one is making profit. The Committee wish to emphasise that NALCO needs to reclaim its position of market leadership in the Aluminium production industry.

At this juncture we would like to ponder over the present scenario and reflect as to what ails NALCO. A dispassionate assessment reveals that the obvious and the likely factors are lack of vision in certain core areas; full time CMD post being vacant for a considerable time; NALCO's failing on the front of forward and backward integration, etc., which have led to NALCO's slide to third position. On a positive note the Committee feel that once the malaise is diagnosed, recovery, if suitable timely measures are taken, cannot be far behind.

The Committee are happy to note that huge expansion projects are addressed at redressing the capacity constraint faced by the Company. The Committee recommend that management should set up a concurrent monitoring unit for its ongoing expansion work to ensure the most efficient and timely completion of its 3rd Phase Expansion project.

Reply of the Government

After stabilization of units in 1987, the Company went for capacity addition of all operating units including up-gradation of technology for alumina and aluminium plant and up-gradation of port facility at Vizag at a project cost of Rs. 4200 crore. The 1st phase expansion, which started in year 1997 ended with the commissioning of smelter plant in 2004.

With successful commissioning of additional capacity of almost 100%, the Company went for 2nd phase capacity addition (by about 30%) immediately thereafter. The 2nd phase brown field expansion of existing units at a project outlay of Rs. 4402 crore, which started in October, 2004, immediately after completion of 1st phase expansion, is nearing completion. The smelter plant is fully commissioned since December, 2009. Out of 2 additional units of captive power plant, one unit of 120 MW

was commissioned since August, 2009 while the other unit of 120MW has been commissioned on 27th August, 2010. The works at mines and refinery complex is in advance stage of construction and is due for Mechanical completion by March 2011.

The plant capacities in the initial phase, after 1st phase and 2nd phase expansions are as under:-

Sl No	Operating unit	UoM	Installed production capacity		
			Initial phase	1 st phase Expansion	2 nd phase Expansion
1.	Bauxite Mine	lakh MT	24	48	63
2.	Alumina Refinery	lakh MT	8.5	15.75	21
3.	Aluminium Smelter	lakh MT	2.18	3.45	4.60
4.	Captive Power Plant	MW	600	960	1200

MT- metric tonnes

Further, upgradation of mines & refinery at a project cost of Rs. 409 crore has started since October, 2008, even before completion of 2nd phase expansion. After completion, the mines capacity will increase to 68.25 lakh MT from 63 lakh MT and refinery capacity will be 22.75 lakh MT from 21 lakh MT.

Thus, the rate of growth in production capacity since inception till date on commissioning of 2nd phase expansion achieved is 4.5% in alumina and 3.6% in aluminium, on compounded annual growth rate basis.

The capacity addition by the private players on other hand is through combination of expansion and acquisition of existing companies like M/s. HINDALCO acquiring INDAL and M/s. Vedanta Aluminium acquiring MALCO. The production of aluminium metal by the primary producers during the year 2009-10 is given below:

Unit: tonnes

Name of the Company	Installed capacity of smelter	Production (2009-10)
HINDALCO Industries	5,46,000	560,346
National Aluminium Company Ltd.(NALCO)	4,60,000	431,471
Bharat Aluminium Company Ltd.(BALCO)	2,45,000	268,783
Vedanta Aluminium Ltd.(VAL)	2,50,000	265,534

As is apparent from the above, presently, NALCO is at No. 2 position in the production of aluminium in the country. Since, domestic demand of aluminium metal is less than its production, all the producers export part of their production. The Company is about to complete its second phase expansion project which would augment its capacities of mines from 48 lakh tonnes per annum (TPA) to 63 lakh TPA, alumina refinery from 15.75 lakh TPA to 21 lakh TPA, aluminium smelter from 3.45 lakh TPA

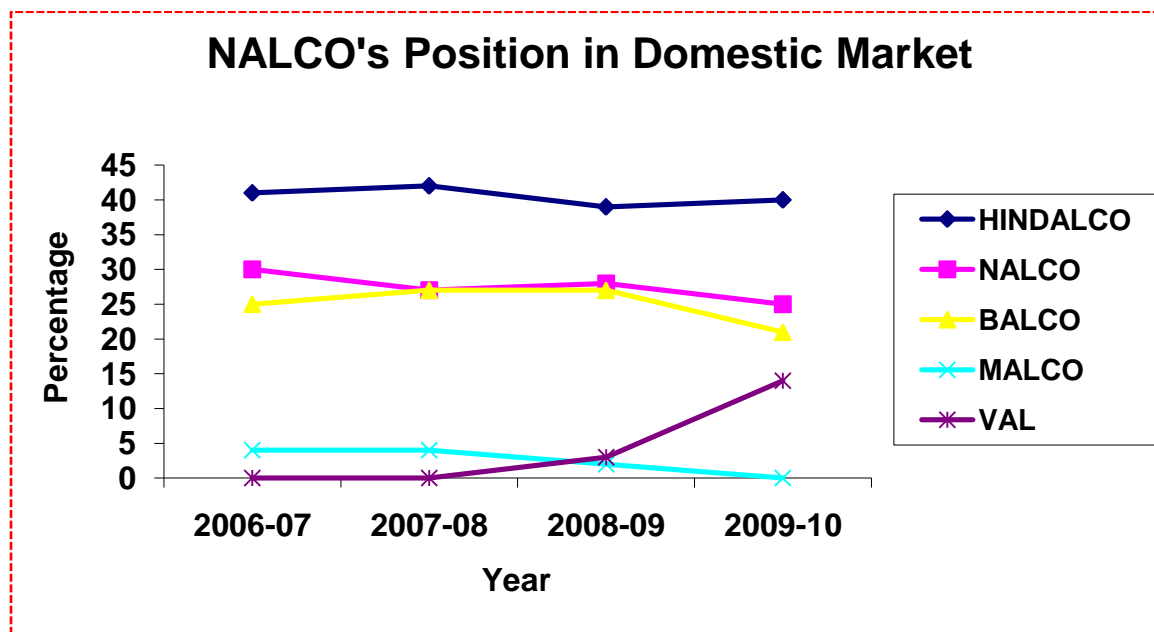
to 4.6 lakh TPA and captive power plant from 960 MW to 1200 MW. As noted by the Hon'ble Committee, NALCO has initiated actions for augmenting capacity. The Company is exploring possibilities to further augment its various capacities in both overseas and domestic sectors subject to viability of the project. The rationale of setting up plants abroad is that power is available in some countries at cheaper rates as compared to within the country. The sites under consideration for setting up aluminium smelter alongwith captive power plant in abroad are Indonesia and Iran, while in the domestic area, Western Orissa is being considered as a possible site. The Ministry does not apprehend that overseas plans of the Company would adversely affect its domestic performance.

NALCO is confident, with the culmination of the various projects that are in pipeline and detailed below, the Company's turnover will jump to more than Rs. 25,000 crore by financial year 2019-20.

For 3rd phase expansion, several works like preparation of draft project report(DPR) for CPP has been completed and lab scale study of bauxite for technology selection and upgrading the amperage in smelter are underway.

Considering, the growth of private players, it is a fact that the Company has been relegated to 2nd position in terms of domestic market share. However, NALCO continues to be a Company of Global repute in terms of quality and Company's efforts to meet commitments with all transparency. NALCO's operating cost is one of the lowest in both alumina and aluminium in the world.

Company's domestic share in last 4 years is noted here under:



It is pertinent to note that, the Company has embarked upon for last over 3 years on fast growth path. Recently, Company has been given approval for bauxite mines in Andhra Pradesh. NALCO has plans to set up an alumina refinery based on the above mines for which several activities are going on. Similarly, the Company has already opened office in Indonesia for coal as well as smelter and power project in that country.

For a greenfield smelter and power plant in Western Orissa, although, the Company was conditionally granted permission by Government of Orissa in 2009, the same is on hold due to environmental stipulation of the region. The re-location of plant site is being considered.

Very recently, in April 2010, Government of Orissa has agreed to forward a proposal for allotment of Pottangi bauxite deposit. On allotment of the same, the Company will immediately go for 3rd phase capacity expansion of refinery.

Besides above, the Company has also plans to diversify into energy sector with ambitious plans for wind power and nuclear power projects, for which concrete steps have been taken.

Efforts are being made in backward and forward integration projects (detailed at reply to recommendation No.4).

Concurrent monitoring unit for ongoing expansion work & timely completion of 3rd phase expansion project:

A full fledged project monitoring unit has been put in place at corporate level headed by Executive Director/ General Manager project under guidance of Director (Project & Technical). For monitoring of project, meetings with the agencies like Bharat Heavy Electricals Ltd. (BHEL) and consultants Engineers India Ltd. (EIL) and MECON Ltd. are being held regularly and being closely monitored. Personnel from Corporate project are placed exclusively at site for direct monitoring and feedback. Meetings at CMD level of BHEL & EIL is being conducted at regular intervals. For pursuing 3rd phase expansion, dedicated teams are being set up at all concerned units.

NALCO management has taken a due note of concern expressed by Hon'ble Committee and shall try to plan the future expansion works for completion in scheduled time.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.9

Technology Upgrade

The Committee note that NALCO had acquired their smelting technology in 1981, which till then was the latest. But by 1985, improved and better technology became available.

The Committee note that no perceptible efforts have been made to upgrade NALCO's smelting technology, whereas its competitor HINDALCO went ahead to

acquire the latest smelters. The Committee also learn that HINDALCO could adopt the latest smelting technology earlier because their plants reached the end of the lifecycle of installed technology earlier. As far as NALCO is concerned, the explanation put forth is that the company had reached the end of technology lifecycle only now and that they are now planning to adopt the latest smelting technology in their Green-field expansion projects.

The Committee are concerned that NALCO could not fully absorb the latest advances in technology due to the fact that it is not economically prudent to re-invest in technology acquisition while the installed technology is yet to run its full life-cycle. However, the Committee are skeptical of NALCO's explanation that it lagged behind in adopting latest technology since the already installed technology is yet to run its full life cycle. Such a perception, the Committee feel, reflects a laidback and *status-quoist* attitude of the management in the matter of urgent need for continuously updating technology in a competitive scenario. The Committee are of the opinion that this technological lag substantially contributed to the Company sliding to third place domestically.

The Committee therefore appreciate the Company's plan to acquire latest technology for its Greenfield expansion projects. The Committee also recommend that the management should take all necessary steps to ensure that no undue disadvantage is borne by the company for want of the best and latest technology.

Reply of the Government

NALCO has all along endeavored to adopt the latest technology for which it has got a Continuous Technology Assistance (CTA) agreement with M/s. Aluminium Pechiney(AP), France. All the latest developments in the AP-18 Technology are progressively incorporated in the Company. The very fact that the Company is one of the lowest cost producers of alumina and aluminium even today, proves the fact that adoption of AP-18 Technology during 1st phase and 2nd Phase expansion have not affected the competitive edge of the Company.

In 1981, NALCO had adopted the then latest AP-18 technology in alumina-aluminium from M/s. Aluminium Pechiney of France.

For the 1st Phase capacity expansion of smelter from 2.30 lakh metric tonnes (MT) capacity, the Company had adopted the same robust and proven technology with some modifications, thereby improving the productivity.

Over the years, the same is being upgraded due to CTA with the technology supplier. While implementing the 2nd Phase brown field capacity expansion, after thorough deliberations, NALCO adopted "Improvement Proposal" from M/s. Aluminium Pechiney, the technical collaborator. This proposal envisages improved

equipment/process for the alumina refinery and smelter. Further, while procuring various equipments in general, NALCO had adopted strategy to bring in equipments based on the latest technology in the respective field.

- Existing pot lines are operating satisfactorily using the AP-18 technology.
- As part of phase-1 expansion complete carbon area except rodding shop where certain balancing equipment were added and installation of new baking furnace with two fires have been envisaged to cater the requirement of potline-4 expansion (phase-2).
Since carbon area have already been expanded for accommodating phase-II expansion except above, going for new technology means the investment already made will be of no use.
- Transfer and absorption of AP technology in the Indian operating conditions is already proven at Angul smelter. Any change in technology i.e. AP 30 at this stage of expansion may imbalance working conditions and manpower training and acquaintances.
- Inter-changeability of output from associated facilities like pot room annexe, anode paste plant, anode baking furnace, anode rodding shop to pot line 4 from pot line 1, 2 and 3 vice versa is easy and smooth.
- Inter-changeability of stem bracket assembly, cathode bar, handling equipment, if necessary.
- Existing transfer gantry cathode crane can be utilized for new pot line and vice-versa.
- Central passage and end passage will be utilized since building length, etc. will remain same.
- Inventory of spare equipment and spare parts will be minimized.
- Manpower and training needs will be curtailed to great extent.
- Inter-changeability of manpower will not pose a problem.
- Deployment of AP-foreign experts will be minimized.

Improvement proposals undertaken at smelter plant are as under:

- i. Adoption of latest 'Alpsys' pot regulation system for pot lines.
- ii. Switching over to semi-graphite form anthracite was done from 1995 onwards and trial with graphitized cathodes from semi-graphite pot lining, side walls to SiC, modifications in AlF_3 hopper and pot super structures has been carried out.
- iii. Installation of fume treatment centre in bake ovens.
- iv. Integrated alumina and crushed bath unloading and mixing system in carbon area.
- v. Revamping/upgrading of casting station in rodding shop.
- vi. Nitrogen plant in cast house.
- vii. Replacement of vibro-compacting unit in green anode plant.

Meanwhile, the Company has started implementation of the plans to upgrade the technology in terms of current carrying capacity from present 185 KA to 220 KA in a phased manner, as has been adopted by several other aluminium industries abroad.

However, for the proposed future 'greenfield' expansions, NALCO has plans to adopt latest technology (350 KA and above) and the pre-feasibility report is under preparation.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.11

Research and Development performance

The Committee, while appreciating the many projects and achievements in Research and Development in NALCO could not help but observe that the R&D expenditure in the Company has been fluctuating at a measly 0.11 to 0.08 percent of its turnover. Considering the infinite possibilities of effecting economies and achieving advancements through R&D, the Committee recommend that more emphasis be laid on R&D sector in the future, and especially into indigenization of advanced and critical technology.

Reply of the Government

NALCO has been concentrating all these years on stabilizing production, efficiency and solving various process related problems besides few Research and Development (R&D) activities taken up by Company. However, recently NALCO Board has approved implementation of a world class R&D Centre with an investment of Rs. 88.00 crores in phase-I. Accordingly, various activities have been taken up for implementation of the Centre which will take about three years time to become operational. Consequently, the expenditure towards R&D will progressively increase in the subsequent years. In the R&D Centre, NALCO will concentrate on technological developments pertaining to bauxite, alumina and aluminium.

Meanwhile NALCO has appointed a consultant for implementation of the centre. The package for the Main Building is under finalization for tendering in April, 2011.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.12

Promotion Policy

Manpower is an integral part of any PSU. A motivated, efficient and effective manpower would go long way in the overall progress of a PSU. One of the driving/motivating factor for any employee is timely and deserving promotions. Any discrepancies or irregularities therein would not only have huge demoralizing effects on personnel, the same would also tend to shake the very edifice of the organization.

It has come to the notice of the Committee that there had been an instance where a junior General Manager level ranked official was placed at higher position superseding the in-house seniors including senior General Managers and Executive Directors. The Ministry themselves have conceded this fact and have assured the Committee about taking remedial measures. Such instances, the Committee feel, would have a demoralizing effect over the personnel of the Company.

In fact, it is incumbent upon the Ministry to not only take notice of such instances, but also to redress these problems. There is need for taking steps to ensure a just, fair and transparent Departmental Promotion Policy, and the Ministry have a paramount responsibility in this regard.

In the context of manpower management, the Committee also note that some areas had also been outsourced causing resentment among the labour force of NALCO.

The Committee express their disdain over the instances of junior level officers being allowed to supersede in-house senior officers of the Company despite claims to have in place fair Departmental Promotions Policy for appointments and promotions below the Board Level. Considering the immense demoralizing effect such instances of impropriety could have over employees of the Company, the Committee recommend that stringent measures should be taken to check the recurrence of such malpractices in future and accountability of those responsible for effecting such irregularities should be fixed.

The Committee while recommending that the Ministry should evolve a mechanism for regular review of the Departmental Promotions Policies of Undertakings under its administrative supervision to ensure adherence to established guidelines express its strong resentment at such instances of favouritism shown in violation of all norms of propriety.

Reply of the Government

From time to time, the Department of Public Enterprises (DPE) and Department of Personnel & Training (DoP&T) circulate guidelines to all Ministries regarding filling up Board level posts in Public Sector Undertakings (PSUs). In accordance with the said guidelines, applications are invited from eligible candidates by Public Enterprises Selection Board (PESB) which after selection interview recommends a panel of 2 candidates. After obtaining clearance from Central Vigilance Commission, etc. the

Ministry forwards the name of one of the candidates for appointment as a Board level Director with the approval of the Minister concerned to DoP&T for obtaining approval of the Appointments Committee of the Cabinet(ACC). After receipt of the approval of ACC, requisite orders are issued by the Ministry. This mechanism is followed by the Ministry of Mines for its CPSEs including NALCO. As such, there is already a transparent, laid down mechanism/procedure for filling up Board level posts in all PSUs including NALCO.

As regards senior appointments, which are below Board level, the matter is within the purview of the Company's Board. Policy matters related to recruitment and promotion of below Board level officers are put up to the Board as and when required for consideration where the Government has also its nominee Directors.

Although the Administrative Ministry is not directly involved in the promotion of officers of below Board level of a CPSE, however in order to address the specific concerns expressed by the Hon'ble Committee in this regard, the Ministry through its Government nominee has taken up the matter on the Board and HR Committee has been constituted by the Board to examine promotion policy for taking steps to arrest possibility of error and subjectivity in the process of promotion.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.14

Periphery Development

The Committee appreciate the Ministry's emphasis on periphery development, which is not only vital for developing the local economy but also strengthens the security around NALCO's plants by earning the local peoples' sympathy. The Committee strongly feel that NALCO has not built up adequate good rapport with the local people around their plants. The Committee however take note of NALCO's recent plans and initiatives to set up some upstream as well as downstream manufacturing units around its smelter plants. Integration of business activities, besides being commercially beneficial has the potential to substantially add to periphery development and improvement of local economy. This could generate goodwill of the local population for the company, which in turn can also indirectly enhance the security of the company's plants by way of security sensitive information received from the locals.

The Committee, therefore, recommend that the Company should make more efforts on the front of peripheral development besides expediting the execution of its ongoing periphery development plans and projects.

Reply of the Government

Since 1998-99, NALCO was allocating 0.5% of its net profit i.e. profit after tax (PAT) of the year for periphery development activities of the succeeding year. Thereafter, since 2002-03, the amount was doubled to 1% of its PAT. Out of this allocable fund:

- 40% is for Damanjodi sector, where the mines and refinery are located;
- 40% is for Angul sector, where the smelter and power plant are located; and
- 20% is for other areas.

Peripheral development activities are taken up in villages within 10 kilometers radius of NALCO plants and also the district headquarters of Koraput and Angul. The Government of Orissa has constituted Rehabilitation and Peripheral Development Advisory Committee (RPDAC) for Damanjodi and Angul separately under the chairmanship of concerned Revenue Divisional Commissioner(RDC). The RPDAC finalizes the annual peripheral development projects and its estimates. The RPDAC also decides the projects to be executed by the District Administration and by NALCO. The Company also takes up public utility projects at Bhubaneswar and other parts of Odisha depending upon requirements.

The developmental activities undertaken by NALCO are divided into two categories:

- A) Constructional activities : include construction and development of rural roads, culverts, bridges, construction and renovation of rural schools, community halls, development of public places, parks, development of primary health centers, drinking water schemes like supply of piped drinking water, digging of tube wells, open wells, water harvesting schemes, development and renovation of village ponds, etc.
- B) Non-constructional activities : include arranging health camps, animal health camp, mobile health care services, awareness programme on environment health and hygiene krishi mela, village sanitation programmes, arranging rural games, sports and cultural activities, etc.

Due to above peripheral development works of NALCO, the following impact/benefits have been noticed:

- (i) Positive changes have been observed under road and communication sector, access to basic health services, everyday trade, availability of essential commodities, increase in frequency in transport and quality of livelihood of local people.
- (ii) Education sector has experienced positive changes with regard to increase in attendance of school children, improvement in quality of teaching, protection of school campus from trespassers and animals and motivation of parents to send their children for higher education and skill development training.

- (iii) Improvement has been observed in health sector in the areas of treatment of commonly occurred diseases, distribution of essential medicines, minimizing the loss of working days and doorstep services by doctors. Less dependence on local public health centers (PHCs) could be possible due to health interventions made by NALCO. Improvement has also been noticed on child health and health of adult/old including women.
- (iv) Due to NALCO's intervention in drinking water sector some people of periphery villages could avail drinking water at their doorstep. Incidence of diarrhoea could also be minimized to some extent in those villages.
- (v) Fodder, fuel and bio-mass requirements of the project villages could be met to some extent due to plantation activities of NALCO in those villages. It also has impact on the rural environment
- (vi) Sports and cultural activities of NALCO is developing a sense of togetherness and belongingness among the villagers in the area. The demand for organizing such events are largely on demand of local villagers.
- (vii) Pond renovation and pisciculture activities of NALCO led to marginal increase in fish production and lesser dependence on outside markets to some extent.
- (viii) Works related to creation of durable assets and infrastructure in the periphery villages, Angul and Koraput towns have been rated high by the people in those areas.

As a measure of social responsibility and to enrich the quality of life in the rural areas surrounding plant sites, the company has been undertaking various peripheral development activities. The Company is also taking up several developmental activities in and around Bhubaneswar on regular basis. The Company has also been providing additional fund from time to time, with special approval of NALCO Board depending upon requirement, for some special development works.

Amount provided by the Company for peripheral development activities during last five financial years are as under:

Year	Rs. in lakhs			
	M&R Complex Damanjodi	S&P Complex Angul	Bhubaneswar & Rest Of Orissa	Total
2005-06	508.90	563.93	246.96	1319.79
2006-07	624.88	624.88	312.44	1562.20
2007-08	952.55	952.55	476.28	2381.38
2008-09	652.61	652.61	326.30	1631.52
2009-10	508.91	508.91	254.45	1272.27

Going a step further the Company has set up NALCO Foundation to exclusively deal with CSR activities with professional competence. The Foundation was registered

on 28th July, 2010 under the Indian Trust Act, 1882. The Board has sanctioned additional 1% of PAT for executing peripheral projects through the Foundation, apart from the amount which is being spent through RPDAC for CSR activities.

The CSR Foundation shall function based on the guidelines on Corporate Social Responsibility for Central Public Sector Enterprises, recently issued by the Department of Public Enterprises, Govt. of India. As directed therein, the expenditure range for CSR is:

Net Profit in a Financial Year	% of profit for CSR
(i) Less than Rs. 100 crore	3% – 5%
(ii) Rs.100 crore to Rs. 500 crore	2% – 3% (Subject to a minimum of Rs. 3 Cr)
(iii) Rs. 500 crore and above	0.5% – 2%

NALCO comes under the third category and supposed to spend 0.5% to 2% of its net profit for CSR activities. As may be observed, the Company has opted for the maximum, by setting up the Foundation.

Further, various plans and initiatives to set up some upstream as well as downstream manufacturing units around its smelter plants. Integration of business activities, besides being commercially beneficial has the potential to substantially add to periphery development and improvement of local economy. This could generate goodwill of the local population for the Company, which in turn can also indirectly enhance the security of the Company's plants by way of security sensitive information received from the locals.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.15

Planning and Vision Document

As the saying goes, a good plan today is better than a perfect plan tomorrow. Besides, it always pays to plan. The Committee are baffled to note that NALCO had no concrete Corporate Plan prior to its elevations as a Navratna. This reflects absolute lack of professionalism in management. The Committee feel that a Company should always have a futuristic and forward looking vision. The Committee note with relief that NALCO has now come up with a Vision & Corporate Plan 2010-2020 to guide its future growth.

The Committee recommend that the NALCO management and the Ministry of Mines should together set up an effective monitoring body which can ensure the proper implementation of the Vision & Corporate Plan 2010-2020 of the company.

Reply of the Government

NALCO had a Corporate Plan for the period 1995-2005. A draft Vision and Corporate Plan 2007-2012 was prepared in 2006. However, on the advice of the Board, the present Corporate Plan and Vision 2020 was prepared with the help of external consultants in 2008-09.

The implementation of Vision & Corporate Plan 2010-2020 of the Company is being closely monitored by the Board and the Ministry.

An action plan has been prepared to achieve the broad objectives envisaged in Corporate Plan 2020. The progress on the same is being reviewed at regular intervals by the Board and by the Ministry of Mines.

An action plan has been prepared to achieve the broad objectives envisaged in Corporate Plan 2020. The same is being reviewed periodically by the Board and the Ministry of Mines.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.17

Expansion Abroad

In the context of planning expansion abroad, the Committee noted that NALCO is proposing to set up projects in Indonesia, Iran, etc. The Committee also note that one of the proposals behind setting up the projects pertains to the aspect of low cost power availability there. The Committee have also noted the Ministry's clarification that those proposed units would produce only that much quantity of Alumina which is required/or proposed to be exported. While appreciating this position, a point which needs to be stressed is that by setting up units abroad some people who would have gained employment in the country would be deprived of employment opportunities.

The Committee wish to stress in this context that in this country we have to pause and ponder not once, but a million times, before we start thinking about depriving/demoralizing our local work force.

The Committee therefore recommend that while the company should go ahead with their plans to expand abroad and continue to look for opportunities to capitalize on availability of cheap input costs like power and raw materials, they should ensure that domestic growth is not neglected by making sustained efforts to generate more employment in the domestic market.

Reply of the Government

As already submitted in reply given to recommendations No. 4,6,7 & 8, the Company is exploring all opportunities to capitalize on the available resources within the country. Expansion plans abroad are basically to take advantage of low energy costs in those countries. There are severe limitation on adding value to alumina, being exported presently, in the country due to low availability of electricity and sources of energy like coal or gas.

Expansion within the country has been the first priority of NALCO. Company's investment proposals in India are not mutually exclusive of the investment proposals abroad. Company has been pursuing hard for the last few years to establish another smelter and power plant in India. Since, pithead power plant is almost a mandatory requirement for viability of an aluminium smelter, NALCO is scouting for suitable location in Orissa, Chhatisgarh, etc.

Company's proposal to set up a 0.5 million tonnes per annum (MTPA) smelter plant in Western Orissa was approved conditionally by State Govt. in 2008. Further progress has not happened as the environmental studies conducted by the State Pollution Control Board do not recommend more smelter plants in that area. Alternate locations have been explored and discussions are held with State Govt. for allocation of water for the proposed project. NALCO's proposal for the alternate location in Sundargarh was placed before the Task force of State Govt. for Aluminium industries on 14/12/2010. Committee concluded that availability of water will not be sufficient to meet the requirement of the project. It advised NALCO to explore locations in Koraput, Rayagada, Bolangir or Kalahandi districts. Viability study for the locations suggested by State Govt. is being done. Once commitment is received for water allocation, action would be initiated for approval of the project location, sanction of coal linkage, environmental clearance, etc. The estimated investment is Rs. 16,500 crores.

Preliminary proposal was submitted to Govt. of Chhattisgarh to set up Aluminium Smelter and Power Plant at suitable location in Chhattisgarh. While welcoming NALCO's proposal to set up the smelter plant in the state, Govt. of Chhattisgarh expressed constraints in permitting more power plants in the state and suggested NALCO to explore options to source power through long term power purchase agreement. Chief Secretary, CG conveyed consent to allot land at Lara in Raigarh district near rail head, Ib valley coal reserves and nearest point to Alumina Refinery at Damanjodi. Govt. of Chhattisgarh has again been requested to reconsider our proposal for the smelter plant along with the power plant.

Apart from the smelter project, Company proposes to set up a 1.4 MTPA alumina refinery in Vishakapatnam district in Andhra Pradesh at an estimated investment of Rs. 6000 crores. The refinery would be based on the bauxite reserve of Gudem and KR Konda blocks in Andhra Pradesh. The mining lease over five blocks in Gudem and KR Konda has been cleared by GoAP and Gol in favour of NALCO. Mining plan is under preparation, which is a prerequisite for grant of mining lease. Concurrently, feasibility report for the refinery has been prepared. Application has been submitted to GoAP for

sanction of project location, allocation of water. Same is under consideration by concerned authorities in GoAP. The draft mining plans for Gudem Blocks I & IV were submitted to Regional Controller of Mines, IBM, Hyderabad (without field survey & demarcation work) in the last week of February'11 for pre-scrutiny remarks. The other three blocks draft mining plans will be submitted after board resolution for PMCP. However, no field activities in these mining block areas are to be taken as per the advice of MoM, in view of environmental concerns received from various quarters due to proposed bauxite mining activities in the region.

As can be seen from the above, the Company has not neglected domestic growth rather it is giving more importance to domestic growth to generate more employment.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

CHAPTER-III

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

Recommendation Serial No.10

Benchmarking of performance

The Committee regret to note that international benchmarking of units' performances in the Company had only been carried out recently, that too, upon the insistence of the Ministry. The Committee feel that mere generation of profits should never have been allowed to bring in any sense of complacency into the Company. In this regard, the Committee note that the Company had recently obtained the Brook Hunt Report, a report by a leading International consultancy Group, which conducts an independent benchmarking of performances of Aluminium Companies worldwide on all relevant parameters, and have studied its findings. The Committee are apprised of the findings that showed NALCO's labour and repair costs as high in comparison to other companies around the world. In response to queries, NALCO informed that while measuring manpower productivity, only regular workers are taken into account. This is absolutely wrong since a suitable number of contract workers are also being engaged in NALCO in various operations which are having direct bearing on and contribution to NALCO's production performance. While benchmarking manpower productivity of labour cost, the contract workers must also be taken into account to get the correct reflection.

The Committee recommend that the Company should chalk out definitive action plans to bring about more efficiency in the processes where they are found lagging behind the best performers in the world.

Reply of the Government

The Company has approved manpower sanction for its regular operation and maintenance of the plants. However, where such regular manpower has not been provided, the jobs which are mainly intermittent and not related to the core activities are given on contract to out side agencies, who in turn, engage their manpower for carrying out the jobs/works.

- The Company is continuously reviewing the requirement of manpower. As a result of the reviews, the Company management has taken decision not to recruit full manpower requirements envisaged in the detailed project reports prepared for 1st phase expansion and 2nd phase expansion, but to rationalize the manpower recruitment.
- In spite of expansion projects entering commissioning phase, the required additional manpower will be recruited in phases over 2-3 years to contain labour cost.

- Increase in manpower is proposed to be restricted at 15% as against capacity addition of 33% in smelter, 25% in CPP, 44.4% in alumina refinery and 42.2% in mines.
- Recruitments are proposed to be restricted to the critical requirements.
- Any additional requirement of non-technical/ministerial personnel is proposed to be sourced through internal redeployment without resorting to recruitment.
- Engagement of contract labour is proposed to be restricted to the barest minimum based on a study by industrial engineering.
- Targets on adherence to specific consumption norms for raw materials will be incorporated in the incentive schemes for reduced earning on higher consumption.
- During the ensuing wage negotiation for the 5th long term wage settlement for non-executive employees, conditions for better cost control, and effective work practices will be introduced for increasing overall performance of the Company.
- The executive performance related payments are being linked to the profitability and the individual performance of the executives.
- For reducing repair and maintenance cost, the Company is upgrading the technologies with the help of Aluminium Pechiney with whom NALCO has Continuous Technology Assistance (CTA) agreement. Since the Company has been in operation for over 2 decades, wear and tear of the equipment is more, thereby increasing expenditure on repair and maintenance cost. Wherever possible, the old and worn out equipments are being replaced with the latest technologically upgraded equipments with higher capacity. This will improve productivity of the equipments.

The Brook Hunt report considered Aluminium / Alumina plants all over the world where different types of technologies are adopted in different plants. When technology differs the operating parameters will also differ. For example the Refinery plant at Damanjodi operates at Atmospheric pressure digestion, which is unique in the world. And the Smelter plant at Angul operates on AP-18 technology.

1. Based on the total cash cost in 2010-Q4, the report placed Nalco's Damanjodi Mines is 10th (Among 37 Mines), Refinery is at 16th (Among 65 Refineries) and Angul Smelter is at 18th (Among 156 Smelters) in the world. The ranking are above all the major Aluminium producers in India except Mahan which has yet not started production.
 - a. The cost of production of Bauxite is on the higher side due to increase in R&M & Royalty cost. This is due to major replacement of worn out cable belt and wire rope in 2010. The Royalty on Bauxite has also increased due to increase in LME price as Royalty is directly related to LME price.
 - b. The reduction in Refinery position is due to misrepresentation of Energy cost in the report. This has been informed to authorities of Brook Hunt for necessary correction. With this correction it is expected that Nalco's position will improve substantially.

- c. The position of Aluminium smelter of Nalco is above all the smelters in India except Mahan. Here it is reiterated that this is a misrepresentation since production from Mahan project has yet not commenced. Nalco's smelter compares favorably with all AP-18 technology user plants. The energy cost which is a major cause of relative low ranking of NALCO, is cheaper in other countries due to availability of power from low cost Hydro and Nuclear resources.
2. The labour cost of Nalco is in higher side compared to its competitor because of existing practices followed in the PSUs. As Nalco is a PSU, we have to follow the agreement done with Unions. How ever all out efforts are on to reduce the cost. Following action plans are drawn to contain the cost. Nalco has the following action plans to improve the cost:
 - a. The Company is continuously reviewing the requirement of manpower. As a result of the reviews, the Company Management has taken decision not to recruit full manpower requirements envisaged in the Detailed Project Reports prepared for 1st phase expansion and 2nd phase expansion, but to rationalize the manpower recruitment.
 - b. In spite of expansion projects having become operational in S&P Complex and entering commissioning phase in M&R Complex, the required additional manpower is being recruited in phases to arrest labour cost. Recruitments will be restricted to the critical requirements only.
 - c. Increase in manpower is proposed to be restricted at 15% as against capacity addition of 33% in Smelter, 25% in CPP, 44.4% in Alumina Refinery and 42.2% in Mines.
 - d. Any additional requirement of non-technical/ministerial personnel is proposed to be sourced through internal redeployment without resorting to recruitment.
 - e. Engagement of contract labour is proposed to be restricted to the barest minimum based on a study by Industrial Engineering.
 - f. Targets on adherence to specific consumption norms for raw materials will be incorporated in the Incentive Schemes for reduced earning on higher consumption. Discussions with Union representatives are in progress.
 - g. During the ensuing wage negotiation for the 5th Long Term Wage Settlement for non-executive employees, conditions for better cost control, and effective work practices will be introduced for increasing overall performance of the company. Several round of discussion with Union representatives are over. The negotiation is in advance stage of finalization.
 - h. The executive performance related payments are being linked to the profitability and the individual performance of the executives.

- i. For reducing repair and maintenance cost, the Company is upgrading the technologies with the help of RTA (previously Aluminium Pechiney). Wherever possible the old and worn out equipments are being replaced with the latest technologically upgraded equipments with higher capacity. This will improve productivity of the equipments.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.13

Unwarranted Security Expenditure

The Committee take note of the incident of naxal attack in April, 2009 aimed at a depot containing detonators and slurry. In this context, the Committee further note that the type of explosives stored at NALCO's mining sites are in the form of slurry, which requires detonators to explode, and is practically inoperable as an explosive without the detonator device. The Committee also note that more than 15 crore have been spent/earmarked by NALCO for securing the slurry and detonators. It appears to the Committee that the target of the naxals seems to be detonators and not the slurry. Therefore, for securing the detonators, only a limited area was required to be protected. The Committee feel that incurring huge expenditure to the tune of 15 crore in the name of protecting slurry seems to be unwarranted.

The Committee are skeptical of the huge security arrangements that have been made, or are being planned, in response to the incident, in view especially of the fact that fool-proof security cover is necessary only around the magazine area, and not around entire plants. While appreciating the Ministry's intervention to have the outdated Explosives Act amended to facilitate better security arrangement, the Committee opine that unduly superfluous security arrangements are nothing but uncalled for burdens on the public Exchequer. The Committee, therefore, recommend that the Ministry should ensure that the company takes optimal security measures without incurring any expenditure wastefully.

Reply of the Government

It may be difficult to ascertain the exact reasons for the Maoist attack on the mines of NALCO. Though looting of the explosives from the mines magazine may be one of the ostensible reasons, several other causes could also be ascribed for the said Maoist attack, which are as under:-

- * To loot of arms and ammunitions of the CISF.
- * To create a sense of fear and panic among the people and employees.
- * To cause damage and destructions to vital installation and properties of the profit making PSU, i.e. NALCO.

- * To jeopardize production of bauxite, alumina and aluminium metal and causing loss to national economy.

It may be observed that the series of Naxal attack of Govt. Offices, School buildings, Communication Towers, Hydro Power Station etc. in the undivided Koraput district are done with a purpose to attack on soft targets. It is evident in the recent attack that the Naxal have changed their attack strategies i.e. to destroy soft targets available in the operational areas. They have also declared to destroy all vital installations.

To augment the security arrangement in the light of Naxal attack on 12.04.2009 at Damanjodi mines, and the intelligence report of revenge attack from the said group, various short term, medium term and long term security arrangements have been taken up based on the need and in consultation with CISF as well as in pursuance with the inputs received from various meetings held at different levels including Secretary (Mines), Govt. of India, Chief Secretary, Govt. of Orissa, DG, CISF, DG, Orissa Police, Intelligence Bureau(MHA), Govt. of India, etc.

The various actions for augmentation of security, which were to be initiated by the Company as per the decisions/ guidelines issued in earlier meetings held with security agencies and the State Government in the aftermath of the Naxal attack at the mines of NALCO in Damanjodi on 12th April 2009 are being closely monitored and reviewed from time to time by the Central and State Intelligence/ security agencies.

It may be indicated that 10 precious lives of CISF jawans were lost during the Maoist attack at Damanjodi mines on 12.04.2009. Under the present security scenario of the State, NALCO cannot over look the possibility of re-attack by the hostile Naxal group. Therefore to protect the precious human lives of employees, workers and security personnel and to protect such targeted areas/installations of the national property (NALCO), which are under the hit list, adequate security augmentations are highly justified.

Hon'ble Committee may kindly appreciate that the expenditure incurred on security augmentations are not wasteful expenditure but essential investment/requirement. In fact so far, NALCO has not entertained any expenditure against non-security items. Very recently, the Company got security measures reviewed by Maj. Gen. (Retd.) Samay Ram, UYSM, AVSM, VSM who is a Director on the Board of NALCO. He has presented his report to the Board and the recommendations made therein are under consideration of the Company management.

DG, CISF held a review of security measures in Mines on 15/02/2011 when CMD, D(F), D(P&A) of Nalco & Maj. Gen.(Retd.) Samayram, an independent Director in the Board of Nalco were present. Decision was taken by DG, CISF, not to shift the Magazine, in view of measures already taken. This has reduced the expenditure by Rs. 11 Crores. Other cost reduction measures, without compromising on security are being regularly examined.

Recommendation Serial No.18**Market analysis**

The Committee wanted to know whether NALCO has engaged/or plans to engage specialist market analysts to help it schedule its production of aluminium and alumina based on the likely trends of fluctuations of the London Metal Exchange. The Committee note that though the company has not felt the need to appoint consultants to study LME fluctuations, they have appointed a consultant, Metal Bulletin Research of U.K. to do a market study and suggest appropriate strategies for sale of aluminium metal.

In this regard, the Committee appreciate the steps taken by the company to evolve better market strategies for its exports by engaging a consultant and recommend that the findings of the consultant should be analyzed in the context of NALCO's reality and appropriately made use of. The Committee further recommend that the company should seriously consider either employing in-house experts or engaging expert firms to help them understand the LME fluctuation better so that no losses accrue to the company on account of holding stocks or for having to dump their products at throw away prices when the LME prices are low.

Reply of the Government

NALCO has not engaged any specialists in India or in London who study the LME market prices and who can speculate about LME prices of aluminium. Alumina is not traded on LME. Its prices are mostly derived from the LME prices for aluminium.

There are couple of leading analyst firms such as Commodity Research Unit (CRU), London, Metal Bulletin Research, Macquarie, Goldman Sachs, etc. who carry out price projection from time to time. M/s. Reuters also holds semi-annual polls on aluminium price forecasts during January and July every year by different leading analysts. As a part of its commercial activity, NALCO also studies such reports namely the Reuters daily news reports, CRU's monthly reports, etc. on a day to day basis to develop its own market perception.

However, since last couple of years, it is seen that the aluminium prices in the London Metal Exchange are dependant not only on the demand supply scenario but also on several other factors such as parity between U.S. Dollars and other major currencies, interest rate, freight market, input material costs, Government policies of major aluminium producing/consuming countries such as China, etc. Moreover, other than the physical metal users, many financial companies, pension funds, hedge funds, are also investing in metal market which greatly influences the prices in the London Metal Exchange. In this background, while analysts do make projections but such projections are revised from time to time and it does have a significant element of uncertainty.

In view of the above, NALCO has not engaged any Specialist for analysis of market (LME trends). Being a PSU, NALCO sells its product through competitive bidding. For participation in such competitive bidding, NALCO invites the global players for registering with the Company through press advertisement, its own Website and through interaction during international seminars. Being a primary producer and considering the need for evacuation of its products on a continuous basis and to even out the price volatility such export tenders are issued from time to time after taking care of the domestic requirement. The above procedure has been found to be time tested and has been well accepted in the International Market.

In fact, considering the transparency in NALCO's competitive bidding process, quite often, many analysts such as M/s. CRU, London, etc. use NALCO's tenders for price discovery.

The LME price are volatile and dependent on various factors which could be broadly categorized as Economic and Fundamental some of which are listed below:

- Demand & Supply
- Imports to and from various countries of aluminium products or major inputs, namely, bauxite, alumina, etc.
- Production curtailments
- Currency fluctuations
- Economic indicators like PMI, GDP, IP etc
- Warehousing (on- or off- warrant) etc.
- Global Interest rate scenario
- Govt. interventions on tariff structure, licensing, environmental issues, Corporate Social Responsibility, etc.

Leading analysts and economists the world over analyze the market scenario and make various projections as regards to the London Metal Exchange(LME) prices from time to time. These forecasts are made in US dollars. The forecasts of some of the analysts are given below:-

(i) LME Forecast for 2009 and 2010 by Reuters Poll – Aluminium Metal

Forecast Date	2009 (in \$/T)	2010 (in \$/T)
January'09	\$1609	\$1951
July'09 - Aug'09	\$1499	\$1653
January'10	\$1665 (Actual)	\$2094

(ii) The Bank of America/Merrill Lynch Research Forecast - Average London Metals Exchange aluminum price for 2009, 2010 & 2011 –

Forecast Date	2009 (in \$/T)	2010 (in \$/T)	2011 (in \$/T)
January'09	\$1653	-	-
November'09	\$1741	-	-
Actual (2009)	\$1665	-	-

March'10	-	2275	2100
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(iii) Australian Commodities forecast -

Forecast Date	2009 (in \$/T)	2010 (in \$/T)
July'09	\$1510	\$1745
January'10	-	\$1949
Actual (2009)	\$1665	

(iv) RBS aluminium forecast for 2009, 2010 in April 2009 was

2009 new	2009 old	2010 new	2010 Old
<u>\$/tonne</u>	<u>\$/tonne</u>	<u>\$/tonne</u>	<u>\$/tonne</u>
1,550	1,650	1,875	2,000

which was revised in March'10 as follows (in \$/t):

2010	2,200
2011	2,425

(v) Barclays capital has forecast the following -

Forecast Date	2009 (in \$/T)	2010 (in \$/T)
January'09	\$2024	\$3199
July'09	\$1427	\$1700
January'10	-	\$2088

(vi) HSBC has forecast the following -

Forecast Date	2010 (in \$/T)	2011 (in \$/T)	2012 (in \$/T)
May'10	\$2005	\$1939	\$2028

(vii) NATXIS has forecast the following -

Forecast Date	2010 (in \$/T)	2011 (in \$/T)
May'10	\$2370	\$2490

(viii) CITI has forecast the following -

Forecast Date	0-3 MONTHS	6-12 MONTHS
May'10	\$2000	\$2400

(ix) BERNSTEIN RESEARCH has forecast the following -

Forecast Date	2010 (in \$/T)	2011 (in \$/T)	2012 (in \$/T)
May'10	\$2091	\$2000	\$2200

(x) DEUTSCHE BANK has forecast the following -

Forecast Date	2010 (in \$/T)	2011 (in \$/T)	2012 (in \$/T)
March'10	\$2174	\$2646	\$2205

(xi) MORGAN STANLEY has forecast the following -

Forecast Date	2010 (in \$/T) (old)	2010 (in \$/T) (New)	2011 (in \$/T) (old)	2011 (in \$/T) (New)
March'10	\$1852	\$2160	\$1940	\$2226

(xii) CREDIT SUISSE has forecast the following -

Forecast Date	2010 (in \$/T)	2011 (in \$/T)
April'10	\$2204	\$2425

From the above, it is evident that analysts have been changing their forecasts depending on the anticipated changes in market dynamics. Therefore, hiring an expert firm to enable the Company to understand the LME fluctuations better would not provide any definite advantage as the market dynamics keep on changing and the forecasts change accordingly. Sometimes, the forecasts by different experts are at wide variance. Moreover, NALCO has also subscribed to services of M/s Thomson Reuters for providing information on daily price-movements & trends, moving-averages, fundamental and technical analysis to better understand the LME price fluctuations and assist concrete decision making on account of price-risk neutralization and efficient inventory management. NALCO, on its part, analyses the market & price forecasts made by the analysts & the data provided by M/s Thomson Reuters and devises a strategy of its own additionally considering the Indian Aluminium market dynamics. The strategies followed by the company have given it a competitive edge and NALCO's business practices related to exports have been considered as industry benchmarks by various analysts. At the end of every financial year, average export realization for aluminium metal is compared with average LME and till date, the former is at a premium to later despite volatility in LME prices.

However, the Company has employed M/s Metal Bulletin Research (MBR) as a consultant to study the alumina and aluminium business prospects/opportunities and suggest suitable marketing strategies. They have made a preliminary presentation before the Board. After detailed deliberation on the final presentation to be made before the Board, the same will be implemented by the Company.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

CHAPTER – IV

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

Recommendation Serial No. 1

Organizational Leadership

For any PSU, a clear-cut organizational leadership is a *sine qua non*. The Committee observe that NALCO during the past four years had been without a full-time Managing Director. The Committee are distraught to note that the delay in appointment of a full-time CMD, as informed by the Secretary, Mines during the deposition, was due to a frivolous Vigilance Case against the selected candidate who was ultimately found to be innocent. The Committee also note that high level appointments in most PSUs are often held to ransom by such vigilance cases against aspirants, most of which curiously surface when the process of selection for appointments are in motion. As it emerges, no vigilance enquiry is due or even contemplated till an officer reaches up to the post of CMD. There are two aspects to such a scenario. If something is amiss with regard to a particular officer, why is it that vigilance enquiry is done only when the issue of his promotion to the post of CMD comes up, or is it the case that till such time the particular officer gets away with irregularities? On the other hand a *bona fide* officer can fall prey to a motivated enquiry. There do appear to be such cases/instances, as the Secretary, Mines conceded during the deposition. The Committee, therefore, feel that the process of short listing prospective candidates for the post of a CMD, including vigilance clearance, should be completed well before retirement of incumbent CMDs.

The Committee feel that in the selection of CMD, NALCO, the focus should have been merit and talent irrespective of the candidate being in-house or external. The Committee are also constrained to observe that the prolonged uncertainty that prevailed over the appointment of regular CMD in NALCO was bound to impact the performance of the company.

The Committee, therefore, recommend that the Ministry of Mines should take steps to ensure that the absence of a full-time CMD, jeopardizing the organization to a possible state of disarray and adhocism, does not recur in future. The Committee desire that the Ministry should take concrete steps to work out a future strategy which rules out/minimize such situations.

Reply of the Government

The Government of India has laid down clear cut guidelines for filling up Board level posts i.e. Director and Chairman-cum-Managing Director (CMD), in a Central Public Sector Enterprise (CPSE) like NALCO i.e. through selection interview by Public Enterprises Selection Board (PESB) and subsequent approval of the Appointments Committee of the Cabinet(ACC) after complying with all necessary pre-requisites.

In view of allegations of sexual harassment made by a lady employee, the then CMD, NALCO was asked to proceed on leave in February, 2004. Additional charge arrangements for the post of CMD were made by appointing a functional Director in his place. In view of an injunction from the Delhi High Court, on a case filed by the Charged Officer (Shri C. Venkataramana), the process for regular filling up of the post of CMD, National Aluminium Company Ltd.(NALCO), could not be initiated, till the expiry of the tenure of the charged officer on 25.6.2007. Requisition was placed with PESB for filling up the post on regular basis by treating 26.6.2007 as the date of vacancy. PESB conducted the selection interview for the post on 5.10.2007 and recommended 2 candidates. After receipt of vigilance clearance in respect of the recommended candidates, a Note was sent to Department of Personnel & Training {DoP&T(ACC)} on 5.5.2008. In view of change in vigilance status of the candidate recommended at No.1 in the PESB panel, DoP&T requested for a fresh proposal on 26.5.2008. Subsequently, on receipt of vigilance clearance from Central Vigilance Commission(CVC), a proposal for regular appointment to the post of CMD, NALCO was moved to the DoP&T(ACC) on 5.6.2009. On receipt of approval from ACC, orders for appointing Shri Pradhan as CMD, NALCO on regular basis up to 30.9.2009, i.e. the date of his superannuation was issued on 3.8.2009. Subsequently, as approved by ACC, orders for appointing Shri A.K. Srivastava as CMD, NALCO w.e.f. 1.10.2009 for a period of 5 years or till the date of his superannuation or till further orders was issued on 11.8.2009. After the superannuation of Shri Pradhan, Shri Srivastava has assumed charge as CMD, NALCO, who has been given a tenure of more than four years i.e. upto the date of his superannuation.

It is apparent from the above that the delay in filling up the post of CMD, NALCO on regular basis was first due to court case filed by Shri Venkataramana, former CMD, NALCO and later, due to some vigilance cases pending against Shri Pradhan(No.1 candidate in the PESB panel) i.e., extraneous circumstances beyond the control of the Ministry of Mines.

Considering the importance of regular filling up of Board level vacancies in the CPSEs, the Government {Department of Public Enterprises(DPE)} has already laid down an effective procedure for timely filling up all such forthcoming vacancies. All Ministries and Departments are required to initiate action for filling up Board level posts coming under their administrative purview at least two years in advance of the date of occurrence of the vacancy in order to ensure that the PESB recommendations are available at least six months in advance of the date of vacancy so as to enable the Administrative Ministry for completing other formalities and obtaining the approval of ACC well before the due date. For regular monitoring of action initiated for filling up vacancies, which require approval of ACC (including Board level posts in CPSEs), concerned Administrative Ministry/Department are required to upload requisite data into the ACC Vacancy Monitoring System(AVMS) in the website of DoP&T. The Government by putting in place these measures, hopes to ensure timely filling up of all crucial posts which require approval of ACC, including Board level posts in CPSEs.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

Recommendation Serial No.2

Checking frivolous and motivated investigations

The Committee further recommend that the Ministry should take up the issue of frivolous vigilance cases particularly against aspirants for top jobs in PSUs at appropriate inter-ministerial fora and push for a viable mechanism to eliminate the element of vested interests stalling the process of selection of CMDs. In case there are serious complaints with substantial evidence, the investigations should be fast-tracked so that the process of selection is not delayed.

Reply of the Government

Keeping in view the concerns to scrutinize carefully the complaints received against Chief Executives and Functional Directors of the Public Sector Enterprises and CMDs and Functional Directors of Public Sector Banks and Financial Institutions, whether pseudonymous or otherwise, the Government {Department of Public Enterprises(DPE)} vide their OM No. 15(1)/2010-DPE(GM) dated 11.3.2010 read with amendments made vide their OM No. 15(1)/2010-DPE(GM) dated 12.4.2010 has decided to constitute a Group under the Chairmanship of Secretary(Coordination), Cabinet Secretariat to take a view on the same.

In terms of the procedure laid down, complaints against these officials received by the Cabinet Secretariat or the DPE or the Prime Minister's Office will be first scrutinized by the Group headed by the Secretary(Coordination) in the Cabinet Secretariat. If there is no substance in the complaints or the complaint is frivolous in nature, the Group would close the complaint. In case the preliminary scrutiny of the complaint indicates that there is some substance in it or there are verifiable allegations, the Group may seek the comments of the Secretary of the concerned Ministry/Department or call for the concerned files or call for the relevant records including annual property returns, other reports, etc. The Group, on the basis of the appropriate inputs received, may either close the complaint if there is no substance in it, or make appropriate recommendation to the Disciplinary Authority regarding the nature of the investigation called for on the basis of substance found in the allegations made. The Group constituted will also be looking into the complaints received by the Cabinet Secretary from Central Vigilance Commission (CVC) under the CVC Act or the Public Interest Disclosure Resolution and the CVC shall be kept informed at regular intervals about the status of the scrutiny/review undertaken by the Group into complaints forwarded by CVC.

Although it may not be possible to stop complaints against aspirants for top jobs, however, with the constitution of a detailed mechanism by the Government as elaborated in the foregoing para, action on such complaints would now be expedited.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

CHAPTER – V**RECOMMENDATION IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT
IS STILL AWAITED****Recommendation Serial No.16****National Policy on Aluminium**

The Committee note that there is no National Aluminium Policy in place to steer the course of the aluminium industry in the country. The Committee further note that Ministry of Mines have taken initiatives in setting up a Centre for Techno-Economic Mineral Policy Options (C-TEMPO), which will involve all major sectoral stakeholders in evolving policy options.

The Committee recommend that the C-TEMPO should be made fully functional at the earliest and should be adequately strengthened to churn out viable policy options for the country so far as the minerals sector is concerned, including aluminum.

Reply of the Government

The Ministry of Mines has made fresh endeavors to frame aluminium policy as recommended by the Hon'ble Committee. Aluminium Association of India(AAI), the apex body representing the entire spectrum of aluminium industry has submitted a Mission Plan document 2010-2020 to the Ministry for promotion of aluminium in the country. The Ministry of Mines is considering to organize a one day seminar with concerned stakeholders i.e. the primary aluminium producers of the country viz. NALCO, HINDALCO and Vedanta Group(BALCO, VAL & MALCO), downstream industries, alongwith officials of concerned Ministries of Government of India as well as major bauxite producing States, in order to chalk out requisite policy level intervention by the Government to fulfill the objectives for promotion of aluminium as outlined in the Mission Plan document submitted by AAI. The seminar, would in a way, be the 1st step towards framing an aluminium policy.

Ministry of Mines
(O.M. No. 29(17)/2009-Met.I dated 20.10.2010)

**NEW DELHI:
21 October 2011
Ashwina, 1933(S)**

**JAGDAMBIKA PAL
CHAIRMAN,
COMMITTEE ON PUBLIC UNDERTAKINGS**

APPENDIX-I**MINUTES OF THE 7th SITTING OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS (2011-12)**

The Committee sat on Friday, the 21st October 2011 from 1130 hrs to 1200 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT**Convenor**

Shri Vilas Baburao Muttemwar

Members, Lok Sabha

- 2 Shri Hansraj G. Ahir
- 3 Shri Shailendra Kumar
- 4 Shri Ponnamp Prabhakar
- 5 Dr. Prabha Kishor Taviad
- 6 Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

- 7 Shri Janardan Dwivedi
- 8 Shri Mukhtar Abbas Naqvi
- 9 Shri Pyarimohan Mohapatra
- 10 Dr. Bharatkumar Raut
- 11 Shri Tapan Kumar Sen
- 12 Shri N.K. Singh

Secretariat

- | | | |
|---|----------------------|---------------------|
| 1 | Shri Rajeev Sharma | Director |
| 2 | Shri Ajay Kumar Garg | Additional Director |

Representatives of Office of C&AG

- | | | |
|---|-------------------|-------------------------------|
| 1 | Shri A.K. Awasthi | Dy. CAG (Commercial) |
| 2 | Ms. Usha Sarkar | Director General (Commercial) |

2. XXX XXX XXX.
3. XXX XXX XXX

4. The Committee then took up for consideration the following two draft action taken reports on: -

- (i) XXX XXX XXX
- (ii) Action Taken Report on action taken by the Government on the recommendations contained in the 5th Report of 15th Lok Sabha on National Aluminium Company Limited (NALCO).

The Committee adopted both the aforesaid Action Taken Reports without any modifications and authorized the Chairman to present the same to Parliament.

5. XXX XXX XXX.

The Committee then adjourned.

APPENDIX - II*(Vide para 3 of the Introduction)***ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE 5TH REPORT OF COPU (15TH L.S.) ON “NATIONAL ALUMINIUM COMPANY LIMITED.”**

I.	Total number of recommendations	18
II.	Recommendations/Observations that have been accepted by the Government <i>(vide recommendations at Sl. 3, 4, 5, 6, 7, 8, 9, 11,12, 14, 15, and 17)</i>	12
	Percentage to total:	66.66
III.	Recommendations / Observations which the Committee do not desire to pursue in view of the Government's replies. <i>(vide recommendations at Sl. Nos. 10, 13 and 18)</i>	3
	Percentage to total:	16.66
IV.	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee <i>(vide recommendations at Sl. Nos. 1 and 2)</i>	2
	Percentage to total:	11.11
V.	Recommendation/Observation in respect of which final replies of the Government are still awaited	1
	Percentage to total:	5.55