

**STUDY TOUR REPORT NO. 27**

**COMMITTEE ON PUBLIC UNDERTAKINGS**

**( 2001 – 2002 )**

( THIRTEENTH LOK SABHA )

STUDY TOUR REPORT

ON

**COCHIN SHIPYARD LIMITED**

Laid in the Lok Sabha on 21 March, 2002

Laid in the Rajya Sabha on 21 March, 2002

LOK SABHA SECRETARIAT

NEW DELHI

March 2002 / Phalguna 1923 (S)

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**COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2001-2002)**

**CHAIRMAN**

Prof. Vijay Kumar Malhotra

**MEMBERS**

**LOK SABHA**

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. S.P.Singh Baghel
5. Shri Sudip Bandyopadhyay
6. Shri Ram Tahal Chaudhary
7. Shri Ajay Singh Chautala
8. Shri Shiv Raj Singh Chauhan
9. Shrimati Sangeeta Kumari Singh Deo
10. Shri C.K. Jaffer Sharief
11. Shri K E Krishnamurthy
12. Shri Vilas Muttemwar
- \* 13. Shri C.P. Radhakrishnan
14. Shri Tarit Baran Topdar
15. Shri Dinesh Chandra Yadav

**RAJYA SABHA**

16. Shri Suresh Kalmadi
17. Shri K. Kalavenkata Rao
18. Shri Jibon Roy
19. Shri B.P.Singhal
20. Smt. Ambika Soni
21. Shri C.P.Thirunavukkarasu
22. Shri Ranjan Prasad Yadav

**SECRETARIAT**

- |    |                          |                      |
|----|--------------------------|----------------------|
| 1. | Shri John Joseph,        | Additional Secretary |
| 2. | Shri S. Bal Shekar,      | Director             |
| 3. | Shri Raj Kumar           | Under Secretary      |
| 4. | Shri Prabal Chakraborty, | Committee Officer    |

\* Elected w.e.f. 29<sup>th</sup> November, 2001 vice Shri Rajiv Pratap Rudy ceased to be Member of the Committee consequent upon his appointment as Minister w.e.f. 1.9.2001.

## **INTRODUCTION**

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Study Tour Reports on the Tables of both the Houses of Parliament, I, Chairman, Committee on Public Undertakings have been authorised by the Committee to lay the Study Tour Report on their behalf, lay the Study Tour Report of the Committee on their discussions with the officials of Cochin Shipyard Ltd.

2. The Committee held discussions with the officials at Kochi on 27.10.2001. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 19<sup>th</sup> March, 2002.

4. The Committee wish to express their thanks to Cochin Shipyard Limited for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.

5. They would also like to place on record their sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi  
**19 March, 2002**  
Phalguna, 1923(S)

**PROF. VIJAY KUMAR MALHOTRA**  
**CHAIRMAN**  
**COMMITTEE ON PUBLIC UNDERTAKINGS**

**'STUDY TOUR NOTES' OF THE COMMITTEE ON PUBLIC  
UNDERTAKINGS**

**DISCUSSION WITH THE OFFICIALS OF COCHIN SHIPYARD LIMITED ON  
27<sup>TH</sup> OCTOBER, 2001 AT COCHIN**

At the outset, the Chairman, Committee on Public Undertakings made opening remarks and requested the Chairman-cum-Managing Director, Cochin Shipyard Limited (CSL) to introduce himself and his colleagues to the Committee. The Chairman, Committee on Public Undertakings also requested him to give a brief account of the working of the Company.

2. After introduction of the officers of CSL, the CMD informed the Committee that Cochin Shipyard Limited was incorporated as a Company fully owned by the Government of India in March, 1972. The work on the project was commenced in 1972 and was completed by Jan 83. Consultancy services of M/s Mitsubishi Heavy Industries (MHI), Japan, were availed for design and construction of the yard. The yard is capable of constructing and repair of ships up to 1,00,000 DWT and 1,25,000 DWT respectively. This is the highest capacity for shipbuilding and ship repair in the country. The Shipyard has so far built 8 large ships and 35 small crafts. One 93000 DWT double hull crude oil tanker (Ship 010) for Shipping Corporation of India (Rs.210.00 Cr.) and a 1700 cu.m capacity Trailing Suction Hopper Dredger (BY-42) for Chennai Port Trust (Rs.52.24 Cr.) are presently under construction in the yard. The ship repair operations in the yard commenced in

1983. So far around 900 ships of varied descriptions were repaired in the yard. These include upgradation of vessels pertaining to oil exploration industry, periodical lay-up repairs and life-extension of ships of Navy, Union Territory of Lakshadweep, Coast Guard, Fisheries and Port Trusts, besides merchant fleet.

3. The Committee have further been informed that the Shipyard has established an additional revenue stream from repairs of offshore structures of oil exploration / production in situ at Bombay High. The yard has completed two major projects, (Clamp-on-structures) for ONGC at Bombay High. Both projects had been completed ahead of schedule, thus earning appreciation of the customers. Another contract for replacement of deck cranes at SE and SJ platforms for ONGC at Bombay High at a cost of Rs.7.7 crore is currently on hand.

4. The Physical Performance of the Company during 1996-97 to 2000-01 is as follows :-

YEAR	SHIP BUILDING (DWT)		SHIP REPAIR TURNOVER (Rs. in crore)	
	TARGET	ACTUAL	TARGET	ACTUAL
1996-97	25000	13825	56.50	103.46
1997-98	45600	41622	75.00	124.14
1998-99	47600	60673	77.00	117.95
1999-00	47600	47840	85.00	105.70
2000-01	45000	54384	109.00	181.33

To a query about capacity utilisation, the Committee have been informed that the existing capacity in ship repair is almost fully utilised. In shipbuilding, the optimum utilisation of existing capacity is not being achieved due to lack of continuous orders. This can be achieved if a series of orders for ships are available. Work in all the three work fronts are in full swing.

5. The Committee have been informed that the cost of production in the Cochin Shipyard is comparatively lesser than in Singapore, Gulf yards and Colombo Shipyards and is higher with respect to Chinese Shipyards. When the Committee enquired about the specific reasons for higher cost of production as compared to some foreign yards, the Committee have been informed that the reasons for the higher cost of production can be attributed to the following :-

- a) In the absence of a well developed modern infrastructure in the country, shipyard needs to import most of the material / equipment required for shipbuilding and ship repair. Besides, the basic cost, shipyard has to incur additional expenditure by way of freight, insurance and transportation. Since the lead time for the import of materials being high, the yard has also to incur heavy expenditure on inventory carrying cost. Insistence of transchart system further enhances the cost in that in many cases freight charges quoted by the Shipping Corporation has been comparatively higher than the offer of the overseas

shipping lines. The foreign shipyards do not have to incur such extra expenditure.

- b) The shipyard has also to incur additional expenditure on Customs staff, CISF, vigilance etc.
- c) The incidence of taxes and duties are also attributable to high cost.
- d) Longer construction time.
- e) The high cost of finance prevailing in India compared to the international level also is one of the reasons.

6. The Committee have noticed that more time is taken by the Cochin Shipyard in completing shipbuilding / ship repair works as compared to the foreign yards in Singapore, Korea and the Gulf. When enquired about the reasons for the same, the Committee have been informed that foreign shipyards are working with the state-of-the-art technology and facilities and are in a better operative environment. Just in time supply of materials, freedom of flexibility in operation, increased productivity and work culture are some of the specific advantages enjoyed by the foreign shipyards.

7. About the difference in market value between the ships constructed by Cochin Shipyard Ltd. and those constructed by Korea and China, the Committee have been informed that whenever offers are invited for construction of ships, prices of South Korean / Chinese yards were found to be the lowest and less than the actual costs in other shipbuilding countries. This has given rise to the belief that they practice "Dump Pricing" policy which



provoked European Union to file complaints to WTO. Similar reactions came from other countries also.

8. The Committee have been informed that there are seven public sector shipyards in India, four of which are under the administrative control of the Ministry of Shipping and three under the Ministry of Defence. The performance indicators in respect of some of the public sector shipyards during the period from 1997-98 to 1999-2000 are given below :-

(Rs. in crore)

	1997-98		1998-99		1999-00	
	Turnover	Profit	Turnover	Profit	Turnover	Profit
Cochin Shipyard Ltd.	124.74	31.72	108.71	30.76	417.22	44.39
Hindustan Shipyard	104.99	-62.19	169.68	-29.67	207.00	-31.60
Hoogly Docks & Port Eng Ltd.	3.33	-25.36	5.50	-23.14	2.28	-20.01
Garden Reach Shipbuilders & Engg	145.45	15.38	363.52	42.57	880.44	21.22
Mazagon Dock Ltd.	1031.40	23.75	252.45	16.23	2262.83	13.07

Expressing opinion on the issue of amalgamation of all the shipyards into one big shipyard, it has been informed that each shipyard is specialised in the construction of specific types of vessels and productivity levels are different. Therefore, combining the capacities of all the shipyards may not yield any specific advantage. However, an initiative has already been made by signing an MOU between MDL, HSL, CSL and EIL to work as a consortium for securing orders for construction, upgradation and repairs of various vessels and structures of ONGCL.

9. When enquired whether the Company has been facing any problems / constraints in procuring orders for shipbuilding and repair services, it has been informed to the Committee that only the public sector, shipping companies follow the procedure of open tenders for acquisition of new ships and ship repair jobs wherein the Shipyards can match the lowest price quoted and bag the orders. However, private owners follow a course of direct negotiations with foreign shipyards for placing their orders, since these yards offer credit facilities at very low rates directly or through their sister companies. The Indian shipyards are not in a position to offer any credit facilities due to financial constraints. Though every effort has been made to improve the efficiency and productivity of the yard, it is not in a position to offer these incentives to the owners. This is also a handicap while canvassing for new building orders from foreign ship owners.

10. The Committee have also been informed that under the present context of 'dump pricing' being practiced by Korean shipyards, the lowest quoted price do not reflect the actual cost of construction and fixation of price based on such artificially low price will not ensure fair price to Indian shipyards. Under the erstwhile pricing policy, the prices of ship built in Indian public sector shipyards were fixed with reference to international parity price based on valuations obtained from three different parts viz., East Europe, West Europe and Far East. Being average of three valuations, the prices were more realistic.

11. The financial performance of the Company during the last five years from 1996-97 to 2000-01 is as follows :-

(Rs. in crore)

<b>YEAR</b>	<b>PROFIT</b>
1996-97	12.56
1997-98	31.72
1998-99	30.76
1999-00	44.39
2000-01	38.49

When asked about the reasons for decline in profit during 2000-01 as compared to the previous year 1999-2000, the Committee have been intimated that incidence of full income tax in place of MAT accounted for the reduction of profit during 2000-01, compared to previous year, 1999-2000. The profit before tax for 2000-01, in fact was higher at Rs.45.40 crore against Rs.44.47 crore of the previous year.

12. About the shipbuilding subsidy, the Committee have been informed that prices of ships built in the public sector yards are fixed with reference to the lowest international price in accordance with the pricing policy in vogue. The cost of ships built in Indian yards are much higher compared to international price due to the incidence of taxes, duties, high cost of finance, incidence of social overheads in addition to cost of maintaining Central Excise

staff, CISF, etc. The Company is forced to accept the international price in spite of not having a level playing field. Hence the need for subsidy.

13. It has also been informed to the Committee that the Shipyard has to pay Corporate Tax on its profits. Presently, no special dispensation is available to shipbuilding / ship repair industry under the Income Tax Act, whereas Shipping Companies enjoy special concessions under Sec. 33 AC of the Income Tax Act. Salient features of the provision in favour of the Shipbuilding Companies in India are:-

- (i) Provision is applicable to a Government company or a public company carrying on the business of operation of ships.
- (ii) Deduction of an amount not exceeding the profits derived from the business of operation of ships is allowed and credited to a reserve account which shall be utilised by the assessee before the expiry of a period of 8 years following the previous year in which the amount so credited, as under :-
  - (I) for acquiring new ships for the purpose of the business of the assessee; and
  - (II) until the acquisition of the new ships, for the purpose of the business of the assessee other than for distribution by way of dividend or profits or for remittance outside India as profits or creation of any asset outside India.

14. It has been brought to the notice of the Committee that under the existing policy, Purchase Preference is accorded to the goods and services of

Public Sector Undertakings by Government / PSUs, if the price quoted by the supplying PSU is within 10% of the lowest valid bid price, other things being equal. The minimum value specified in the scheme is Rs.1.00 crore and above. The Company has been able to derive some benefit out of the scheme for ship repairs and offshore work. In respect of offshore work, being highly complex and technology oriented, the Company needs to form strategic alliances with the competent firms having adequate expertise in respective fields to undertake such jobs. Since the Company does not possess adequate experience in undertaking offshore jobs, the Company often does not get qualified for being considered under this policy, as the policy is not applicable to Consortia, Joint Ventures etc.

15. It has also been brought to the notice of the Committee that presently Excise duty is payable on indigenous materials procured for shipbuilding and ship repair operations unless the same is procured from original manufacturers or authorised dealers. The Company has not been able to avail of Excise duty exemption even in the case of items procured from original manufacturers for which procedures set out in Chapter X of the relevant manual has to be followed. Since these procedures are cumbersome and time consuming, a suggestion was made that the Company be permitted to keep such materials in bonded warehouse and released on self-removal basis.

16. Regarding the Central Excise and Customs duty on the goods purchased by the Company, the Committee have been informed that as per

existing arrangements, capital goods imported for ship repair are exempted from levy of Customs duty, whereas the same for shipbuilding is not exempted. Since shipbuilding is a capital intensive industry and margins from new building operations are negligible, capital equipments required for shipbuilding for modernisation, upgradation and expansion of capacities may be exempted from levy of Customs duty as in the case of ship repair. Since import of raw materials, bought out components and consumable for shipbuilding are exempted from levy of duty and are kept in a bonded warehouse under the direct supervision of customs authorities, administrative expenditure in respect of the customs contingent posted in the yard are to be met by the yard. Besides adding to the overhead cost of the Company, the yard also face procedural difficulties due to interpretation of various provisions of the customs tariff authorities. As a result, difficulties are being faced in lining up material inputs in time.

The Committee have also been informed that the steel scrap generated during the construction of ocean going vessels is valued at the price of imported scrap. In the case of small crafts, such scrap is valued at the price of parent material. It has also been informed to the Committee that steel scrap generated during the ship repair operations (being old / rusted and torn out parts cut / removed from the repair vessels) is valued at the price of imported scrap.

17. It has been informed to the Committee that the major materials / goods, equipments imported for shipbuilding are Main Engines, Diesel

Generators, Shipbuilding Quality Steel, Communication Equipments, Marine Paints, Air Conditioning & Refrigeration Machinery, Shafting & Propeller, Marine Boilers, Compressors, Navigational Instruments, Stern Castings, Anchors chain cables, Galley & Laundry Equipments, Special Valves, Insulation Material, Toilet modules, Lining & Ceiling Panels, etc.

Value of imports of raw materials, bought-out components and consumables as percentage of total materials consumption during the last three years are furnished below :-

YEAR	TOTAL CONSUMPTION (Rs. in crore)	IMPORT (Rs. in crore.)	% OF IMPORT
2000-01	136.55	116.25	85
1999-00	46.34	31.34	68
1998-99	99.98	81.30	81

In Ship Repair, mostly spare parts are imported mostly from original equipment manufacturers .

18. When asked to state the measures being taken to indigenise the manufacture of critical items required in shipbuilding, the Committee have been informed that procurement is done through tender enquiries. In most of the cases, the ship owners have their list of vendors for critical items. As per guidelines of the Government, purchase preference for PSU firms is notified in the general conditions of enquiry. However, orders are placed based on competitive price bids.

CSL could locate competitive indigenous makers for items like marine type windows and scuttles, steel sections, electrical cables, main switch board, light fittings, fairleads, fire detection system, sewage pump, part of pipes, valves and fittings, etc.

Local sub-contractors are awarded with the works of machining flanges, fabrication of ladder, platforms, pipe supports, dampers, strainers, gratings, steel doors, hatches, ventilators, drain plugs, manhole covers, hand rails, electrical wiring materials, etc. In the case of Ship 010, material procurement worth Rs.1.5 crores has been made by sub-contracting, outside the Shipyard.

19. It has been reported in the Brief submitted to the Committee that Cochin Shipyard plans to implement a large number of modernisation/ expansion plans involving an investment of Rs.800 crore for strengthening its core business of shipbuilding and ship repair works.

When asked whether the Company has any plan to enter into any collaboration / joint venture for implementing the modernisation / expansion plans, the Committee have been apprised that out of Rs.800 crore projected for additional investment during the Tenth Plan period, Rs.700 crore relate to expansion of facilities and Rs.100 crore for modernisation of facilities at Cochin Shipyard. The shipyard would explore the possibilities of entering into collaboration / joint venture for setting up new ship repair facilities outside CSL as also setting up of an Information Technology Centre.



20. When enquired as to what extent the adoption of modern technique in shipbuilding / carrying out repairs is expected to bring down the cost, time and manpower requirement, the Committee have been informed that the existing facilities in the yard are more than 20 years of age. Therefore, progressive replacement is imperative. While considering replacement the yard would need to go to state-of-the-art facilities so that the Shipyard is kept in up to-date state. This will definitely go a long way in bringing down cost and improving efficiency. However, the exact extent of benefit that could be achieved can be worked out only when detailed schemes are formulated. Augmentation of facilities and upgradation of technology would provide a level playing field for Indian yards.

21. About the expansion of ship repair activities to Mumbai and Tuticorin, it has been intimated to the Committee that a techno-economic feasibility study has been carried out for setting up a modern workshop at Tuticorin on land to be leased out by the Tuticorin Port. The study indicates good potential for setting up the workshop which could eventually be developed into a repair complex. The report is under examination. Mumbai Port has issued tender notification for leasing out two of its existing dry docks in which the shipyard has also participated. A definite time frame can be fixed for undertakings this project, depending upon the tender to be finalised by the Mumbai Port Trust.

The Committee have also been informed that the proposal to expand facilities at Cochin Shipyard by creating 5 numbers additional berths on share

and introduction of a shiplift system has been submitted to the Government. The estimated cost of the project is Rs.98.38 crore.

22. When the Committee desired to know about the allocation of funds on R&D activities during the last five years, the Committee have been informed that due to the adverse financial position the yard has experienced placed in the earlier years, and also to cut the cost, the yard was able to allocate funds for R&D.

23. When asked whether the Company has formulated any plan to ensure fool proof safety for workers in the shipyard, the Committee have been informed that the Company has formulated a safety policy which clearly spells out the extreme importance it assigns to the safety of all personnel engaged in ship repair areas. It has also been stated that the Company has a full-fledged Safety & Fire Services Department to oversee the safety procedures and its implementation by the concerned departments. In order to assist the efforts of safety management and to ensure co-operation and participation of employees, Safety Committees have been constituted and these function in the respective areas. The Company has published a comprehensive Safety Manual containing all relevant information on management and control of accidents and reference information on safety rules and regulations. Abstract of safety rules and regulations have been published and copy made available to each individual employee by name.

24. To a query about the customer complaints in Cochin Shipyard vis-à-vis foreign shipyards, the Committee have been informed that complaints

generally relate to equipment installed on board the vessel. Such defects are routinely repaired, while the vessel is dry docked after guarantee period. Performance guarantees are obtained from major equipment suppliers so that the cost involved are recouped. These complaints are of routine nature and generally occur in the business of construction of vessels, during guarantee period. The shipyard is of the opinion that these are comparable with any other yard.

25. The Committee have been informed that the Board of Directors of CSL now consists of CMD, 2 Functional Directors, 2 Official Directors and one Non-official Part-Time Director. About the vacancies on the Board of Directors, the Committee have been informed that the post of Director (Operations) has fallen vacant since 30.9.2001, two (2) posts of Non-official Part-time Directors have been lying vacant since 22.10.99 and one (1) post of Non-official Part-time Director since 15.12.99. For appointment of Non-Official Part-time Directors the company had forwarded bio-data of a few eminent industrialists / management experts to the Ministry for consideration. Recruitment process for selection of Director (Operations) is in progress.

26. The manpower of the Company as on 31<sup>st</sup> March 2001 was 2366. Out of this, 261 were Executives, 261 were Supervisors and 1844 were Staff and Workmen. Internal need based studies have been conducted to assess the manpower requirements in the various departments to meet the specific targets of the departments concerned. Redeployment of manpower based on

requirement has accordingly been done. 93 employees took voluntary retirement during the last three years.

27. About engagement of contract workers for regular jobs, it has been informed to the Committee that contract workers are employed on such jobs which does not involve much technical skills such as blasting, painting, etc. which do not call for regular deployment all through the year. Therefore, it is economical for the company to engage them as and when required. Engagement of contract workers is a regular phenomenon in the shipbuilding industry the world over. Engagement of contract labour by CSL during the last 5 years and the expenditure incurred on them are given below:-

S.No	Year	No. of Contract Workers	Total Contract Man days	Total Contract Labour Expenditure (Rs. in lakhs)
1.	1996	728	128320	396
2.	1997	770	231020	471
3.	1998	970	290942	593
4.	1999	855	256631	534
5.	2000	984	295139	718

28. When asked whether the recent Supreme Court judgement on the rights of contract labour for absorption has any impact on the Company, the Committee have been informed that the Cochin Shipyard cannot afford to do away with contract labour system, considering the nature of work. In case the yard has to employ such large number of workers, it will not be possible to operate competitively in the global market.

29. Regarding the training facilities available to the employees at various levels, the Committee have been apprised that the Shipyard has a full fledged training center. The Shipyard conducts Refresher courses for skill and knowledge updating of all employees, in tune with departmental / organisational requirements. Imbibing the importance and application of Information Technology, the Shipyard had made conscious efforts for equipping the personnel, especially in the shipbuilding design division, with latest design computing skills. More than 70 design personnel at various levels have undergone such Advanced Training, which has helped in indigenously designing and developing the passenger vessels recently built for Union Territory of Lakshadweep Administration and also had its impact on other projects resulting in considerable saving in cost and time.

In line with the technological development, the Shipyard has embarked upon extensive application of ERP System. During the last two years around 150 administrative staff have been made computer literate, through a series of In-house Intensive Programmes. This also helped the Company effectively implement the ERP Material and Finance Online Systems and in the implementation of ISRP Module in Ship Repair.

It has also been informed to the Committee that Marine Engineers Training Institute (METI) in Cochin Shipyard imparts training to Mechanical Engineers for being converted as qualified Marine Engineers. 786 persons have already completed the training so far.

30. About the industrial relations in the Company, the Committee have been informed that during the last two decades the employer – employee relations in the Company have been excellent. The Company has not lost a single man day on account of strike, lock-out, mass absenteeism, etc. by way of strikes/protest called by the recognised trade unions of the Company. The Committee have also been apprised that the Company has taken a positive attitude that dialogue with the Unions can bring better understanding and can resolve all issues to maintain a harmonious Industrial Relations climate. A Long Term Settlement covering a period of 10 years on revision of scales applicable to workmen w.e.f. 01 April, 1997 has been concluded. Trade Unions have also agreed to co-operate with the management policy initiative to enhance productivity, time on task and other cost cutting measures.

## **RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE**

### **RECOMMENDATION NO. 1**

#### **SHIPBUILDING SUBSIDY SCHEME**

The Committee note that the Cochin Shipyard Ltd. has been facing intermittent production gaps due to lack of adequate orders for construction of large size vessels and the Company has perforce to target small crafts segment in competition with the small yards in the private sector. As per the existing policy, the Company has to participate in the open tenders floated by the shipping companies for acquisition of the vessels to secure orders and has to match the lowest bid. The Committee are given to understand that only the Shipping Corporation of India is bound to float global tenders while the private sector companies are free to place orders without following the open tender system. As a result, the Cochin Shipyard Ltd. is not able to secure adequate orders from indigenous sources. Another worrisome aspect noticed by the Committee is the 'Dump Pricing' Policy being practised by the Korean/Chinese Shipyards wherein they offered the lowest prices which are even less than the actual costs in other shipbuilding companies. The Committee also find that the cost of ships built in Indian Shipyards are much higher as compared to the international prices due to the incidence of taxes, duties, high cost of finance, incidence of social overheads, etc. thereby forcing the public sector companies to quote prices equivalent to the international prices

in spite of not having any level playing field with those companies. The Committee, therefore, recommend that the Government should consider extending the shipbuilding subsidy scheme for a further period of five years from September, 2002 onwards for construction of all types of vessels regardless of the size of the vessels to enable the Company to compete in the international market and to fetch more orders for ships construction. While deciding the quantum of subsidy, the Committee desire that the cost of social obligations should also be neutralised.



## **RECOMMENDATION NO. 2**

### **PURCHASE PREFERENCE POLICY**

The Committee note that as per the existing policy of the Government, which is valid upto March, 2002, purchase preference is accorded to the goods and services of the public sector undertakings by Government/PSUs if the price quoted by the supplying Public Sector Undertaking is within 10% of the lowest valid bid price, other things being equal. For this purpose, the minimum value specified in the scheme is Rs. 1.00 crore and above. It has been brought to the notice of the Committee that the Cochin Shipyard has been able to derive some benefit out of the scheme for ship repairs and off-shore works. The Committee have also noticed that Cochin Shipyard does not possess adequate experience in undertaking offshore jobs and other high value jobs which are highly complex and technology oriented and therefore, they form Consortia or Joint Ventures with other companies who possess the necessary technological capabilities. The Committee are given to understand that the purchase preference policy is not applicable to PSUs when they form Consortia/Joint Ventures, etc. with other companies. The Committee, therefore, recommend that purchase preference policy should be extended for a period of 3 – 5 years and should also be made applicable to joint ventures, consortia, etc. formed by PSUs so that the Cochin Shipyard Ltd. could form strategic alliances with the

competent firms having adequate expertise in the respective fields to enable them to undertake such jobs. The Government should also evolve a policy by which vessels built in public sector shipyards should be engaged on long term charter, as this measure will definitely help the ship-building PSUs.

### **RECOMMENDATION NO. 3**

#### **EXEMPTION OF CUSTOMS DUTY**

The Committee note that as per the existing policy, capital goods imported for ship repair are exempted from levy of Customs Duty whereas the same is not exempted for 'Shipbuilding'. Since 'Shipbuilding' is a capital intensive industry and margins from the new building operations are negligible, the Committee are of the view that capital equipments/goods required for shipbuilding for modernisation, upgradation and expansion should also be exempted from levy of Customs Duty as in the case of ship repair. The Committee also note that imported raw materials bought for shipbuilding are exempted from levy of Customs Duty and are kept in bonded warehouse under the direct supervision of Customs Authorities, the administrative expenditure for which is borne by the Company. The Committee are given to understand that due to procedural lacunae, the Company is facing difficulties in lining up the material / inputs in time. The Committee, therefore, desire that the Customs Authorities should allow the Company to remove the imported materials including scraps and surplus, on self assessment basis, as Cochin Shipyard is a Public Undertaking and is worthy of reposing confidence by the tax authorities. The Committee consider that this is an essential measure required for cutting the costs further down in the ship repair / building activity of the Company.

## **RECOMMENDATION NO. 4**

### **CONCESSIONS UNDER THE INCOME TAX ACT**

The Committee note that the Cochin Shipyard Limited has been paying Corporate Tax on its profits. It has also been noticed by the Committee that at present no special dispensation is available to the shipbuilding/ship-repair industry under the Income Tax Act, whereas the Shipping Companies are enjoying special concessions under Section 33 AC of the Income Tax Act. The Committee, therefore, recommend that the concessions under the same provision of the Income Tax Act should be extended to the shipbuilding/ship repair industry also to enable them to plough back profits for acquisition of the new assets for their projects. The Committee further recommend that under Section 32 A on Investment Allowance deduction at the rate of 25 per cent of the actual cost of assets acquired / installed for business purposes in the ship building / repair industry may be allowed from taxable income to enable the shipyards to quote very competitive prices to secure orders.

## **RECOMMENDATION NO. 5**

### **EXEMPTION OF EXCISE DUTY**

The Committee note that Excise Duty is payable on indigenous materials procured for shipbuilding and ship repair operations unless the same is procured from original manufacturers or authorised dealers. The Committee are given to understand that the Cochin Shipyard has not been able to avail of Excise Duty exemption even in the case of items procured from original manufacturers, as the shipyard has to follow the procedure set out in the Tariff Manual which is very cumbersome and time consuming. The Committee, therefore, recommend that all the items manufactured by any manufacturer intended for use in construction and repair of vessels should be exempted without restricting to items manufactured in shipyards alone. They also desire that the procedures set out in the Manual for availing the Excise Duty exemption should be waived in favour of ship-building PSUs to avail of this concession. The Committee further recommend that Excise Duty exemption should be extended to capital goods intended for ship-building also. They desire that the central excise duty exemptions available currently for construction of ships, tugs, dredgers, passenger vessels, war ships and other ocean-going vessels should be continued further to make our PSUs competitive and also to off-set the effect of Dump Pricing by the Chinese / Korean Companies. The Committee desire that all their recommendations made in respect

of the tax matters may be taken up with the Ministry of Finance at the highest political executive level so that these issues are favourably settled within a period of three months from the date of presentation of this Report.

## **RECOMMENDATION NO. 6**

### **DUTY ON SCRAP FROM IMPORTED STEEL**

The Committee find that the steel scrap generated during the construction of ocean-going vessels is valued at the price of imported scrap. In the case of small crafts, such scrap is valued at the price of parent material. In the case of ship repairing activity, the steel scrap generated is old, rusted and contains torn-out parts and it is still valued by the excise authorities at the price of imported scrap. These practices actuals have put the shipyard in a disadvantageous position. The Committee, therefore, recommend that duty on scraps from ship-building activity may be assessed based market rates taking into account accumulation of scrap and surplus materials to the extent of 5% of the cost of new construction. The duty in this case may be paid on self-assessment basis. With regard to scraps in the ship-repair activity, the shipyard may be allowed to pay duty on the realisable market value of the scraps on self-assessment basis with suitable limitations.

## **RECOMMENDATION NO. 7**

### **EARLY APPROVAL FOR INTRODUCTION OF SHIPLIFT SYSTEM**

The Committee note that the Cochin Shipyard Limited has submitted a proposal for Government approvals to enable creation of five additional berths on shore and also for introduction of a shiplift system at an estimated cost of the project is Rs.98.38 crore. The Company proposes to meet the expenditure for this project from their own sources and they are not seeking any budgetary support for the project from the Government. The Committee, therefore, recommend that the proposal submitted by the Company to the Government should be cleared without any delay.



## **RECOMMENDATION NO. 8**

### **FILLING UP OF VACANCIES IN THE BOARD OF DIRECTORS**

The Committee note that one post of Director (Operations) has been lying vacant in the Company since 30 September, 2001. There are three posts of Non-official part-time Directors which are vacant in the Board of Directors. Of these three vacancies, two had become vacant since 22 October, 1999, while one vacancy arose on 15 December, 1999. The Committee have been informed that names of a few eminent industrialists / management experts are under consideration of the Government for appointment as non-official part-time Directors. The Committee recommend that all the vacant posts of Directors in the Company should be filled up at the earliest in the interest of the Company, as it would get the necessary expert guidance from them for its efficient functioning.

**ANNEXURE - I**

**TOUR PROGRAMME OF THE COMMITTEE ON  
PUBLIC UNDERTAKINGS TO KOCHI AND THIRUVANANTHAPURAM  
FROM 27<sup>TH</sup> TO 30<sup>TH</sup> OCTOBER, 2001 AS ACTUALLY PERFORMED**

( MEMBERS ASSEMBLED AT KOCHI )

DATE & DAY	TIME	VISIT & DISCUSSION
27.10.2001 (Saturday)	1630 hrs	Discussion with the Officers of Cochin Shipyard Ltd.
		( NIGHT HALT AT KOCHI )
28.10.2001 (Sunday)	0900 hrs	Discussion with the Officers of Fertilizers and Chemicals (Travancore) Ltd.
	1100 hrs	Discussion with the Officers of Kochi Refineries Ltd.
		( NIGHT HALT AT KOCHI )
29.10.2001 (Monday)	1000 hrs	Departure for Thiruvananthapuram by IC-803 (1135 hrs)
	1205 hrs	Arrival Thiruvananthapuram
		( NIGHT HALT AT THIRUVANANTHAPURAM )
30.10.2001 (Tuesday)	0930 hrs	Discussion with the Officers of Hindustan Latex Ltd.
	1130 hrs	Discussion with the Officers of Hindustan Newsprint Ltd.

**DISPERSAL**

**ANNEXURE – II**

**COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS  
WHICH VISITED KOCHI AND THIRUVANANTHAPURAM**

<b>S. NO.</b>	<b>NAME</b>	<b>DATE OF JOINING</b>	<b>DATE OF LEAVING</b>
1.	Prof Vijay Kumar Malhotra, Chairman	27.10.2001 Kochi	29.10.2001 Kochi
2.	Shri Prasanna Acharya	26.10.2001 Kochi	31.10.2001 Thiruvananthapuram
3.	Prof. S. P. Singh Baghel	30.10.2001 Thiruvananthapuram	30.10.2001 Thiruvananthapuram
4.	Shri Ram Tahal Chaudhary	27.10.2001 Kochi	30.10.2001 Thiruvananthapuram
5.	Smt Sangeeta Kumari Singh Deo	28.10.2001 Kochi	31.10.2001 Thiruvananthapuram
6.	Shri Tarit Baran Topdar	27.10.2001 Kochi	30.10.2001 Thiruvananthapuram
7.	Shri Jibon Roy	27.10.2001 Kochi	29.10.2001 Kochi
8.	Smt Ambika Soni	27.10.2001 Kochi	29.10.2001 Kochi
9.	Shri Suresh Kalmadi	28.10.2001 Kochi	31.10.2001 Thiruvananthapuram
10.	Shri Ranjan Prasad Yadav	27.10.2001 Kochi	30.10.2001 Thiruvananthapuram
11.	Shri B P Singhal	27.10.2001 Kochi	30.10.2001 Thiruvananthapuram
12.	Shri C. P. Thirunavukkarasu	26.10.2001 Kochi	28.10.2001 Kochi
<b><u>SECRETARIAT</u></b>			
1.	Shri S Bal Shekar, Director		
2.	Shri Raj Kumar Under Secretary		
3.	Shri Prabal Chakraborty Committee Officer		

**LIST OF OFFICIALS OF COCHIN SHIPYARD LIMITED**  
**WHO WERE PRESENT DURING DISCUSSION WITH THE**  
**COMMITTEE ON PUBLIC UNDERTAKINGS AT KOCHI ON 27.10.2001**

Cmde M K Murthy	Chairman & Managing Director
Shri P D Mathew	Director (Finance)
Shri V P Nair	Chief General Manager (SR)
Shri T J Cherian	General Manager (Tech)
Shri T K Bhagyachandran	General Manager (SB)
Shri S Sreekumar	Dy Gen Manager i/c (BD)
Shri A D Venugopal	Asstt Gen Manager i/c (Fin)