

ESTIMATES COMMITTEE (1969-70)

(FOURTH LOK SABHA)

HUNDRED AND FIFTEENTH REPORT

**MINISTRY OF PETROLEUM & CHEMICALS
AND MINES & METALS (DEPARTMENT OF
PETROLEUM AND CHEMICALS)**

**Action taken by Government on the recommendations
contained in the Eighty-Sixth Report of Estimates
Committee (Fourth Lok Sabha) on the Ministry
of Petroleum and Chemicals—Purchase of
Oil Barrels by the Indian Oil
Corporation Ltd., during 1966-67
against Tender No. OP/
TEN—7/65.**



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1970/Phalguna, 1891 (Saka)

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To

Hundred and Fifteenth Report of Estimates Committee (Fourth Lok Sabha) on Action Taken by Government on the recommendations contained in the Eighty-Sixth Report of Estimates Committee (Fourth Lok Sabha) on the Ministry of Petroleum and Chemicals - Purchase of Oil Barrels by the Indian Oil Corporation Ltd., during 1966-67 against Tender No. OP/TEN -7/65.

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3	2	8	<u>read</u> 'recommendation' <u>for</u> 'recommendations'.
4	Last		<u>read</u> 'Undertakings' <u>for</u> 'Undertaking'.
6	7		<u>read</u> 'lube' <u>for</u> 'blue'.
7	12 from bottom		<u>read</u> 'tender' <u>for</u> 'sector'.
8	2		<u>read</u> 'contract' <u>for</u> 'contact'.
8	10 from bottom		<u>add</u> 'are' <u>after</u> 'They'.
10	21 from bottom		<u>read</u> 'The' <u>for</u> 'Their'.
10	14 from bottom		<u>read</u> 'There' <u>for</u> 'Their'.
10	4 from bottom		<u>read</u> 'view' <u>for</u> 'views'.
11	4		<u>read</u> 'condition was' <u>for</u> 'was condition'.
11	5 from bottom		<u>read</u> 'a' <u>for</u> 'as'.

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(1969-70)

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Shri Y. Sahai—*Under Secretary.*

*Elected w.c.f. 22-12-69 vice Shri G. G. Swell resigned.

STUDY GROUP 'E' OF ESTIMATES COMMITTEE
(1969-70)

CONVENER

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Shri B. B. Tewari—*Deputy Secretary.*

Shri Y. Sahaj—*Under Secretary.*

*Nominated on 29-12-69 *vice* Shri G.G. Swell resigned.

INTRODUCTION

1, the Chairman of the Estimates Committee having been authorised by the Committee, present this Hundred and Fifteenth Report of the Estimates Committee on the action taken by Government on the recommendations contained in the 86th Report of the Estimates Committee (Fourth Lok Sabha) on the Ministry of petroleum and Chemicals—Purchase of oil barrels by the Indian Oil Corporation Ltd., during 1966-67 against Tender No. OP/TEN-7/65.

2. The 86th Report was presented to Lok Sabha on the 30th April, 1969. Government furnished their replies, indicating action taken on the recommendations contained in the Report, on the 21st October, 1969. The replies were examined by the Study Group 'E' of the Estimates Committee (1969-70) at their sitting held on the 30th January, 1970. The draft Report was adopted by the Estimates Committee (1969-70) on the 19th February, 1970.

3. The Report has been divided into the following Chapters:

- I. Report;
- II. Recommendations which have been accepted by the Government.
- III. Recommendations which the Committee do not desire to pursue in view of the Government's reply.
- IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

4. An analysis of the action taken by Government on the recommendations contained in the 86th Report of the Estimates Committee (Fourth Lok Sabha) is given at Appendix. It would be observed therefrom that out of 16 recommendations made in the Report, 11 recommendations, *i.e.* 69 percent have been accepted by Government and the Committee do not desire to pursue 2 recommendations, *i.e.* 12 percent in view of Government's reply. Replies of Government in respect of 3 Recommendations *i.e.* 19 percent have not been accepted by the Committee.

NEW DELHI,
February 23, 1970
Phalgun 4, 1891(S)

M. THIRUMALA RAO,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

Non-compliance of the Delivery Schedule (Sl. No. 7, Para No. 3.4 to 3.8)

The Committee had noted that the order for the supply of 2,50,000 barrels was placed by the Indian Oil Corporation on each of the suppliers viz., M/s. Hind Galvanising and Engineering Company, Calcutta (HGEC) on the 24th October, 1966 and M/s. Standard Drum and Barrel Manufacturing Company, Bombay (SDBM) on 22nd June, 1966 respectively. According to the delivery schedule, the delivery of barrels by each of the two suppliers was to be between 15,000 and 30,000 per month. It had been stated that SDBM and HGEC started the supply of barrels from the month of June, 1966. While SDBM completed the supply order in January, 1968, HGEC supplied only 2,28,830 barrels upto December, 1968. It had been observed that the purchase order placed on the firms provided for escalation in the price of barrels under which price escalations had been given to these firms. It had been stated that after May, 1967 there had been two price escalations—one of 7 paise effective from the 1st February, 1968 and the other of Rs. 5.66 effective from the 1st Aug., 1968. All these price escalations were the result of revision in steel prices, except the escalation of 41 paise which was due to increase in the cost of steel as well as in Central Sales Tax from 2 per cent to 3 per cent.

2. The Committee were concerned to note that while M/s. Standard Drum and Barrel Manufacturing Company completed their supplies of barrels in January, 1968, M/s. Hind Galvanising and Engineering Company had not completed the order and even after a period of 31 months of starting supplies, over 20,000 barrels remained to be supplied by them as on the 31st December, 1968. Even if the supplies had been maintained at the minimum rate *i.e.* 15,000 barrels instead of 25,000 barrels per month as agreed to by the firm, the entire supplies should have been completed latest by March, 1968. The delay in supplies has also resulted in giving price escalation to the firm—the latest one of Rs. 5.66 per barrel being effective from 1st August 1968. From the monthly statement of supplies made by the firm it was noticed that the firm withheld supplies for about a year *i.e.* from June, 1967 to May, 1968. The Committee felt that there was no justification for them to stop supplies even if there was a dispute between the supplier and the Corporation, as the same was under arbitration. Although the arbitration award was given in September, 1967 the firm took another 7 months to resume the supplies. The Committee considered that the Indian Oil Corporation should have taken steps to force the supplier to continue regular supply in terms of the Purchase Order and in case of default should have taken appropriate steps to claim damages for the delay in the suspension of supplies. The Committee desired the Corporation to examine, in consultation with their legal advisers, whether the delay in making supplies and withholding of supplies by the firm was justified and whether necessary compensation could be claimed from the firm in terms of Clause 11 or any other clause regarding liquidated damages. It was also to be examined whether price escalation given to this firm for supplies of barrels after March, 1968 was justified as the delay in making supplies was on account of the default of the suppliers.

3. Government have in their reply stated that the Indian Oil Corporation are examining this recommendation in consultation with their legal advisers.

4. The Committee are unhappy to note that the Indian Oil Corporation have taken a long time in consulting their legal advisers. They feel that this matter should have been settled by now.

Agreement (Sl. No. 15, Para Nos. 3.59 to 3.63)

5. The Committee had noted that the Purchase Orders placed by the Indian Oil Corporation with M/s. Standard Drum and Barrel Manufacturing Co. (SDBM) and M/s. Hind Galvanising and Engineering Company, Calcutta (HGEC) stipulated that the suppliers would enter into a formal agreement with the Corporation within 15 days of the placing of the purchase order. A scrutiny of the agreement entered into by the Indian Oil Corporation with SDBM revealed that ample safeguards had been provided for recovery of damages for delay in the delivery of the barrels and for claiming compensation from the suppliers for non-fulfilment of the contract in time or for a breach of any of the conditions, terms and provisions of the contract. Clause 3 of the Agreement and the schedule of rates appended thereto spell out clearly and in minute details the break-up of the price per barrel to be paid to the supplier. It was also significant that the risk purchase clause, included in the Purchase Order which limited the recovery of additional expenses to a maximum of Rs. 2/- only per barrel, was not there in the agreement which meant that in the event of failure to supply the barrels for any length of time, the Corporation would have been entitled to recover the entire actual expenditure incurred by it to maintain supplies. In this particular case, the Corporation could have legally recovered Rs. 1.34 lakhs, the entire expenditure incurred by it in arranging supplies through the Suppliers' Corporation.

6. The Committee found that while M/s. Standard Drum and Barrel Manufacturing Co., entered into a formal agreement with the IOC on the very day the purchase order was placed on them, M/s. Hind Galvanising and Engineering Co., did not execute any such agreement although this was clearly stipulated in their purchase order. Had a formal agreement been entered into by the Corporation with M/s. Hind Galvanising and Engineering Co., it would have enabled the Corporation to deal firmly with this Company in the event of their making supply of barrels from out of hot-rolled sheets and billing for cold-rolled sheets as well as for other breaches of contract like suspension of supplies, delays in making regular supplies and making supplies through their *benami* firm, namely, M/s. Suppliers Corporation at exorbitant rate. The Committee were inclined to believe that if the agreement had been executed, HGEC would not have dared to raise a dispute with the Corporation and put them to all this inconvenience and extra expense. Moreover, the Corporation could have recovered the entire extra expenditure amounting to Rs. 1.34 lakhs incurred by them in arranging supplies through the Suppliers Corporation. The Committee were unable to understand why the Corporation, did not insist on the signing of the formal agreement by the HGEC which should have been done. They took a very serious view of this lapse on the part of the Corporation and recommended that the matter should be fully investigated and responsibility therefor fixed with a view to take disciplinary action and a report submitted

to them. They also desired the Corporation should draw a lesson from this incident and take appropriate remedial measures so as to avoid repetition of such mistakes in future.

7. Government have in their reply stated that "the IOC have already taken note of the observations made by the Committee. It will, however, have to be appreciated that due to the chronic shortage of steel barrels, a commercial organisation like the IOC could have insisted on the other party first signing the contract before accepting supplies only at the risk of jeopardising the much needed supplies to the Defence and to the priority other customers in the Eastern Sector. I.O.C. have, however, taken note of the Committee's observations that in future no purchase order involving long-term supplies of substantial value should be left uncovered without a formal agreement. In view of above, it is felt that no useful purpose will be served by investigating this matter further."

8. The Committee do not accept this plea of Government and reiterate their earlier recommendations that non-execution of a formal agreement with M/s. Hind Galvanising and Engineering Company, Calcutta was a serious lapse which should be investigated further with a view to take disciplinary action.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Serial No. 1 Paragraph 2·12)

The Committee are given to understand that the public tender system followed by the I. O. C. for purchase of stores is generally similar to the procedure obtaining in other public undertakings. They note that a Tender Committee consisting of Operational Manager, Engineering Manager and the Financial Controller is constituted for scrutinising the tenders, undertaking negotiations with the tenderers and making recommendations to the appropriate authority for approval. The Committee consider that the system of negotiations after calling for tenders should be discouraged as far as possible unless it becomes absolutely necessary in the commercial interests of I. O. C.

Reply of Government

Noted for future guidance.

[*Min. of P & C & M & M (Deptt. of P & C) O. M. No. 13/5/69-IOC dt. 15/21-10-69*]

Recommendation (Serial No. 2 Paragraph No. 2·23)

The Committee note that the Indian Oil Corporation observed the prescribed procedure in regard to selection of parties for making supplies of oil barrels in respect of Tender No. OP/TEN-7/65. In the opinion of the Committee, the decision of the Board of Directors to split the order and place the same on M/s. Standard Drums and Barrel Manufacturing Co. and other parties at Bombay and M/s. Hind Galvanising and Engineering Co. at Calcutta, whose tender was the lowest there appear to be justified. They note that the tender of M/s. Bharat Barrel and Drum Manufacturing Co. which was the lowest at Bombay, was given due consideration. No order could, however, be placed on them at Bombay as they were found to be a blacklisted party at that time. Apart from this, purchasing of oil barrels from M/s. Bharat Barrel both at Calcutta and at Bombay would have amounted to the grant of monopoly purchase rights to this company during that year which the Corporation considered administratively inadvisable and against their future commercial interests.

Reply of Government

Noted.

[*Min. of P & C and M & M (Deptt. of P & C) O. M. No. 13/5/69-IOC dt. 15/21-10-69*]

Recommendation (Serial No. 3 Paragraph 2·30)

The Committee are constrained to observe that I. O. C. continued to place orders for supplies of barrels on M/s. Bharat Barrel and Drum Mfg. Co. till 5th May, 1966 although this company stood black listed at that time and the Standardised Code of Procedure for blacklisting had been made applicable to the Public Undertaking in February, 1966.

Reply of Government

Noted. This happened because the letter dated the 21st February, 1966, was not received by the Indian Oil Corporation.

[*Min. of P & C & M & M (Deptt. of P & C) O. M. No. 13/5/69-IOC dt. 15/21-10-1969*].

Recommendation (Serial No. 4 Paragraph 2.31)

The Committee regret to note that important communications from Government containing confidential instructions relating to blacklisting of firms, received in the office of the Indian Oil Corporation, could not subsequently be traced. They are concerned to note that the letter of May, 1964, which was finally marked and acknowledged by an officer, who is no longer in the service of the Corporation was found lost. They are amazed that the letter of February, 1966 communicating the reciprocal arrangement for following the Standardised Code of Procedure was not received by the Indian Oil Corporation although the same was sent by the Ministry. The Committee are not sure whether other important and confidential documents might not have been lost in the Corporation in similar circumstances. The leaving of services of the Corporation by the concerned officer in this case appears to be significant and should be taken serious note of. This clearly indicates that the system of recording and custody of documents in the I. O. C. is far from satisfactory. The Committee need hardly stress the urgent need to review the procedure of recording and custody of confidential and secret documents in the Corporation in order to ensure that such important documents are not lost in future.

Reply of Government

Indian Oil Corporation has already made a detailed review of their procedures for recording, movement and safe custody of important and secret documents. Based on this, procedures have been introduced to ensure that important documents are properly connected and recorded.

[*Min. of P & C & M & M (Deptt. of P & C) O. M. No. 13/5/69-IOC dt. 15/21-10-69*]

Recommendation (Serial No. 5, Paragraph 2.32)

The Committee also note that at the time of finalisation of the tender in May, 1966, the Government order of blacklisting was in operation against M/s. Bharat Barrel and Drum Manufacturing Company. It was only on 17-6-1966 that the Punjab High Court as an interim relief quashed the operation of the blacklisting order initially for a few weeks and on 18-7-1966 till further orders. Hence it would appear that on the crucial date *i.e.* on 14th May, 1966, the tender of M/s. Bharat Barrel and Drum Manufacturing Company could not be accepted by Indian Oil Corporation under the rules then existing on the subject.

Reply of Government

Noted.

[*Min. of P.&C & M&M (Dept. of P&C) O.M. No. 13/5/69-IOC dated 15/21-10-69*]

Recommendation (Serial No. 10 Paragraph 3-33)

The Committee note that during 1966-67, in addition to the regular allocation of 780 M. Tonnes of steel sheets, HGEC were given a special additional quota of 5,186 M. Tonnes of steel sheets. This special allocation was made to them out of a total special quota of 25,000 M. Tonnes which was allocated to various barrel manufacturers on pro rata basis for meeting the needs of orders placed by oil companies for supply of blue barrels. It would therefore appear that HGEC were given special quota of steel sheets during 1966-67 along with all other barrel manufacturers.

Reply of Government

Noted.

[*Min. of P&C and M&M (Deptt. of P&C) O.M. No. 13(5)/69/IOC, dated 15/21-10-69*]

Recommendation (Serial No. 11 Paragraph 3-34)

The Committee note that in June, 1966, HGEC had a stock of 777 M. Tonnes of 18 gauge steel sheets which according to their affidavit was cold-rolled. The special quota of 5,186 M. Tonnes of steel sheets given to them, was however hot-rolled. Out of this special quota the share of IOC was 4321.66 M. Tonnes, sufficient to manufacture 1,64,223 barrels. Against this number, only 49,226 barrels made out of hot-rolled sheets, are stated to have been supplied to the IOC. The Committee are unable to appreciate this. Even if it is admitted that the stock of steel sheets of 777 M. Tonnes held by M/s. HGEC in June, 1966 and the regular allocation of 780 M. Tonnes during 1966-67 was cold-rolled, the same would have been sufficient to manufacture about 60,000 barrels, all of which may not have been supplied to the Indian Oil Corporation as HGEC were supplying barrels to other companies also. The Committee are therefore not convinced by the statement of the Corporation that 49,226 barrels only made out of hot-rolled steel sheets were supplied to them by HGEC for which a deduction of Rs. 70,497.88 was made from them. Further since the information regarding the monthly supply of hot-rolled sheets to HGEC against their special quota, has not been made available to the Committee, they are unable to say whether or not all the barrels viz. 1,64,224 which could be manufactured from the special quota of hot-rolled sheets were made available to the Corporation. The Committee are also unable to understand why the Indian Oil Corporation did not insist on the supply of barrels from out of the special quota when the same were cheaper and the DGTD had specifically instructed HGEC to do so. The Committee recommend that the whole matter may be specially got investigated by the Comptroller and Auditor General to find out the number of barrels made out of hot-rolled sheets supplied by HGEC to the Indian Oil Corporation and the correctness of the payments made therefor. If need be, the assistance of DGTD may be obtained for this investigation.

Reply of Government

Noted. As the C&AG does not have jurisdiction over private parties, it has been decided to refer the matter to the CBI for a detailed enquiry.

[*Min. of P&C and M&M (Dept. of P&C) O.M. No. 13/5/69-IOC, dated 15/21-10-69*]

Comments of the Committee

The Committee would like to be informed, in due course, about the outcome of the correspondence presently going on between the Government and the C.B.I. for taking up investigation of the matter by the latter.

Recommendation (Serial No. 12 Paragraph 3-43)

The Committee consider that correct procedure has been followed in referring the dispute between M/s. Hind Galvanising and Engineering Co. and Indian Oil Corporation to Arbitration. The appointment of the General Manager as Arbitrator on the specific request of M/s. Hind Galvanising and Engineering Company instead of the Engineering Manager as stipulated in the Purchase Order would appear to be quite in order and has not, in any way, adversely affected the interests of the Corporation. The Arbitrator has given the award on principles leaving the calculation of monetary effect to be settled on the agreed basis. A sum of Rs. 1,16,673.88 was recovered from the firm as a result of the arbitration award.

Reply of Government

Noted.

[*Min. of P&C and M&M (Dept. of P&C) O.M. No. 13/5/69-IOC, dated 15/21-10-69*]

Recommendation (Serial No. 13 Paragraph 3-54)

The Committee note that the emergent purchase of 21,000 barrels by the Indian Oil Corporation from M/s. Suppliers Corporation, consequent upon the stoppage of supplies by M/s. Hind Galvanising and Engineering Co. resulted in an extra expenditure of Rs. 1,34,400 to them. The fact that M/s. Suppliers Corporation were a wholly owned subsidiary of HGEC and were a "benami" organisation, would appear to indicate that HGEC supplied these barrels to the IOC through the Suppliers Corporation at a much higher price than they could do under the Purchase Order. It is regrettable that no other firm came forward to make supplies in response to the public sector which was floated by the Corporation for a part of the supplies. The most disquieting aspect of this transaction is that this extra expenditure could not be recovered from HGEC—the suppliers, as the amount stipulated in their risk purchase clause was very low. Thus in this transaction, the Corporation suffered on two accounts :

- (i) they had to purchase barrels from a benami of their regular supplier;
- (ii) they had to pay much higher prices for the barrels resulting in an extra expenditure of Rs. 1,34,400.

The Committee are surprised that an organisation of the stature and experience of the Indian Oil Corporation which has to make large purchases, found itself helpless to secure compliance with the terms of the Purchase

Order and recover adequate compensation from their regular suppliers for breach of contract. The Committee would like the Corporation to take lesson from this case and to guard against such tight situations in future. They further suggest that the IOC should bear in mind, the dealings of HGEN in this transaction while considering the question of placing orders on them in future.

Reply of Government

Noted.

[*Min. of P&C and M&M (Dept. of P&C) O.M. No. 13/5/69-IOC dated 21-10-69*]

Recommendation (Serial No. 14, Paragraph 3-58)

The Committee consider that the amount of Rs. 2/- per barrel included in the risk purchase clause in the Purchase Orders of the suppliers was unrealistic and not related to the prevailing market conditions. The intention behind the risk purchase clause is to prevent the supplier from making default in supplies. In this case, it has proved to be otherwise. The Committee consider the inclusion of this provision in the existing form to be totally ineffective in subserving the purpose for which it is intended. They would urge that in future a suitable and effective clause should be included in the Purchase Orders and Agreements of the Indian Oil Corporation so as to deter the defaulting parties from withholding supplies.

Reply of Government

Noted. We would, however, venture to suggest that as long as the existing seller's market for barrels continues, unless the suppliers agree to a risk purchase clause, even the existing clause of Rs. 2/- per barrel may be difficult to retain.

[*Min. of P&C and M&M (Dept. of P&C) O.M. No. 13/5/69-IOC, dated 21-10-69*]

Recommendation (Serial No. 16, Paragraph 4. 4)

The Committee are unhappy to note that the barrel fabricators are unwilling to accept any condition regarding the quality of the steel, to be used in the manufacture of oil barrels and linking the same with price to be paid for them. The Committee realise that there is shortage of steel sheets in the country which is mainly responsible for this state of affairs. They surprised to note that while on the one hand there is shortage of steel sheets in the country, there is unutilised capacity with the Hindustan steel. This indicates defect in planning the production in the steel plant. The Committee hope that suitable measures will be taken to step up the production of steel sheets which are in short supply. In the meanwhile, the Committee would like the Government to look into this matter in detail and take appropriate steps to remove the difficulties of the consumer oil companies. The Committee have dealt with this matter in detail in their Eighty-fifty Report on the Ministry of Industrial Development, Internal Trade and Company Affairs—Recognition

of additional capacity in the barrel industry in spite of its being in the Banned List.

Reply of Government

Noted. The question of augmenting production of scarce categories of steel including 18 gauge sheets required for barrels fabrication is constantly engaging the attention of the Government and all efforts are being made to optimise their production in the various steel plants.

As regards taking up appropriate steps to remove the difficulties of the oil companies, it is noted that the Estimates Committee have already made certain recommendations in this regard in their 85th Report, action on which is being taken in the Ministry of Industrial Development, Internal Trade and Company Affairs (Department of Industrial Development).

[Min. of P & C and M & M (Deptt. of P & C) O.M. No. 13(5)/69/IOC dated 21.10.69]

CHAPTER III

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

Recommendation (Serial No. 6, Paragraph 3-3)

The Committee are unable to appreciate the reasons advanced by the Indian Oil Corporation for laying down different specifications of steel sheets for the manufacture of oil barrels by the two suppliers. They feel that Indian Oil Corporation should have called for separate quotations for each category of barrels so as to be able to give a clear description of items, specifications and prices in the Purchase Orders subsequently. While in the purchase order placed on M/s. Hind Galvanising and Engineering Company Private Ltd., by the Indian Oil Corporation, the specification clause mentions drums manufactured out of 18 gauge cold-rolled cold-annealed sheets (or of hot rolled sheet if cold-rolled sheet is not made available) the price clause quotes the price for tested and untested quality of cold-rolled steel only. There is no mention whatsoever about the cost of hot-rolled sheets. This seems to have provided a loophole to M/s. Hind Galvanising and Engineering Company to claim that this was a flat price for barrels made out of hot-rolled or cold-rolled sheets, to raise a dispute and go in for arbitration. The Committee urge that I.O.C. should spell out clearly the conditions to be included in the Tender, Purchase Order and Agreement for all types of important stores so as to leave no room for any ambiguity in their description, specifications and prices. Their Committee would also recommend that the lapse in this case should be investigated and responsibility therefor fixed.

Reply of Government

The recommendation of the Committee has been noted. In the situations obtaining the tendered rates were broadly related to fabrication charges, cost and type of the steel used, cost of paint and other materials and delivery charges etc. It was basically on these considerations that the Arbitrator's award was made in favour of the I.O.C. There had also been no lapse or malafides on the part of the Corporation as all the differences in payments were duly adjusted. However, as suggested by the Committee, the Indian Oil Corporation has been directed to take special care in future and spell out clearly the conditions in the Tenders, Purchase Orders, agreements etc. for all types of important stores leaving no scope for ambiguity. In the present case, the difficulty seems to have arisen on account of the deliberate attempts on the part of H.G.E.C. to misinterpret and confuse the clear provisions incorporated in the Purchase Order. Since the whole matter has already been thoroughly investigated by the Company as also by the Arbitrator, institution of a fresh enquiry, in views of the Ministry, may not serve useful purpose and may, therefore, appear to be unnecessary.

[Ministry of P & C. and M & M. (Deptt. of P & C.) O.M. No. 13(5)/69/IOC, dated 21-10-69]

Recommendation (Serial No. 9, Paragraph 3.20)

The Committee regret to observe that the Corporation failed to perform its duty in the matter of inspection of barrels during manufacture and of steel stocks with the fabricators which was condition incorporated in the Purchase Orders. Had even sample inspections of the stock of steel sheets and barrels during manufacture been done, it was likely that the supply of barrels made out of hot-rolled steel sheets by the two suppliers could have been detected in time.

Reply of Government

Noted. However, sample inspection of stocks and of barrels during manufacture is unlikely to be of any practical use due to the fact that the suppliers are fabricating barrels not only for supply to I.O.C. but for supplies to other parties also. Nothing short of a complete control over every fact of suppliers' activities can help eliminate malpractices. Such as control will obviously not be possible, nor will any supplier agree to the same, at least as long as the present sellers' market persists.

[Min. of P & C and M & M (Deptt. of P & C) O.M. No. 13/5/69-IOC dated 21-10-69]

CHAPTER IV

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

Recommendation (Serial No. 7, Paragraph 3.8)

The Committee are concerned to note that while M/s. Standard Drum and Barrel Manufacturing Company, completed their supplies of barrels in January, 1968, M/s. Hind Galvanising and Engineering Company have not completed the order and even after a period of 31 months of starting supplies, over 20,000 barrels remained to be supplied by them as on the 31st December, 1968. Even if the supplies had been maintained at the minimum rate *i.e.* 15,000 barrels instead of 25,000 barrels per month as agreed to by the firm, the entire supplies should have been completed latest by March, 1968. The delay in supplies has also resulted in giving price escalations to the firm the latest one of Rs. 5.66 per barrel being effective from 1st August, 1968. From the monthly statement of supplies made by the firm it is noticed that the firm withheld supplies for about a year *i.e.* from June, 1967 to May, 1968. The Committee feel that there was no justification for them to stop supplies even if there was a dispute between the supplier and the Corporation as the same was under arbitration. It is all the more surprising that although the arbitration award was given in September, 1967 the firm took another 7 months to resume the supplies. The Committee consider that the Indian Oil Corporation should have taken steps to force the supplier to continue regular supply in terms of the Purchase Order and in case of default should have taken appropriate steps to claim damages for the delay in the suspension of supplies. The Committee would like the Corporation now to examine in consultation with their legal advisers whether the delay in making supplies and withholding of supplies by the firm was justified and whether necessary compensation could be claimed from the firm in terms of Clause 11 or any other clause regarding liquidated damages. It may also be examined whether price escalation given to this firm for supplies of barrels after March, 1968 was justified as the delay in making supplies was on account of the default of the supplier.

Reply of Government

Indian Oil Corporation are examining this recommendation in consultation with their legal advisers.

[Min. of P & C and M & M (Deptt. of P & C) O.M. No. 13/5/69-IOC, dated 15-10-69]

Comments of the Committee

Please see comments in paras 1 to 4 of Chapter I of the Report.

Recommendation (Serial No. 8, Paragraph 3-18)

The Committee are constrained to observe that the making of payments to the suppliers of barrels both at Calcutta and Bombay without verification of invoices as stipulated in the Purchase Orders, was a serious omission. The seriousness is aggravated by the fact that this mistake was detected after more than half the supplies had been made by each of the two firms for which payments amounting to about Rs. 75 lakhs had been made to them. The Committee are not convinced by the argument that the Eastern Branch was making only provisional payments to HGEC and had withheld about Rs. 3 lakhs. They understand that making of provisional payments in the case of big contracts running over long periods, is a normal practice and hence they feel that this was not resorted to as a special precaution in this case. The Committee are not satisfied with the findings of the Financial Controller that this was a case of oversight in the context of the circumstances and that no punishment was necessary therefor. Having regard to the fact that a copy of the Purchase Order was duly sent to the Branches, it was clearly the duty of the Accounts, Finance as well as the Executive Branches to ensure that the provisions of the Purchase Order were fully complied with before making any payments to the suppliers. The Committee consider this a case of dereliction of duty and recommend that the whole matter may be enquired into afresh with a view to fix responsibility and to take disciplinary and other remedial action as may be considered necessary.

Reply of Government

The observations made by the Committee have been noted. The working conditions in the Eastern Branch were under a tremendous strain. The position was particularly acute and difficult in the Accounts Sections where the Trade Union activities had a stronger hold resulting in frequent and prolonged go-slow tactics, pen down /sit down strikes, demonstrations and deliberate disregard of the superiors etc. This disrupted the normal operation of the Company resulting in accumulation of arrears including in respect of the very basic and important function of issuing the bills for supplies made. This necessitated the unprecedented posting of a second Branch Manager, a Financial Controller and a team of other officers to help normalising the affairs of this Branch. It is gratifying to note that even in these difficult circumstances, the IOC was able to detect on its own the incorrect billing by the HGEC and safeguard its commercial interests. Any enquiry, therefore, at this stage may only have a disheartening and demoralising effect on those who worked under a heavy stress and strain. Moreover, since the organisation did not suffer any financial loss, it is very unlikely that another enquiry will serve any useful purpose.

[Min. of P & C and M & M (Deptt. of P & C) O. M. No. 13/5/69-IOC, dated 15/21-10-69]

Comments of the Committee

The Committee are not satisfied with the reply of Government.

Recommendation (Serial No. 15, Paragraph 3-63)

The Committee find that while M/s. Standard drum and Barrel Manufacturing Co. entered into a formal agreement with the IOC on the very day

the purchase order was placed on them, M/s. Hind Galvanising and Engineering Co. did not execute any such agreement although this was clearly stipulated in their purchase order also. Had a formal agreement been entered into by the Corporation with M/s. Hind Galvanising and Engineering Co. it would have enabled the Corporation to deal firmly with this Company in the event of their making supply of barrels from out of hot-rolled sheets and billing for cold-rolled sheets as well as for other breaches of contract like suspension of supplies, delays in making regular supplies and making supplies through their benami firm, namely, M/s. Suppliers Corporation at exorbitant rate. The Committee are inclined to believe that if the agreement had been executed H.G.E.C. would not have dared to raise a dispute with the Corporation and put them to all this inconvenience and extra expense. Moreover, the Corporation could have recovered the entire extra expenditure amounting to Rs. 1.34 lakhs incurred by them in arranging supplies through the Suppliers Corporation which has been referred to in paras 3.44 to 3.54 of the report. The Committee fail to understand why the Corporation did not insist on the signing of the formal agreement by the H.G.E.C. which should have been done. The Committee take a very serious view of this lapse on the part of the Corporation and recommend the matter should be fully investigated and responsibility therefor fixed with a view to take disciplinary action and a report submitted to them. They would also like the Corporation to draw lesson from this incident and take appropriate remedial measures so as to avoid repetition of such mistakes in future.

Reply of Government

The IOC have already taken note of the observations made by the Committee. It will, however, have to be appreciated that due to the chronic shortage of steel barrels, a commercial organisation like the IOC could have insisted on the other party first signing the contract before accepting supplies only at the risk of jeopardising the much needed supplies to the Defence & to the other priority customers in the Eastern Sector. IOC have, however, taken note of the Committee's observations that in future no purchase order involving long-term supplies of substantial value should be left uncovered without a formal agreement. In view of above, it is felt that no useful purpose will be served by investigating this matter further.

[Min. of P & C and M & M (Deptt. of P & C) O.M. No. 13/(5)/69/IOC, dated 15/21-10-69]

Comments of the Committee

Please see comments in paras 5 to 8 of Chapter I of the Report.

NEW DELHI ;

February 23, 1970.

Phalgun 4, 1891 (S).

M. THIRUMALA RAO,
Chairman,
Estimates Committee.

APPENDIX

(Vide Introduction)

Analysis of the Action taken by the Government on the recommendations contained in the 86th Report of the Estimates Committee

(Fourth Lok Sabha)

I. Total number of recommendations	16
II. Recommendations which have been accepted by Government (<i>vide</i> recommendations at Sl. Nos. 1, 2, 3, 4, 5, 10, 11, 12, 13, 14 & 16)	
Number	11
Percentage of total	69
III. Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendations at Sl. Nos. 6 and 9)	
Number	2
Percentage of Total	12
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee (<i>Vide</i> recommendation at Sl. Nos. 7, 8 and 15)	
Number	3
Percentage of total	19

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