# THIRTIETH REPORT

# COMMITTEE ON PUBLIC UNDERTAKINGS
# (1986-87)

(EIGHTH LOK SABHA)

**STEEL AUTHORITY OF INDIA LTD.—**
**SALEM STEEL PLANT**

**(MINISTRY OF STEEL AND MINES—DEPARTMENT OF STEEL)**

सत्यमेव जयते

*Presented to Lok Sabha on 30 April, 1987*
*Laid in Rajya Sabha on 30 April, 1987*

**LOK SABHA SECRETARIAT**
**NEW DELHI**

*April, 1987/Vaisakha, 1909 (Saka)*

*Price : Rs. 3.00*

CORRIGENDA TO THIRTIETH REPORT OF COMMITTEE ON PUBLIC UNDERTAKINGS (EIGHTH LOK SABHA).

| Page | Para | Line | For | Read |
|---|---|---|---|---|
| i) | III(d) | - | bumden | burden |
| v) | - | 2 | Authority | Autonomy |
| 3 | 1.10 | 5 | (SDFR) | (SDPR) |
| 5 | Caption of 1.16 | - | Mills | Mill |
| 6 | 1.17 | 8 | get | got |
| 11 | 1.37 | 4 | implemen-ting | implemen-tation |
| 13 | 1.41 | 22 | stage in | stage is |
| 14 | 1.44 | 2 | given | even |
| 15 | 1.47 | 3 | ben | been |
| 19 | 1.59 | 5 | rigorously | vigorously |
| 20 | 1.61 | 18 | ascertain on the | ascertain the |
| 31 | 3.4 | 7 | Hot Pands | Hot Bands |
| 35 | 3.19 | 3 | reported | reportedly |
| 36 | 3.24 | 9 | IMT | 1 MT |
| 40 | 3.41 | 15 | norms | norm |
| 43 | 3.50 | 10 | Scheduled-I | Schedule - |
| 53 | 4.18 | 3 | Sir | Sri |
| 55 | 4.22 | 1 | te | the |
| 55 | 4.22 | 3 | indicated | indicted |

## CONTENTS

# COMMITTEE ON PUBLIC UNDERTAKINGS
## (1986-87)

CHAIRMAN

Shri K. Ramamurthy

MEMBERS

*Lok Sabha*

2. Chowdhry Akhtar Hasan
3. Shri Narayan Choubey
4. Shri Dinesh Goswami
5. Shri Harpal Singh
6. Shrimati Sheila Kaul
7. Shri Haroobhai Mehta
8. Shri Satyagopal Misra
9. Shri Braja Mohan Mohanty
10. Shri K. R. Natarajan
11. Shri Ram Bhagat Paswan
12. Dr. Sankta Prasad
13. Shri K. Ramachandra Reddy
14. Shri Chiranji Lal Sharma
15. Shri V. S. Vijayaraghavan

*Rajya Sabha*

*16. Shri Jagesh Desai
17. Shri Krishna Nand Joshi
18. Prof. C. Lakshmanna
19. Shrimati Ratan Kumari
20. Shri Santosh Kumar Sahu
21. Shri G. Varadaraj
22. Shri Jagdambi Prasad Yadav

SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary.*
2. Shri G. S. Bhasin—*Senior Financial Committee Officer.*

---

*Elected w.e.f. 22-8-1986 in the vacancy caused by appointment of Miss Saroj Khaparde as Minister of State.

## STUDY GROUP II ON SALEM STEEL PLANT; ACCOUNTABILITY AND AUTHORITY OF PUBLIC UNDERTAKINGS; CONTRACT SYSTEM AND SYSTEM FOR DISPOSAL OF UTILISED STORES IN COAL MINES INCLUDING NEYVELI LIGNITE CORPORATION LTD.

1. Shri Dinesh Goswami—*Convener.*
2. Shri Haroobhai Mehta—*Alternate Convener.*
3. Shri Harpal Singh
4. Smt. Ratan Kumari

# INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to present the Report on their behalf, present this Thirtieth Report on Steel Authority of India Ltd.—Salem Steel Plant.

2. The Committee took evidence of the representatives of Steel Authority of India—Salem Steel Plant on 18 and 19 September, 1986, 11, 12 and 13 November, 1986 and 12 February, 1987 and of the representatives of Ministry of Steel and Mines (Department of Steel) on 24 and 25 February, 1987.

3. The Committee on Public Undertakings (1986-87) considered and adopted the Report at their sitting held on 24 April, 1987.

4. The Committee wish to express their thanks to the Ministry of Steel and Mines (Department of Steel) and Steel Authority of India Ltd.—Salem Steel Plant for placing before them the material and information they wanted in connection with examination of SAIL-SSP. They also wish to thank in particular the representatives of the Ministry of Steel and Mines (Department of Steel) and Steel Authority of India Ltd.—Salem Steel Plant who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;
April 27, 1987.

*Vaisakha* 7, 1909 (*S*).

K. RAMAMURTHY,
*Chairman,*
*Committee on Public Undertakings.*

## I. PROJECTS

### (a) *Stage-I*

In the year 1960, Tamil Nadu Government initiated a proposal for the establishment of an integrated iron and steel plant based on Kanjamalai iron ore and Neyveli Lignite. This was followed by a visit of East German Experts to Salem in 1960. The team reported that Kanjamalai ore after adequate processing would be well suited for reduction in low shaft furnace using Neyveli Lignite coke. Subsequently large scale tests were conducted in India and abroad and the tests proved the prospect of producing iron from Kanjamalai using lignite.

*Detailed Project Report* (1964)

1.2 Government of India commissioned M/s. MN Dastur & Co. (Dasturco) in February 1963 for preparing a DPR for setting up an iron and steel plant at Salem. The DPR submitted in August 1964 envisaged a plant of about 500,000 t/yr liquid steel yielding about 425,000 t/yr of Carbon/low Alloy finished products comprising rails, medium and light structural, merchant products etc. The plant was estimated to cost Rs. 95.5 crores. The report was reviewed by Japan Consulting Institute (JCI). JCI confirmed that the project was technically feasible and economically viable.

1.3 In terms of an announcement made by the Prime Minister in Parliament on 17th April, 1970, Government of India decided to set up a steel plant at Salem. The Committee wanted to know why the Government took six years in taking a decision on the question of setting up an integrated steel plant at Salem. The Secretary, Department of Steel stated:

> "In 1948 after independence, we started examining the question of setting up of a steel industry in this country. Some studies were done in this respect. On the basis of those studies decisions for setting up three steel plants at Durgapur, Rourkela and Bhilai were taken. This was in early 50s.
>
> After that, the question of setting up further steel plants was also examined. A number of different sites were identified as possible sites for location of the plants. These

included Bailadila, Hospet, Vizag, Goa, Salem and Neyveli. All of these proposals were in respect of integrated steel plants for making steel. While the studies were in progress in 1964 the Government of India commissioned a DPR on Salem. One of the reasons why the Salem plant was chosen to be the subject of DPR was that there was some difference of opinion as to the technology which should be followed in setting up this plant. One view was that the plant should be set up under the traditional blast furnace and the other was electric arc. In 1964 the DPR was prepared and submitted by the Dastur & Co. which recommended the latter process.

From the time these studies started and subsequent to that also, another development took place in the steel scene in the country. It was noticed that perhaps owing to recession the démand for steel has fallen. In 1964-65 the consumption of steel in the country was 5.4 million tonnes. In 1965-66 it came down to 5.2 MT. In 1966-67 it dropped further to 4.7 MT. It was only around the year 1970 that it picked up slightly 4 MT in 1967-68. At the same time it was found that the capacities already installed or sanctioned for making steel were very substantial. At that time there was approx. 12 MT of ingot steel capacity which had been sanctioned and which would produce about 9 MT of finished steel. This capacity did not exist but decisions to set-up this capacity had been taken-some were in the process of being set-up and some had been set up."

The type of product that was contemplated at Salem originally was the same type of products in other steel plants. Therefore, the Government changed its mind about the Salem steel plant and started considering setting up plant for making alloy steel and special steel."

*Feasibility Report* (1971)

1.4 The Government of India appointed Dasturco on 25th February 1971 to prepare a techno-economic feasibility report for establishment of the steel plant at Salem. This report was submitted in December, 1971 and examined by the Department of Steel, Planning Commission and the Ministry of Finance. It was decided at the meeting of the Steering Committee on January 22, 1972 that the Salem Steel Plant might be designed for production of 2,25,000/

2,35,000 tonnes/year of stainless steel sheets, electrical steel sheets and alloy constructional, Carbon constructional and spring steels, bars & rods.

1.5 The Government of India took an investment decision in May 1972 to have an integrated special steels plant at Salem to produce 195,000 t/yr, strips and sheets of stainless, electrical and other special and mild steels at an investment cost of Rs. 340 crores.

1.6 In October 1972, Government decided that the Project would be implemented in 2 stages to ensure early commissioning of the Project and developing a commercial environment in the initial stages of operation itself.

1.7 Salem Steel Limited was incorporated as a Government Company on 25th October, 1972 to establish and manage the Salem Steel Plant. On the formation of the Steel Authority of India Ltd. (SAIL) on 24th January 1973, Salem Steel Ltd. became a subsidiary of SAIL.

*Detailed Project Report* (1974)

1.8 On 28th September, 1973 the Government of India appointed Dasturco as Consulting Engineers for the Salem Seteel Project for the preparation of the DPR for the total plant and the detailed engineering of the Stage I. In the first Stage, a part of the stainless steel cold rolling mill complex with all the connected facilities was to be installed envisaging an annual production of 32,000 t of finished cold rolled stainless steel sheets and strips of different grades and thicknesses, based on the input, purchased hot rolled coils. The II Stage consisted of all the facilities to manufacture 2,20,000 tonne of finished stainless, electrical and other special and mild steel sheets and strips.

1.9 The Committee were informed in a note that subsequent to the petroleum crisis of November, 1973 and the resulting tight financial position, sufficient funds could not be made available by the Government of India for the implementation of the project and due to inadequate budget allocations for the year 1974-75, 1975-76 and 1976-77, the construction work had to be slowed down.

1.10 The DPR was submitted by Dasturco in December, 1974 and this report was examined by an Expert Committee appointed by SAIL, which approved the DPR with some minor modifications. Subsequently Dasturco submitted in April, 1976 a Supplementary DPR (SDPR) on the use of Kanjamalai magnetite iron ore and the

SDPR was examined by an Expert Committee appointed by SAIL. The Board of Directors of SAIL approved the DPR along with the recommendations of the Expert Committee in January, 1977.

1.11 The Public Investment Board approved the DPR and cleared the First Stage of the Project in February, 1977. On 13th March, 1977 the Government of India approved the DPR for the total plant estimated to cost Rs. 560 crores. However, the investment decision to go-ahead only with the First Stage of the Project for the production of 32,000 t per year of stainless steel sheets/strips costing Rs. 126.81 crores was announced. The First Stage was to be completed and commissioned by September, 1981 *i.e.*, 54 months from the "Go-ahead." This was completed as per schedule. The plant commenced its commercial production with effect from 13th March, 1982.

1.12 Asked about the fees paid for the preparation of FR/DPR, SSP furnished the following figures in a written reply:

| | |
|---|---|
| DPR (1964) .. .. .. | Rs. 9 lakhs |
| FR (1971) .. .. .. | Rs. 3 lakhs |
| DPR (1974) .. .. .. | Rs. 25 lakhs |

1.13 While the Stage I of SSP project was completed as per schedule, the Committee noted that there was considerable cost over-run. The project which was originally estimated to cost Rs. 126.81 crores was now anticipated to cost Rs. 187.36 crores. There has thus been escalation in the total cost to the tune of 48 per cent of the original estimates. Asked to indicate the factor-wise analysis for the increase in cost SSP stated in a written reply that as against the original cost of Rs. 126.81 crores for SSP Stage-I the Government of India approved the revised cost of Rs. 181.19 crores during November, 1982. The broad break-up of the difference in estimates is stated to be as follows:

(Rs./crores)

| | | |
|---|---|---|
| 1. | New items not envisaged in DPR | 10·83 |
| 2. | Margin money for working capital not provided in the original sanction | 13·42 |
| 3. | Interest during construction not provided in the original sanction | 10·73 |
| 4. | Price escalation | 19·77 |
| 5. | Taxes | 4·79 |
| 6. | Change in quantities | (-)0·99 |
| 7. | Others | (-4.17 |
| | TOTAL | 54·38 |

1.14 It has been stated by SSP that after the approval of revised cost estimates in November 1982, it was estimated that the final project cost on completion would be Rs. 187.36 crores. The difference of Rs. 6.17 crores over the revised sanctioned cost was mainly due to capitalisation of pre-production expenditure (Rs. 4.43 crore), the cost of railway siding (Rs. 1.40 crore) and net increase in other budget heads (Rs. 0.34 crore). Subsequently, it was decided that the increase in the project cost would be absorbed from the internal resources of SAIL keeping the final cost of SSP Stage-I at Rs 181.19 crores.

1.15 Justifying the cost-escalation, the Chairman, SAIL stated during evidence:

> "The cost of the plant during this period went up by about Rs. 60 crores. From about Rs. 126 crores, it went up to Rs. 180 crores It so happened because as we went on, a few facilities which were not originally included had been added over a period of time. The expenses on Customs duty have to be paid. Rs. 126 crores was approved in 1977. Over a period of time, it went up to Rs. 187 crores, out of which Rs. 6 crores were absorbed in our own operations. The final sanction was Rs. 181 crores. We have given the reasons for cost increase during this period. Most of it is justified."

(b) *Second Sendzimir Mills*

1.16 The first stage of the project commissioned in September 1981 consisted of one Sendzimir mill and other infrastructural facilities. The Committee noted that whereas the capacity of stainless steel cold-rolling at SSP was only 32,000 tonnes, supporting facilities like annealing, pickling, etc. were geared for capacity of 65,000 tonnes of stainless steel cold-rolled products to cater to 2 Sendzimir mills. Consequently equipment and facilities worth about Rs. 75 crores were lying unutilised. The dormant investment is a burden on the viability of the plant by way of substantial interest and other charges. Referring to the dormant investment of Rs. 75 crores, a representative of SAIL said, during evidence:

> "Rs. 75 crores is an investment for the first phase, which we made out of Rs. 181 crores. This Rs. 75 crores investment has also been made because the second phase was to follow 15 months after that. Otherwise the facilities available with this phase could not be built afterwards

when the plant is in working condition. It should be built together."

The Committee were informed in a note as follows:

"The proposal on installation of second Sendzimir mill was originally approved by the SAIL Board in 1978. During the discussions on this proposal with the appraising agencies of the Government of India, the proposal was considered as well conceived and financially attractive. However, a decision on the proposal was deferred on account of resources constraints."

SAIL informed the Committee that SSP had to bear Rs. 10.5 crores annually as interest and capital related charges on dormant investment.

1.17 Informing that there was an undue delay in sanctioning the second Sendzimir Mill ('Z' Mill), the Chairman, SAIL said during evidence:

"The basic assumption was that the second phase would be automatically taken up soon after the completion of the first. Until the market gets built up, there is no point in having investment on both the Mills. But what happened was, the market get built up, but there was undue delay in taking up the second phase."

1.18 The details of the demand assessment for stainless steel made by SSP/SAIL in July 1986 are given below:

(In tonnes)

| | 1985-86 | 1986-87 | 1988-89 |
|---|---|---|---|
| Estimated demand | 158,000 | 175,915 | 262,390 |
| SSP share | 22,000 | 29,585 | 73,010 |
| Actual sale | 21,870 | .. | .. |

1.19 SAIL stated in a written reply that the demand pattern in future would be in the area of industrial sector as given below which can be met only by SSP:

| | t/yr |
|---|---|
| Coinage | 15,000 |
| Railways | 15,000 |
| Automobiles | 5,000 |

1.20 It has been claimed that considering the market growth and the new applications, the demand for stainless steel would be more than the installed capacity of SSP even after the installation of Second Sendzimir Mill.

1.21 The Committee observed that SSP achieved 94 per cent capacity utilisation in 1985-86 and 107% capacity utilisation during the current year as indicated elsewhere in this report. On being enquired whether in the event of the second 'Z' mill not being sanctioned, the increased demand will necessitate imports, a representative of SAIL said:

"Yes, in its form or as substitutes."

1.22 When the Committee enquired about the approximate value of such imports, the witness said:

"Rs. 48 crores approximately per year."

1.23 Stressing the need for the second 'Z' mill the Chairman, SAIL said:—

"It makes the existing operation more economical and viable. It reduces immediately the cost of manufacture by Rs. 4,000 a tonne. In addition, it also meets the incremental requirement of stainless steel which is required arising out of the Railways' need for use of more stainless steel in their coaches or in respect of coins being made out of stainless steel rather than the more expensive nickel. To that extent, it is a kind of foreign exchange saving because the Mint as well as the Railways are going to import stainless steel sheets as such. So, it has the double advantage of reducing the import of stainless steel sheets and also reducing the cost of manufacture."

1.24 The Capital cost of the 2nd Sendzimir Mill was originally estimated at Rs. 50.71 crores — this has reportedly been updated in February 1986 and the updated cost is stated to be Rs 61.68 crores.

1.25 On being enquired about the delay in sanctioning the second Sendzimir Mills, the Secretary, Department of Steel stated in evidence:—

"Sir, actual investment decision of setting up capacity for the second mill is to take into account if we produce more of this type of stainless steel or alloy steel, there will be a market for it and it will be sold or not. The assessment of the demand for stainless steel has been made by the Working Group which was set up in 1982. That Working Group has given an assessment of demand upto 1989-90 for stainless steel. According to this assessment of demand, there will be a requirement of 1.55 lakh tonnes stainless steel in 1989-90.

The report of this Working Group is being updated because it was done in 1982 and we recognised that some of the figures will be challenged from the additional demands indentified including the two required for the Railways which is perhaps 20,000 tonnes of steel for making coaches and for making steel coinage, which is about 6 to 7,000 tonnes."

1.26 Stating that the working group has almost completed the study, the witness said (on 24-2-87):—

"We will be able to give it next month. Study was taken up six months back."

1.27 The Committee pointed out that already there had been considerable imports of stainles steel, which could have been supplied by SAIL and enquired whether the installation of second 'Z' mill would not cut down the imports. In reply, the Secretary, Department of Steel conceded:

"I agree that some of the imports would be cut down if the production is to be increased."

The witness also said:

"It is our objective that any capacity that can be built up to cut down import should be built up."

1.28 Regarding installation of second 'Z' mill, the Secretary, Department of Steel said:

"The time for taking a decision on the second sendzimir mill has come only now. It is not as though earlier there were grounds on which a decision could be taken."

1.29 Asked, if there was no ground to consider about the second sendzimir mill, what were the reasons for the investment of Rs. 75 crores having already been made, the witness said:—

"In the initial stages when the investment was sanctioned, it was expected that within a reasonable time, the requirements of the second Sendzimir mill would be established and it would be set up. But there were two factors which stood in the way. One of them was the constraint of resources and the second thing was that the amount of money which we had asked for in the Seventh Plan was much more than what we got."

1.30 On an enquiry whether the Department did not foresee the financial constraints or the demand position at the time of investing Rs. 75 crores, the witness said:—

"We were hopeful that we would be able to put up the second Sendzimir mill. But the fund position did not allow us."

He further stated:—

"When we applied for funds for the 7th plan requirements we had made a request of about Rs. 70 crores for putting up the second Sendzimir Mill. During the discussions a view was held that the demand projections for Stainless Steel does not justify the creation of additional capacity for making stainless steel. Therefore, this project was not given priority.

The second point is that only in July last year SAIL has told us that even though the Government had not provided funds for this, they will be able to provide funds from their own internal resource generations as well as from borrowings in the market. Now that the SAIL has made this suggestion, if the money is available and if the demand figures justify it, there would be a very strong case to sanction the second Sendzimir mill."

He also pointed out:

"Before a final decision is taken, we still have to convince the Planning Commission. The final decision does not rest with the Department of Steel. The final decision is subject to an overall plan approval by the Government."

1.31 The witness, however, mentioned in another context:

"If the amount is upto Rs. 100 crores, under a very recent decision that investment decision would be approved by the Ministry itself—Department of Steel."

1.32 Asked what was the rate of growth of demand for stainless steel, the witness said:

> "It is about 8 per cent."

1.33 When the Committee pointed out that at the rate of 8%, the additional demand in three years' time would be to the tune of 36,000 tonnes and there was justification for going in for the second mill, the witness said:

> "There are people in the small scale sector also who have some capacity. So, we need to take into account their capacity also along with Salem capacity before we take a final decision on investment."

The witness also said in this conection:

> "The demand from the new centres like Railways and the coins will also build up slowly. In the case of coins the demand will come only after the new mint is established because the existing mint cannot use stainless steel. The new mint establishment will take two to three years."

1.34 Asked about the time likely to be taken for establishing second Sendzimir mill, the witness said:

> "It is about two years time."

The witness also asserted:

> "We will be able to get it established before the demand outstrips."

1.35 Asked whether the Ministry could assure the Committee that the chances of putting up the second Sendzimir mill with the existing idle investment were very much bright and that it would take place soon, the witness said:

> "I would very much like to be able to say 'Yes' to that question. I would only crave for a little time to get the report of that Committee. If it is a marginal case of demand and availability, we will certainly stretch the

sanction to second Sendzimir mill. But despite wanting to say, to give an indication 'Yes', we will certainly take it up."

(c) *Stage-II*

1.36 The Committee were informed in a note that SSP was originally envisaged to be created as an integrated Steel Plant with iron and steel melting facilities. However, the steel plant has come only in parts *i.e.* cold rolling mill complex only based on the concept of backward integration. The Committee noted in this connection that the approved DPR envisaged commissioning of State II of the project *i.e.* backward integration within 15 months after commissioning of the first stage. During the course of oral evidence, the Chairman, SAIL said in this connection:

"We believe that the Plant could be incomplete unless the second phase is also taken up and completed as quickly as possible. Here again, once a project is conceived, there is no point in stopping it half-way and we should take it to its logical end and complete it as quickly as possible but this depends upon the relative priorities which the Government have in their mind and to what extent the resources are available."

1.37 Asked what were the economic gains including foreign exchange savings expected to accrue to the country as a result of the implementation of Stage-II of the project SSP stated in a written reply that implementing of Stage-II of the Project is expected to yield the following economic gains:

"1. As per approved DPR submitted by M/s. MN Dastur & Co., the average annual savings in foreign exchange is Rs. 100.80 crores and internal rate of return is 10.3%.

2. Reduction in cost of production of stainless steel leading to better marketability.

Other advantages which cannot be quantified are given below:

(i) To give inpetus to industrial growth in the southern region.

(ii) To manufacture varieties of steel products for which the demand in the country is increasing and could not be met by the current internal production.

(iii) To provide direct employment to a good number of personnel at Plan and indirect employment to many in feeder and ancillary industries."

1.38 Referring to the Prime Minister's announcement in Parliament on 17th April, 1970 the Committee enquired whether the integrated steel plant has been set up at Salem as announced by Prime Minister. In reply, the Secretary, Department of Steel said:

"The complete plant which was originally contemplated to be set up was not set up but only a rolling mill scheme was set up. The rest of the things remained as per the original concept. That has not been implemented."

1.39 The Committee asked, if a statement made by the Prime Minister on the floor of the House is not carried out in action, what sanctity would it have. The Committee also wondered whether the constraints presently being attributed for non-implementation of the integrated plant could not have been foreseen and discussed before an announcement was made in Parliament. The Secretary, Department of Steel said in reply:

"When an announcement of this kind is made, it represents the decision in principle to set up a plant at a certain location. After that all the detailed work has to be done to prepare technical details. The announcement is made in very much broader terms."

1.40 Asked whether iron ore from Kanjamalai region is being used in SSP now, the Secretary, Department of Steel said:

"No, Sir. In Salem we have not set up steel making capacity and that is why we are not using that raw material."

1.41 The Committee enquired whether it is not the responsibility of the Government to see that the project for which investment decision had already been taken in 1972 is implemented at the earliest and if so, how the Government would explain the implementation of the project in piece-meal without setting up the integrated steel plant as originally decided. The Department of Steel stated in a written reply as follows:—

"Government of India took an investment decision on the project at Salem in May 1972. It was also decided to execute the project in following two stages:

(a) Cold rolled sheets imported hot bands (work stage);

(b) Production of electrical and special steel as well as iron making facilities (Plant stage).

It has been noted that project authorities themselves have been in favour of implementing the project in two stages. The work on Stage-II was to start from 12 to 21 months after Stage-I so that adequate experience could be gained in the operation of cold rolling and associated facilities. The Department of Steel sought approval for going ahead with Stage-I only as it was felt that with the options available within the country, the proposal for producing HR stainless steel bands and electrical steel should be examined from technical and economic angle. It was also held that the cost of operations, such as producing these materials at RSP and ASP, Durgapur should be examined and compared with the techno-economic of Stage-II of the SSP. It was also felt that there was not enough demand for stainless steel strips especially for sanctioning both the Z mills. It was expected that after work stage in completed in 1981, the Government would take a decision on the plant stage as well. However, when ASP, Durgapur's expansion was discussed in 1980, the question for the linkage of SSP with the proposal for Stage-II expansion of ASP, Durgapur was considered, the indigenous supply source for hot rolled stainless steel coils for SSP was kept in view."

1.42 The Department of Steel stated in another context in a written reply that the rationale for deferring the second stage was to (a) take advantage of the advancing technologies and (b) adverse funds position.

1.43 Emphasising the need for backward integration of SSP, the Chairman, SAIL said during evidence:

"SSP has been planned for producing a better quality of steels which are all required in the country. Now one wants to go in for advance and better quality of goods. From that point of view I think, initially setting up of the plant was meant to serve that purpose. And fortunately it turned out to be a more advanced culture. If you want to capitalise on it, having developed this type of infrastructure. I personally believe that the time should not be lost to bring that to whatever size (Second stage) . . . We can do it in the best manner without straining any of the resources of this country. We should establish another sendzimir mill and associated facilities...The next stage is to go backwards to producing steel itself. That is what I suggest should be done. But if this opportunity is lost, I am not sure whether we will be able to get the same amount of healthy atmosphere in the plant again and over a period of time there is a chance of its becoming a routine organisation."

1.44 Asked what exactly was the reason for not taking up the Stage-II given five years after commissioning of Stage-I, SSP stated in a written reply:—

"Stage-II of the plant has not been taken up due to resource constraints. Further as the DPR was prepared in 1974 it was felt that the DPR has to be updated taking into account the technological changes in the areas of steel making and hot rolling. Accordingly, the assignment of updating of DPR was given to Centre for Engineering and Technology (CET), the design wing of SAIL. CET have since submited the report which is under scrutiny...."

1.45 Asked about the estimated cost of the Stage-II, SSP stated in a post-evidence reply that the updated DPR envisaged backward integration upto steel making stage with second sendzimir Mill, Cold rolling mill, a steckel mill, steel making by EAF process and other auxiliary facilities at an estimated cost of Rs. 821.72 crores, for production of 1,80,000 t/yr. The product-mix envisaged was electrical steel (60,000 t/yr.) stainless steel—Hot rolled (5,000 t/yr.) and cold rolled (65,000 t/yr.) and carbon special steels (50,000 t/yr.).

1.46 In addition, an exercise has also reportedly been made for limited backward integration upto hot rolling facilities with second sendzimir mill, a steckel mill and other auxiliary facilities at a cost of Rs. 412.47 crores for production of 1,95,000 t/yr. Under this limited variant, the product-mix envisaged was carbon steel (1,25,000 t/yr.) and stainless steel—Hot rolled (5,000 t/yr.) and cold rolled (65,000 t/yr.). It was also stated that the scope and estimated cost may undergo changes after scrutiny by various agencies.

1.47 On being enquired whether the updated DPR has been considered by the SAIL Board, the Chairman, SAIL said:

> "For the last two years the SAIL Board has ben examining as to how best the original objective can be achieved. From the economic angle we want to see whether it is a viable proposition so that we go back to the Government with certain investment propositions. This exercise has been done recently. We find to our dismay that because of the input cost having gone up, more or less the return is not adequate for us to go back to the Government justifying the investment of Rs. 800 crores which is only for achieving the original objective."

The witness also said:

> "I do not think we have come to any conclusion. Different alternatives are being thought of. Even if we do not start with the Steel making with the expertise and infrastructure that has been developed, this will certainly be a very good centre for re-rolling and production of a large variety of high quality steel and lot of sophisticated cold rolled products."

1.48 The Department of Steel stated in a written reply that the DPR for the Salem expansion project as updated by CET did not give a very bright picture of its techno-economic viability.

1.49 The Committee noted that the Government proposed to have a Memorandum of Understanding with SAIL and asked what was the procedure and time limit for the project clearance with particular reference to Salem project as laid down in the Memorandum of Understanding, the Secretary, Department of Steel said:

> "There is no specific reference to any particular project. But the Memoranda of Understanding includes the fact that the Ministry is competent to sanction a project costing upto one hundred crores and because of the delegation of powers being given to the Ministry as part of the Memorandum of Understanding scheme, we will now be able to sanction Salem project without going to the Planning Commission or the Finance Ministry or the Cabinet. In respect of SAIL, they are to intimate to us what the investment decisions are and what the project needs and what they will spend for during that year, those will be

incorporated in the Memoranda of Understanding. Similarly, there is an obligation on the part of the Government to clear investment decisions within a specified period. The approval for investment would be given by the Government within 12 weeks."

The witness also informed:

"The Memorandum of Understanding comes into force on 1st April, 1987."

1.50 The Committee observed that a press statement made by a member of Parliament pointed out that the integrated steel project for Salem had been cleared at the highest level. On being enquired about the factual position, the Secretary, Department of Steel stated:

"As far as the Ministry is concerned, there is no clearance for setting up a complete integrated steel plant."

The witness also stated:

"A proposal was received that a joint sector project should be set up to complete the plant by setting steel making facilities also."

1.51 Asked how the proposal emanated, the witness said:

"The proposal emanated from a Member of Parliament in which some details of the type of amenities proposed to be covered are given. The estimate was given that the investment cost in this would be Rs. 100 crores, etc. But there are no details as to who would be the collaborating party, who would be the shareholders and from where the money will come."

1.52 In reply to another query whether the proposal for a joint sector project in SSP would be within the purview of the Industrial Policy Resolution, the witness said:—

"In the case of making of steel through the electric arc furnaces, it would be possible to have a joint sector project without violating the Industrial Policy Resolution."

1.53 The witness, however, stated that only the outline of the proposal had been received and it did not contain enough details. He also said:

"It seemed to be a much lower investment cost than what was required to complete the project. Therefore, this matter in any case led to other problems. Whenever a portion of the plant is owned by SAIL, can you have a residuary portion owned and set up by the different agencies at the joint sector organisations' level? So, these were the type of problems which we *prima facie* face in processing the project."

Referring to the proposal the witness also said:

"......It is not practicable for us to set up facilities for alloy at one place and another type of steel at another place and try to integrate the two. I do not think, it is a practical proposition."

(d) *Ancillary Industries*

1.54 The Government of India has been laying emphasis on development of ancillary industries and preferential treatment for Small Scale Industries by Public Sector Undertakings. The Committee observed from the information furnished to them that the objectives of establishing the Steel Plant in Salem *inter-alia* were:

(i) To give impetus to industrial growth in the southern region.

(ii) To provide direct employment to a good number of personnel at plant and indirect employment to many times the number at Plant in feeder and ancillary industries.

1.55 The Committee wanted to know how many displaced persons have been employed in SSP and on what criterion, the Executive of Director of SSP said in evidence:

"The criterion is one per family as per our requirement. There are about 3000 families there who are displaced and among them those who have some educational background are very few and most of them had no educational background at all. Out of 3000 people, only 560 people registered with Employment Exchange and most of them are unskilled. This is a sophisticated plant and, therefore, we have not been able to hire all the people. We have offered positions to those who have the background. That means, about 20 per cent of non-executive strength have been offered positions.

It was also stated that the present employment in SSP is 1200 (218 executives and 982 non-executives) and out of 982 non-executives, 192 are actually displaced and dispossessed from their land and the rest are local people."

1.56 When the Committee wanted to know what type of feeder and ancillary industries were contemplated and whether they have come into being, the Chairman, SAIL explained:

"The Steel Plant itself offers a good opportunity for various service industries which in turn generates employment avenues. But unfortunately, in respect of SSP only a small segment of the project has been taken up and completed. It will not give a correct impression of SAIL or the Salem Steel Plant's operation to look at this point of time when only the most sophisticated of its operations are set up which call for highly skilled manpower requirements. Only this cold rolled sheets manufacturing facility has been commissioned. The other section of the plant would have certainly offered more employment opportunities to the locals. It would offer a lot more of opportunities to the service industries and the up-stream and down-stream units—namely iron-making operation and steel making operation which call for a certain type of people. Unfortunately that has not been taken up.

1.57 Elaborating the efforts taken on achieving this objective SAIL stated in a written reply as follows:

"Although there was only limited scope for ancillary industries, it was nevertheless felt that SSP should go ahead initially with the formation of Plant Level Committee. Soon after the commissioning of the Plant in March '82, Plant Level Committee was constituted in December, 1982. Based on the decisions taken at the Plant Level Committee, an Exhibition-cum-Buyer-Seller meet was arranged in March '83 to generate necessary interest among the entrepreneurs of Salem and surrounding districts to meet Salem Steel's requirement of consumables and spares, although by this time, SSP had started procuring materials as well as services from Small Scale Units in and around Salem. The Plant Level Committee has been meeting regularly to review the progress. Apart from this, SSP has also been giving preference for purchases from Small Scale Industries."

1.58 Regarding the constraints in developing ancillary industries SSP stated as follows:

> "The main constraint is the ban on setting up of down-stream units and expansion of existing units for manufacture of stainless steel articles in other than backward districts. Salem is not a backward district. At the instance of Salem Steel Plant, the Minister for Rural Industries, Government of Tamil Nadu who inaugurated the Exhibition-cum-Buyer-Seller Meet agreed to take up the matter with the concerned authorities for grant of exemption for Salem District for development of industries based on Salem stainless steel in and around Salem."

1.59 When enquired whether the matter was pursued further in order to get exemption for Salem District, the Chairman, SAIL admitted in evidence:

> "The matter has not been pursued further. I would promise the Hon. Members that I will pursue it rigorously and try honestly to implement it."

The witness, however, explained:

> "The Company's philosophy has been to provide employment to the local people and generate as much of ancillaries as possible so that all the requirements of the factory are procured from the local people and to provide material to the local industry as much as possible. In varying degrees this has been implemented. I cannot claim that this has been implemented in its entirety. Implementation of this is not entirely left to the plant management. Plant management can do certain things, but development of industry depends partly on entrepreneurship of the local people and also on what action the district authorities or the State authorities who are responsible for this type of development have taken. It calls for a bit of co-operative endeavour between the State administration and the local entrepreneurs...... I would give an assurance that when I go back I will see to what extent this objective can be fulfilled."

1.60 The Department of Steel stated in a written reply that the Development Commissioner, Small Scale Industries (DGSSI) imposed a ban in September 1976 on setting up of new units and expansion of existing units for manufacture of certain stainless steel products and steel re-rolling due to shortage of right quality of stainless steel and uncertainty of market. This ban was, however, relaxed on 2-7-1983 and subsequently all the restrictions were removed on 19-7-1983.

**1.61 The proposal for the establishment of an integrated iron and steel plant based on Kanjamalai ore and Neyveli Lignite was initiated by Government of Tamil Nadu far back in 1960. Later Government of India got a Detailed Project Report (DPR) prepared in August 1964. This report was reviewed by Japan Consulting Institute (JCI) which confirmed that the project was technically feasible and economically viable. It took six years thereafter for the Government of India to take a decision in favour of setting up of the plant in terms of the announcement made by the Prime Minister in Palriament on 17th April, 1970. The inordinate delay in taking a decision on the project was stated to be due to recession in demand for steel during the sixties. The Committee fail to understand how the DPR and JCI, which in all probability should have taken into account the demand position obtaining in the country at that time, declared the project economically viable. The Committee were surprised to hear from the Secretary of the Department of Steel that the DPR in 1964 was prepared at a cost of Rs. 9 lakhs just to ascertain on the technology to be adopted for the project. The Committee feel that the expenditure of this magnitude and preparation of a DPR for this purpose was hardly justified.**

**1.62 On the basis of a fresh feasibility report, an investment decision was taken by Government of India in May 1972 to have an integrated special steel plant at Salem at an estimated cost of Rs. 340 crores. The investment decision was, however, not followed immediately by implementation of the project for want of Government sanction. Some time later Government decided that the project would be implemented in two stages, the first stage consisting of a part of the cold rolling mill complex for production of 32,000 tonnes of finished cold rolled stainless steel and the second stage consisting of all the facilities to manufacture 2,20,000 tonnes of finished stainless, electrical and other special and mild steel sheets and strips. More than a year after taking the investment decision Government commissioned a consultant agency for the preparation of another DPR. The DPR was submitted in December, 1974 which put the estimated cost of the total plant at Rs. 560 crores. The Government, however, approved the DPR only in March 1977 and announced the investment decision to go ahead only with the first stage of the project which was estimated to cost Rs. 126.81 crores.**

**1.63 The Committee find that though there was prolonged delay in clearance of the project by the Government, happily there was no delay in the execution of the 1st stage of the project by the SSP management. The first stage of the Salem Steel Plant (SSP) was completed in September, 1981 as per schedule and commercial production started in March 1982. In Committee's view this is something commendable considering the fact that the delay in execution of projects has been the common occurrence in most of the public undertakings. There was, however, escalation in the cost of the project which went up by Rs. 54 crores due to price escalation and due to certain omissions in the original estimate.**

**1.64 The Committee were startled to know that the infrastructure facilities worth Rs. 75 crores have been lying idle for many years in SSP due to delay in sanction of the second 'Z' mill by Government. While the first 'Z' mill established in the first stage of the project was for a capacity of 32,000 tonnes, the supporting facilities were reportedly geared up for a capacity of 65,000 tonnes to cater to two 'Z' mills. The installation of the second 'Z' mill was envisaged to be taken up soon after the completion of the first stage in September, 1981. This has, however, not been sanctioned by Government so far reportedly due to resource constraint and market constraint. SAIL has informed the Committee that SSP had to bear Rs. 10.5 crores annually as interest and capital related charges on this account. The Committee wonder how these factors were not taken into account by Government before taking a decision on the investment. A developing country like ours cannot afford to keep huge capital investment idle for many years. The Committee hope that at least in future the Government will exercise greater care in handling major projects like this.**

**1.65 Having created capacity which has been lying idle for years together the least the Committee can expect is that necessary steps to activate the idle capacity would be taken at the earliest. The Committee's examination has revealed that though SSP initially faced market constraint on account of its high product cost, this problem has been overcome to some extent and SSP has now projected its demand estimates which fully justify the immediate sanction of the second 'Z' mill by Government. According to the SAIL's assessment of demand for stainless steel, there would be an additional demand of over 86,000 tonnes by 1988-89. SSP has stated that the emerging demand in the field of coinage. Railways, etc, totalling 35,000 ton-nes could be met only by SSP failing which it would necessitate imports of the order of Rs. 48 crores annually. SAIL has even proposed to meet the cost of the 2nd mill which is estimated at Rs. 62**

crores from its own resources generated internally. Government are, however, reluctant to take a decision regarding sanction of the mill till the demand assessments for stainless steel in the country have been updated by a Working Group, which is currently making a re-assessment. The Committee would like to be informed of the outcome of the assessment made by the Working Group and the decision taken by Government in regard to sanction of second 'Z' mill for SSP.

1.66 The Committee note that according to a recent decision the sanction of projects costing less than Rs. 100 crores is within the powers of the Ministry of Steel and Mines (Department of Steel). The Committee strongly feel that the Ministry of Steel & Mines (Deptt. of Steel) should sanction the second 'Z' Mill without any further delay keeping in view the need to utilise the scarce resources blocked up in the dormant investment.

1.67 The Committee regret to note that the Stage-II of SSP which was expected to earn an internal rate of return of 10.3 percent and effect foreign exchange savings of over Rs. 100 crores annually has not been implemented so far. The Committee are also concerned to note that non-execution of Stage-II has vitiated the operational economics of Stage-I on various counts as dealt with in the Subsequent Chapters. Regrettably no serious attempt seems to have been made by the Government to fully implement the Prime Minister's announcement made in Parliament as early as in April 1970 regarding establishment of an integrated steel plant at Salem. The Department of Steel has stated that the Stage-II of SSP was deferred to take advantage of the advancing technologies and due to adverse funds position. The Committee are hardly convinced of these reasons. One cannot wait indefinitely for taking advantage of the advancing technology which is an unending and continuous process. On the contrary an internal mechanism could have been devised to keep abreast of the latest technology in the field. Regarding the funds position, the Committee do not think that the Prime Minister's announcement in Parliament would have been made without taking this vital aspect into account. All this leads the Committee to conclude that the inordinate delay in taking up the project was due to lack of will on the part of Government.

1.68 Having delayed the execution of the project for over a decade after the approval of the DPR, no wonder doubts have now been raised about the techno-economic viability of Stage-II. The Committee have been informed that the updated DPR has envisaged two variants—one for backward integration upto steel making stage at an estimated cost of Rs. 822 crores and another for limited backward integration upto hot rolling facilities at an estimated cost of Rs. 412 crores. The Committee in this regard note the strong plea of Chairman, SAIL for going in for backward integration of SSP. The Committee would urge that the updated DPR should be examined by SAIL expeditiously and necessary action taken to take up whichever proposal is considered attractive from techno-economic angles. The Committee note in this connection that according to the Memorandum of Understanding (MOU) which was expected to come into force on 1st April, 1987 there is an obligation on the part of the Government to clear within 12 weeks, the project proposals incorporated in the MOU. The Committee hope that this will ensure sanction of Stage-II of SSP by Government without undue delay as in the past.

1.69 Incidentally it transpired during the examination of SSP that a proposal has been made for backward integration of the plant under joint sector. The Secretary, Department of Steel claimed before the Committee that it is not a practical proposition. The Committee are also of the same view and would like to be informed of the final outcome of the examination of the proposal by Government and its reaction.

1.70 One of the objectives of setting up of SSP was stated to be to provide direct employment to a good number of personnel at plant and indirect employment to many times the number at plant in feeder and ancillary industries. The Committee are distressed to find that precious little was done to accomplish this objective. According to Chairman, SAIL the integrated steel plant envisaged originally could have offered a lot of opportunities for development of feeder and ancillary industries. This again underlines the urgent need for backward integration of SSP in the context of accomplishing this objective. Notwithstanding this, the Committee received an impression that sufficient efforts have not been taken to achieve whatever possible with the limited scope that the present plant offers in regard to the above objective. SSP claimed that the ban by Government on setting up of new units and expansion of existing units for manufacture of stainless steel articles was the major constraint in this regard. The Department of Steel however, informed the Committee that this ban had been removed as early as in July 1983. The Committee hope that as assured by Chairman, SAIL vigorous efforts would be made in cooperation with the State Government authorities to exploit the entrepreneurial talent in the local people and thereby move towards fulfilling this objective to the extent possible.

**1.71 The Committee regret that out of 3000 families displaced on account of land acquisition for the SSP only 192 could find job in SSP though 560 people had registered with the Employment Exchange. It has been stated that due to the sophisticated nature of the plant and the requirement of specialised skills in operating the same, SSP could not hire all the people. The Committee hope that when expansion of SSP takes place, the other displaced persons would be given priority for employment.**

## II. WORKING RESULTS

### (a) *Production*

The details regarding actual production and corresponding equivalent production *vis-a-vis* the installed capacity of 32,000 tonnes at SSP percentage utilisation of installed capacity and percentage of prime yield during the last 4 years are given below:

'In tonnage'

| Year | Actual production | Equivalent production | % utilisation of installed capacity | %Pirme yield |
|---|---|---|---|---|
| 1982-83 | 6744 | 7872 | 24·6 | 54·2 |
| 1983-84 | 6920 | 7296 | 22.8 | 68.6 |
| 1984-85 | 17139 | 20150 | 63·00 | 72 3 |
| 1985-86 | 24360 | 30150 | 94·20 | 75·2 |

2.2 The Committee were informed that production capacity of 32,000 is of a specified product mix as per DPR. In cold rolling, the length of the strip reportedly increases in proportion to the reduction in thickness. Consequently the rolling time and hence the productivity is lower with thinner gauges and vice-versa. SSP also stated that accordingly, suitable weightages are given to different thicknesses in terms of equivalent factors. For the assessment of capacity utilisation, SSP has been adopting the concept of equivalent tonnage.

2.3 In a written reply SSP informed the Committee that the DPR anticipation in regard to capacity utilisation was 30 per cent in the first year, 70 per cent in the second year and 90 per cent in the third year.

2.4 Taking note of the fact that the actual production had been far below the installed capacity and the DPR projections during the first three years of the operation, the Committee asked what precisely were the reasons for lower capacity utilization. SSP in a written reply attributed this to factors like stabilisation of plant operations, high customs duty, imports, poor sales and high stock of finished material. It was also stated in a post evidence note that SSP achieved a capacity utilisation of 107 per cent in 1986-87.

2.5 In regard to DPR anticipations for prime yield it was stated that the norm was 76 per cent. The Committee observed that the prime yield was lower compared to the norm in the initial years. Asked to explain the reasons for low yield in the initial years, SSP stated in a written reply as follows:—

> "This is because every new plant takes time to overcome the teething problems and stabilise the production in various individual units. It also takes time to establish the manufacturing standards for achieving optimum results."

(b) *Profit/Loss*

2.6 SSP incurred a loss of Rs. 14.21 crores in 1982-83 and Rs. 18.08 crores in 1983-84. It, however, made a marginal profit of Rs. 0.53 crores in 1984-85 and increased it to Rs. 2.92 crores during 1985-86. The profit for the current year is stated to be Rs. 3.0 crores approximately.

2.7 The DPR anticipations in regard to profit/loss and actuals during the years 1982-83 to 1985-86 as furnished by SAIL are given below:

Rs. in crores

| | 1982-83 | 1983-84 | 1984-85 | 1985-86 |
|---|---|---|---|---|
| Profit/(Loss) as per DPR . . . . . | (1·82) | 12·21 | 20·40 | 21·79 |
| Actual . . . . . . . . . | (14·21) | (18·08) | 0·53 | 2·92 |
| Difference . . . . . . . . | 12·39 | 30·29 | 19·87 | 18·87 |

2.8 Cause-wise analysis for differences between DPR anticipations and actuals during 1982-83 to 1985-86 as furnished by SAIL is as follows:—

Rs. in crores

| | 1982-83 | 1983-84 | 1984-85 | 1985-86 |
|---|---|---|---|---|
| 1. Extra expenditure due to higher customs duty . . . . . . | 7·28 | 10·64 | 4·94 | 11·17 |
| 2. Increase in exchange rate and CIF base price . . . . . . . . | 2·90 | 2·29 | 10·19 | 9·19 |
| 3. Reduced profit due to lesser capacity utilisation . . . . . . . | .. | 21·16 | 12·16 | .. |

Rs. in crores

| | 1982-83 | 1983-84 | 1984-85 | 1985-86 |
|---|---|---|---|---|
| 4. Increase in power rate labour & Supervision, stores & spares etc. | 1·97 | 5·25 | 4·70 | 6·32 |
| 5. Increase of expenses like royalty, other administrative expenses and general escalation | .. | | 2·21 | 9·35 |
| 6. Extra expenditure due to higher allocation of interest | 7·80 | .. | .. | 2·66 |
| *Favourable Factors* | | | | |
| 7. Savings in interest due to waival of interest | | 2·64 | 4·30 | .. |
| 8. Better sales realisation as compared to DPR | 7·56 | 6·41 | 10·03 | 18·02 |
| 9. Increased profit due to higher capacity utilisation | .. | .. | .. | 1·80 |
| | 12·39 | 30·29 | 19·87 | 18·87 |

2.9 The broad reasons for losses suffered during 1982—84 were high incidence of customs duty on the imported raw materials, low utilisation of capacity due to severe power cut and sales constraints and high consumption of various consumables, raw materials etc. for want of stabilisation of various equipments.

(c) *Exports*

2.10 The details of exports of SSP products made during 1984-85 and 1985-86 are given below:—

(Rs in lakhs)

| Destination | 1984-85 | | 1985-86 | |
|---|---|---|---|---|
| | Quantity | Value | Quantity | Value |
| | tonnes | Rs. | tonnes | Rs. |
| Japan | 58·58 | 12·62 | 149·29 | 32·22 |
| Australia | 20·57 | 4·52 | 18·40 | 4·30 |

In addition to this, sales were made to Kandla Free Trade Zone (deemed export).

| 1984-85 | | 19[illegible] | |
|---|---|---|---|
| Quantity tonnes | Value Rs. | Quantity tonnes | Value Rs. |

2.11 On being enquired about the profits made out of these exports, SAIL furnished the following information in a written reply:

"The amount of profit on exports for both the years i.e. 1984-85 and 1985-86 amounts to Rs. 63.71 lakhs being the difference between the value of realisation under exports (including duty drawback) and the corresponding net realisation in the local market."

2.12 When asked about the profitability of exports, a representative of SAIL explained during evidence:

"The prices at which we are exporting are certainly lower than the domestic prices. To break even the fixed costs are to be covered over the entire production. In any operation, if we cover the variable costs, then whatever we are able to secure beyond the variable cost, either it is an addition to the profit or reduction to the loss. In all exports we have covered our variable cost and to that extent there has been a contribution towards the profitability of the company. In other words, there is no cash loss."

2.13 To another query whether it would be profitable to export 100 percent, the witness stated:—

"No. We have to cover our fixed cost of production either through domestic sales or through exports. Since the export prices do not cover the fixed cost portion if we were to theoretically export 100 per cent we will incur heavy losses. So we should have both."

2.14 To yet another query whether any scientific study has been made to assess the export potential of stainless steel abroad and if so the results of the study, SAIL stated in a written reply as follows:—

"Yes. The estimated stainless steel imports by various countries were obtained through Embassies, Import Export Agencies and Hot Rolled coil suppliers. The countries covered under the survey were:

Japan, Canada, USA, Bangladesh, Hongkong Singapore, Taiwan, Pakistan and Kandla Free Trade Zone.

An estimated potential 236,000 t/year of stainless stell exists for all these countries together. The thickness ranges from 0.4 mm to 3.00 mm which is within SSP product range."

2.15 The Committee were also informed in a past evidence note that during the current year the SSP exported 1026 tonnes to USA, Canada, Australia, Finland, West Germany, Bangladesh, Japan, Netherland and KFTZ.

*Safety Awards*

2.16 SSP reportedly won the prestigious 'Sword of Honour' award for 1986 which is presented by British Safety Council for the outstanding performance in industrial safety. It has also been stated that the industrial safety award for 1986 was won by SSP for the fifth time in succession from the British Safety Council.

**2.17 The Committee find that SSP established its viability by breaking-even in 1984-85 after incurring a loss of about Rs. 32 crores during the first two years of operation. It made a profit of Rs. 2.92 crores in 1985-86 and Rs. 3.0 crores (approx.) in the current year. The capacity utilisation was 94% in 1985-86 and 107% in 1986-87 though it was less than 25% during 1982-84 and was only 63% in 1984-85 reportedly due to the process of plant stabilisation and other adverse factors.**

**2.18 The Committee are happy to note that in a short span of its operations, SSP has proved the quality of its products by making token exports to advanced countries like Japan, USA Canada, West Germany, Australia and some other countries. It is a matter of satisfaction to note that SSP has won industrial safety award for the fifth year in succession and it has also won the prestigious 'Sword of Honour' award for 1986 from the British Safety Council. The Committee feel that in the context of the constraints faced by SSP, its performance on the whole has been commendable. The Committee would like SSP to keep up its performance and put in more concerted efforts to further improve its performance in the coming years.**

## III. CONSTRAINTS

### (a) *Procurement of Hot Bands*

Hot Rolled Stainless Steel Coils (Hot Bands) are the basic input material for Salem Steel Plant. As at present Salem Steel Plant is entirely dependent upon imports for the supply of Hot Bands. As to the procedure regarding procurement of Hot Bands, Salem Steel Plant has stated:

> "In 1981, the year in which SSP was commissioned and in which the first import of hot rolled stainless steel coils was made, hot rolled stainless steel coils were canalised through MMTC. Considering the fact that closed rapport and constant interaction with the foreign suppliers of hot rolled stainless steel coils was absolutely essential in order to study the behaviour of the hot rolled stainless steel coils during the cold rolling process, and for taking up problems/defects if any, that are experienced in a particular batch of coils with suppliers and that adequate facility is available in the Plant for timely changes of production patterns as well as quantity parameters, it was decided by the Govt. in 1979 to allow SSP to import its requirements of hot rolled stainless steel coils, directly. During 1984-85, SAIL became the canalising agency and during this period again SSP was allowed to import its requirements directly under Open General Licence. However, hot rolled stainless steel coils now appear in the list of canalised items as per the Import Policy 1985—88. The import of which is canalised through MMTC."

3.2 SSP management has stated that recently SSP had to face immense difficulties in getting the import licence to meet its requirements for the year 1986-87. While at present, Deptt. of Steel have reinstated the facility to import directly by giving special dispensation from canalisation, a condition to counter trade and bulking of import has been imposed. As per this condition, SSP would have to provide necessary services to MMTC without any cost to ensure that counter trade may be effected by MMTC. According to SSP management this condition has already had an adverse effect on SSP's procurement plan.

3.3 Referring to the main difficulties in realising the counter trade SSP have stated:

"(a) SSP primarily imports directly from the steel mills instead of depending upon the trading houses. This limits the scope of counter trade.

(b) SSP—phases its requirement in order to maintain a low level of inventory. Moreover by scheduling the tenders throughout the year, it is possible to get better prices in the wake of changing international scene. The condition of counter trade, imposes restrictions and delays in finalising the orders which would ultimately lead to maintaining of higher inventory, thereby adversely affecting the cost of production and marketability of its products.

It would also be seen that condition of counter trade has a direct impact on the cost of raw materials."

3.4 In another note SAIL have stated as under:

"There has been a substantial increase in prices of hot bands contracted for imports in the recent past. The increase in CIF price is about 10% in June, 1986 and again by another 9% during September, 1986. Salem should be allowed to enter into long term purchase arrangement for atleast 75% of their requirements of Hot Pands restricting the spot purchases only for the remaining quantity. Salem procures its materials from the mills directly. Such long term purchases will be beneficial in obtaining better commercial terms and lowering their inventory holdings. The spot purchase will enable a check to be kept on prices against long term contracts."

3.5 Asked what was the reaction of the Government to the above plea, Department of Steel stated in a written reply as follows:

"SAIL have been informed on 29-12-1986 that there is no objection in SAIL's entering into long term arrangements/spot purchases as commercially convenient but it has to be ensured that the counter-trade arrangements are finalised and incorporated in such arrangement."

*Indigenisation of Hot bands*

3.6 Presently, the entire requirement of hot rolled coils are being imported. It has been stated that it is proposed to switch over from imported hot bands currently used by the plant as the feedstock, to hot bands rolled at Bokaro and Rourkela of ingots made at Alloy Steel Plant after providing additional facilities at Salem Steel Plant. The additional facilities to be provided at Salem Steel Plant for handling and storing hot rolled coils received through ASP — Bokaro route are estimated to cost Rs. 115 lakhs.

3.7 The Committee desired to know the latest position and economics of this proposal. In a note it has been stated:

> "Additional facilities which are being installed at ASP, Durgapur are likely to be commissioned in June, 1987. Currently, SSP pays a price for imported black stainless steel coils at Rs. 16200 per tonne excluding customs duty. The rate of customs duty varies from time to time. The present rate is 90%. SAIL has requested Government to reduce the rate of customs duty as the same is at a high level.
>
> Against the present price of Rs. 16200 per tonne for the imported material (excluding customs duty), it is expected that the price payable for the indigenously produced black stainless steel coil would be around Rs. 23000. Economics of the proposal for indigenously produced hot bands is therefore dependent upon the level of customs duty applicable for imported material."

3.8 Asked to what extent the production requirements of SSP will be met indigenously after the materialisation of this proposal, the SAIL have stated:

> "After the completion of second stage of expansion, ASP will be in a position to meet the total requirement of SSP for supply of hot rolled bands except for a very small percentage of titanium bearing Austenitic stainless steel and Martensitic stainless steel which are not amenable to continuous casting. The quantum of supply of material from ASP will however depend on stabilisation of production and quality in the expanded units and on successful rolling of ASP slabs at BSL."

3.9 SAIL had pointed out in a note submitted to the Ministry on 14-11-1984 that it would be economical to have integrated facilities at Salem itself so that the high transport cost due to long distance and huge inventory cost for materials through ASP—Bokaro route could be avoided. The Deptt. of Steel stated in a written reply in this regard:

> "The cost of indigenous hot bands even including the transporation costs is expected to be around what SSP is paying today as landed cost for imported hot bands; while entailing savings of foreign exchange. It would not be correct to conclude that setting up of integrated facilities at Salem would have been more cost effective than using the ASP—Bokaro route."

3.10 Asked what would have been the cost of hot bands if it had been made at Salem itself as originally planned, the Department of Steel stated that "it is difficult to indicate what would have been the cost of production of hot bands at Salem as on date."

3.11 Department of Steel also informed the Committee subsequently that "the supply of hot bands through ASP—Bokaro route is expected to commence before the end of the last quarter of 1987-88."

3.12 The Committee enquired what percentage of the requirement of SSP for hot Bands would be met by the indigenous production at Bokaro and Rourkela. In reply, the Executive Director, SSP stated:

> "The requirement in full will be met. This will be in a phased programme of 2 to 3 years."

As regards the quality of products, the witness stated:

> "Quality of steel is important. Hot rolling will be done for the first time in Bokaro. Certainly the yield will be not as high."

3.13 When asked as to what will be the impact of quality of indigenous Hot Bands on the production of SSP, the Executive Directors, SSP stated:

> "It will have the effect. Actually we have tried some of these from Rourkela where quality has not been very good. But in Bokaro we are going to have a slab

which is to be tried for the first time in the country, with a little more thrust that we are doing now at the company level, I feel confident that we should come closer to the yield that we are expecting."

(b) *Duty structure*

(i) *Customs duty*

3.14 The DPR of the Salem Steel Plant envisaged a customs duty level of 70%. As against this SSP had to pay customs duty at rates as high as 335% in the past. The Committee noted from the information furnished to them that customs duty on Hot Bands had been frequently altered. There were nine revisions during the last four years, with the result that SSP was always uncertain about the cost of raw materials.

3.15 Asked what was the basis for altering the duty structure on HR Coils frequently, the Deptt. of Steel stated in a written reply that the duty structure varied over the years mainly on account of

(a) reduction in duty on the request of Department of steel.

(b) increase in Auxilliary Duty as part of budgetory proposals.

3.16 The present level of duty is stated to be 90% and this is one of the factors responsible for high cost of production in SSP. SAIL made a plea in this regard as follows:—

"The landed cost of HRSSC has moved up at a much steeper rate than the increase in the selling price. Though the sale price has increased only by 30%, the input price has gone up by 100%. If we were to keep the input cost increase also at 30%, we would have to revise the customs duty to 10%. Logically therefore, the duty on Hot Bands should be brought down to 10% (basic 10%+Aux. Nil). However, as an initial step it should be brought down to atleast 70% as envisaged in the DPR."

3.17 SSP stated in a written reply that "the reduction of customs duty to 70% from the current 90% can offset the price disadvantage to a certain extent in the domestic market. Based on the current orders placed on the raw material suppliers, the reduction in the price disadvantage to SSP would be around Rs. 3600/- of finished steel.

3.18 Reacting to the plea for reduction in customs duty, the Secretary, Department of Steel stated during evidence:

> "We have taken up again with Deptt. of Revenue with a request to reduce it to 70 per cent. This has been rejected by the Department. Once again we have represented and they are examining it. Our point is that the duty including the auxilliary duty should not exceed 70 per cent. We are pressing for reduction."

(ii) *Concessional duty*

3.19 Customs Notification No. 150/81 allows import of Hot and Cold Rolled Stainless Steel Sheets and Plates at a concessional duty of 65% for specified industries. This provision is reported being utilised to import CRSS Sheets which are available indigenously through various flexibility provisions including REP licences as, with this duty the imported price becomes much lower than the domestic price.

3.20 Similarly, since the Hot Band under this provision of the Policy carry 65% duty against a duty of 90% which Salem Steel Plant is to pay, this provision of Customs Notification is capable of being mis-used to divert Hot Bands meant for specific industrial use to the re-rollers.

3.21 The raw materials under the notification fall under following two broad categories:

(a) CR Coils/Sheets and Plates 5 mm to 12 mm (available domestically from Salem and Alloy Steel Plant);

(b) Other (not produced domestically)

3.22 SAIL has proposed that the applicability of Customs Notification be restricted to items covered under (b) above. In respect of items covered under (a) above, SAIL has proposed that the concessional duty should be withdrawn. This reportedly will call for a duty adjustment of items under this category from 65% to 145%.

3.23 SSP has informed the Committee that Department of Revenue has issued a notification CN No. 8/84 dated 10-1-1984 concerning supplies of cold rolled stainless steel coils by SSP to the specified industries at concessional rate of duty. SSP was seeking drawal of hot bands at concessional duty in the ratio of 1:1.313 MT of hot rolled stainless steel coils for each metric tonne of cold rolled stainless steel plates/sheets and strips as was allowed for supplies under PN-58 scheme. SSP's request is reportedly based on the prime yield of 76% envisaged in the DPR. Asked what was the reaction of the Government to this request, a representative of SAIL said during evidence:—

"The Government has not agreed. But I am aware that an internal meeting has taken place on this subject. There has been consultation with the Finance Ministry on the subject but no final decision has been taken."

3.24 The Department of Steel stated in this regard in a written reply as follows:—

"While examining this matter, it was noted that in respect of CN 8/84, the Department of Revenue had issued a circular letter No. 355/7/83-Cus. I. dated 4/10-2-84, forwarding a procedure for redeeming the customs bond which *inter alia* provides that the quantum of hot bands against which the bond can be redeemed would be calculated on the basis of 1.313 MT of HR Coils for being equivalent to IMT of cold rolled stainless steel plates/strips/sheets, supplied by SSP to the concerned manufacturers. This meets the requirements of SAIL."

(c) *Withdrawal of PN-58 scheme*

3.25 The Committee were informed by SSP in a written reply that there had been imports of stainless steel to the tune of 5000 to 10000 t. every year during the last five years and that SSP capacity utilisation could have reached higher level at least by 50% if these imports had not been there.

3.26 When enquired whether SAIL took up the matter with Government for a ban on import of stainless steel which is within the product range of SSP, it was stated in a written reply:

"The matter was taken up with the Government to restrict/ban the import of stainless steel. During 1983, Government had introduced PN: 58 Scheme enabling SSP offer the Cold rolled stainless steel sheets/coils at internationally competitive prices. However, the scheme was rescinded with effect from 12-4-1985."

3.27 Asked what is the rationale behind allowing imports when stainless steel could be supplied indigenously by SSP, the Department of Steel stated in a written reply as follows:

> "It is not the policy of the Government to permit import of any raw material, including stainless steel, wherever indigenous availability is established.
>
> However, there are certain categories of imports which are permitted by the Government (Ministry of Commerce) which are basically in terms of export incentives promotional measures such as:—
>
> (i) replenishment licences
>
> (ii) advance licences
>
> There are also certain imports which are cleared by the Iron & Steel Comptroller considering the non-availability of these items in the domestic market."

3.28 In regard to the extent of variation of prices between SSP and other indigenous competitors and international prices the following figures (ruling market prices) were furnished by SAIL in a written reply:

| | | |
|---|---|---|
| SSP | Rs. 47,000 per/t | (0.5 mm thickness) |
| Jindial | Rs. 38,000 per/t | ,, |
| Patta | Rs. 29,000 per/t | ,, |
| International Price | Rs. 20,960 per/t | ,, |

3.29 The Committee have been informed that a scheme to supply Stainless Steel to the holders of valid import licences at international prices, was announced on 11-12-1982 under Public Notice No. 58. The scheme envisaged supply of CR Stainless Steel Sheets/Coils produced at SSP, Salem. It was essentially a measure to provide support to both the indigenous production capacity and to the export efforts.

3.30 Under the scheme all types of import licences were required to be surrendered to SAIL for availing supply from SSP. Provision was made to issue 'No objection Certificate' in order not to deny raw material requirements of importers in the cases where the import licences were not serviced by SSP.

3.31 For Sales under this Scheme, SSP was allowed to draw HR coils without payment of customs duty. The scheme has since been discontinued by the Government w.e.f. 12-4-1985. Under the scheme SSP supplied 810 tonnes in 1983-84, 1200 tonnes in 1984-85 and 257 tonnes in 1985-86 till the scheme was withdrawn.

3.32 SSP stated in a written reply that under the scheme the customer was obliged to buy the material from SAIL. This way the import was plugged and foreign exchange outflow was restricted. A representative of SAIL said in this regard during evidence:—

> "Licence holders were not able to use the licences for importing substitutes. So it eliminates other malpractices associated with imports."

3.33 Asked what were the reasons for dis-continuing the PN-58 Scheme, the Department of Steel stated in a written reply that a large number of representations were received for discontinuation of this scheme mainly on the following grounds:—

(a) The prices quoted by SAIL were much higher than the prevailing international prices.

(b) Material required by exporters quality-wise/size-wise was not supplied by SAIL.

(c) The supply position of the items covered under this scheme had undergone a sea change.

(d) It took a long time for exporters, to obtain a NOC from Salem Steel Plant.

3.34 Department of Steel stated that after considering these representations and keeping in view the high priority given to exports by the Government, the scheme was withdrawn by the Ministry of Commerce.

A representative of SAIL said in this connection:

> "Sir, the PN-58 scheme was not only restricted to stainless steel. It was also extended to what are called the hot

rolled and cold rolled coils. So there was an acute shortage of hot rolled coils in the markets in 1985-86 and so Government felt that when there was a shortage, there was no idea of keeping the PN-58 scheme in operation."

3.35 Pleading for re-introduction of the scheme, SSP stated that —

it would provide the following benefits:

(a) Stabilisation in the market.

(b) Support to Salem to achieve 100% capacity utilisation.

(c) Direct benefits to the exporters.

3.36 REP licences are given to exporters as an export incentive. When enquired whether the PN-58 scheme which requires surrender of REP licences to SAIL would affect exports, a representative of SAIL said:

"That is a moot point. Technically a man can import a large percentage of stainless steel without its going directly or indirectly into export. But under this mechanism, the exporter makes certain money by trading his REP licence and it is the feeling in the Commerce Ministry that this REP licence trading gives an extra monetary advantage to the exporter and therefore helps him in giving a competitive price. But it is our view that while in the other cases import under REP is only a very small part of the domestic production, in the case of stainless steels it forms a reasonable percentage of the domestic production and therefore it is hurting the domestic industry. That is the only difference."

3.37 When enquired whether it is not desirable to reintroduce the scheme in view of the advantages to domestic industry, the Secretary of Department of Steel stated during oral evidence:—

"We have already moved for reintroduction of PN-58 scheme. We have taken it up with the Commerce Ministry and we are hopeful that they will agree to it."

3.38 SSP informed the Committee in a note that it had to incur a loss of about Rs. 12,100 per tonne when it makes supplies under the PN-58 scheme. Asked then why the SSP/SAIL pleads for reintroduction of the scheme, a representative of SAIL said during evidence:—

"The figure of Rs. 12,000 per tonne refers to the difference in realisation between normal domestic sale and PN-58 sales. Even when there is a difference of Rs. 12,000 per tonne we make a margin on the variable costs of about Rs. 4,000 to 5,000 per tonne."

3.39 SSP also stated that Government assistance was needed to compensate the loss on this account. The loss incurred by SSP was stated to be over Rs. 2 crores during 1983-86. When enquired whether the matter was taken up with Government for seeking compensation in this regard, a representative of SAIL stated in evidence:

"We had approached the Government to give us the compensation which was the difference between our realisation under the PN-58 scheme and the domestic prices. The Government did not agree with this."

3.40 Referring to the plea for reintroduction of the scheme, the representative of SAIL, however, said:

"When we asked for re-introduction of PN-58, we did tell that we are not looking for the compensation which we are asking for previously. Previously, we did ask for compensation."

3.41 Para 152 of Import & Export Policy April, 1985—March 1988 (Vol. I) provides for supply of material by indigenous producers to the holders of import licences at negotiated prices and get the benefit to which the import licence holders are otherwise entitled. SSP informed the Committee in a postevidence reply that under the provisions of para 152 of current policy SAIL has introduced a scheme similar to that of PN-58. The major difference between the two schemes is stated to be that under the Para 152 scheme, there is no element of compulsion to surrender the import licence as was the case in PN-58 scheme. SSP stated further in this connection as follows:

"We have also requested the Department of Steel and CCI&E to provide to us the benefit of duty draw-back in the form of replacement of HRSS coils at Nil duty along with the conversion norms of 1:1·313 as was applicable under the PN-58 scheme. Pending re-introduction of PN-58 scheme, the supports claimed by SAIL for servicing requirements of import licence holders under para 152 scheme, require to be provided."

3.42 Dept. of Steel stated in this connection in a written reply as follows:—

"We requested Controller of Imports & Exports to issue necessary instructions in this regard. We are awaiting decision by GCI&E."

3.43 Regarding import of stainless steel, SSP made the following suggestions:

(i) Any import of stainless steel material by anybody should be referred to SSP/SAIL for their clearance.

(ii) Import of stainless steel should be allowed only if the import are commensurate with the production facilities available with the importer.

3.44 The response of the Department of Steel to these suggestions are given below:

(1) At present import of stainless steel under canalised system and under supplementary licensing facilities is cleared by Iron & Steel Controller taking into account domestic availability including those from SSP/SAIL. For this he has regular arrangements for consulting the producers in the meeting for import clearance which are held in his office.

(ii) Like all other products, import of stainless steel is governed by Import Policy. Import Policy provides "end use clause" violation of which attracts penalty in terms of Import Trade Control Act. The sponsoring authorities which are DGTD, I & SC for the organised sector and Director of Industries for the small scale sector, examine the genuine requirement of the users under their control and only after ascertaining the ability of the users to use the material in their production shops, they certify essentiality for import of requisite quantities. Thereafter, I & SC gives indigenous, clearance for particular grades of stainless steel after taking into consideration the domestic production availability.

(d) *Interest burden on dormant investment*

3.45 Salem's product cost reportedly bears an element of Rs. 4,500 per tonne on account of the interest burden arising out of the dormant investment in the infrastructure. Certain facilities were put at a time when the Government's intention was to build an integrated steel plant at Salem. Pleading for waival of interest in this regard, SSP/SAIL stated as follows:—

> "The down scaling of the project which has happened is not Salem's own creation and we should not saddle the project, with a perpetual handicap in the form of the financial charges on the dormant investment. Government should waive the interest payment accruing on this account."

3.46 Asked what was the amount of interest and other charges that had to be borne by SSP annually on this account, it was stated in a written reply that on the dormant investment of Rs. 75/- crores, SSP had to bear an amount of Rs. 10.5 crores towards interest and other charges, annually. According to SSP, the interest works out to Rs. 6 crores.

3.47 The Secretary, Department of Steel, however, clarified in this connection during evidence:—

> "That is a notional figure. This figure of Rs. 10.5 crores is derived assuming that they have borrowed Rs. 75 crores to create dead investment."

The witness further added:

> "I would also like to mention that the dead investment of Rs. 75 crores has not yet been worked out. We do not think that dead investment is as much as Rs. 75 crores. But we have to go back and work it out...."

3.48 According to SSP/SAIL the dormant investment was as follows:—

| | Rs./Crores |
|---|---|
| 1. Land & Site preparation . . . . . | 3·95 |
| 2. Civil & structural works and township facilities | 20·78 |
| 3. Plant & Equipment | 45·33 |
| 4. Off site facilities | 3·83 |
| 5. Others . | 1·41 |
| | 75·30 |

3.49 Asked what was the response of the Government to the SAIL's request for interest waival, the Department of Steel stated in a written reply as follows:—

"The proposal does not give full details how the dormant investment was made, how the additional cost has been worked out on that investment and what amount of interest waival has been sought. SAIL has, therefore, been asked to give full details in support of their proposal."

(e) *Power Tariff*

3.50 The Committee were informed in a note that Tamil Nadu Government had agreed to supply power to Salem Steel Plant at 5 paise per unit including all levies for a period of 10 years from commencement of production including construction period. But Tamil Nadu Government went back on its commitment on the plea that rate of 5 paise per KWH agreed to only for integrated steel plant and not for a cold rolling mill alone as has been actually installed now, and started charging SSP on supply End Cost Basis with effect from 1-5-1982 and continued it till 31-5-1985. From 1-6-1985 onwards, SSP was brought into Scheduled-I wherein the rates are 64 paise per unit with an additional amount of Rs. 50/KVA on the maximum demand. It has been stated that this steep increase in the tariff seriously affects the viability and further growth of SSP. In this regard, SSP made a plea that to make the plant viable, SSP should again be charged on Supply End Cost Basis atleast, if not at the initially agreed rate of 5 paise per unit.

3.51 SSP/SAIL however, stated in a written reply that "while the main project itself has not fructified it may not be equitable to insist on the Government of Tamil Nadu that our part of assurance should be caried out."

3.52 When the Committee enquired whether there would not be a stronger case for seeking concessional tariff from Tamil Nadu Government, if the stage-II of SSP had been put up, the Department of Steel stated in a written reply as follows:—

"The Planning Commission and Department of Power have been writing to the State Electricity Boards to supply power at market rates and not to subsidise any industry. Even if, we had drawn full power required at plant stage i.e. 190 MVS against power requirement of 11 MVS for the work stage, TNEB would have had to raise power tariff, based on the Planning Commission/Department of Power's advise. It is, therefore, felt that even if the plant stage is executed, SSP will not get power at 5 paise per unit."

3.53 Referring to the recommendations of Planning Commission and Department of Power, the Chairman, SAIL stated in evidence:

"But even in spite of such recommendations, they (Tamil Nadu Government) have been giving electricity at concessional rates."

3.54 When the Committee enquired whether after installation of second 'Z' Mill, the matter could be taken up with the Tamil Nadu Government for concessional rate of duty, the Secretary, Department of Steel stated during the course of evidence:—

"That attempt will be made when the decision about the second Sendzimir mill is taken."

The witness however pointed out:—

"Even to supply at subsidised rates now, the rate would have been substantially higher."

**3.55 The Committee find that Hot Rolled Stainless Steel Coils (Hot Bands) are the basic input material for Salem Steel Plant and as at present the Plant is entirely dependent upon imports for the supply of Hot Bands. It has been stated that as per Import Policy 1985-86, the imports of Hot Bands have been canalised through MMTC. Prior to that even though such imports were canalised either through MMTC or SAIL, SSP had been allowed direct imports of its requirements under Open General Licence. After the introduction of the Import Policy 1985—88, the position has changed to the disadvantage of SSP. Even under the new dispensation of canalisation SSP has been given the facility of direct imports but a condition has now been imposed which requires SSP to ensure that counter trade arrangements are also incorporated in the contracts for imports of Hot Bands. In Committee's opinion the imposition of such obligations on a production enterprise is hardly justified as they cannot be expected to undertake counter trade arrangements, which should be the job of trading enterprises like MMTC and STC. As has been pointed out by SSP, insistence on counter-trade arrangements results in reduction in bargaining power and also delays the finalisation of the order. The Committee**

feel there is force in what the SSP says and accordingly recommend that SSP should be permitted to import Hot Bands directly without trying to insist on counter trade. The Committee desire that the Department of Steel should take up this matter with the appropriate authorities for finding a workable solution to the problem of SSP.

3.56 The Committee find that presently efforts are on to produce the Hot Bands indigenously through ASP—Bokaro route. Under this scheme, the ingots made at Alloy Steel Plant will be Hot rolled at Bokaro and Rourkela and brought to Salem Steel Plant, for which additional facilities have to be provided at Salem Steel Plant at an estimated cost of Rs. 115 lakhs. The Committee feel that economics of the proposals for indigenously produced hot bands do not appear to have been worked out fully and it is expected that against the present price of Rs. 16200 per tonne for the imported martial the price payable for indigenously produced hot bands would be around Rs. 29,000. Further the quantum of supply of material through this route will depend on stabilisation of production and the quality of the product. Apprehensions on the quality of finished materials through this route and the higher rejection rates have already been expressed by the representatives of SAIL. The question of coordination at different level is also likely to pose a problem. The Committee are of the firm view that there can be no substitute for indigenisation but before finalising the arrangements all the pros and cons need to be properly assessed. In this context, the Committee would like the Government to consider urgently whether the installation of a hot rolling mill and iron/steel making facilities at Salem would not be a more desirable proposition and take expeditious action accordingly.

3.57 Salem Steel Plant has been depending upon imported raw materials and hence the economics of the undertaking always depend upon the customs duty charged. The Committee find that the plant was conceived with a customs duty level of 70% of the raw materials. As against this, SSP had to pay customs duty at rates as high as 335% in the past. The present level of duty is stated to be 90% and this is one of the major factors responsible for high cost of production in SSP. It is interesting to note that whereas SSP imports are subject to a duty of 90%, the equivalent duty on hot bands made out of the imported scrap by its competitors works out to 13 per cent only. The Committee desire that the obvious anomalies in the duty structure which results in a price disadvantage to a public sector undertaking should not be allowed to persist and immediate action should be taken to remove such anomalies wherever they exist.

3.58 It has been further pleaded that the landed cost of Hot Bands had moved up at much steeper rate than the increase in the selling price. It has been stated that a reduction of customs duty to 70% from the current level of 90% can offset the price disadvantage to SSP to the extent of about Rs. 3600/- of finished steel. The question of reduction in customs duty is stated to be under examination and the Committee desire that the matter should be vigorously pursued to its logical end.

3.59 The Committee find that Customs Notification No. 150/81 allows import of Hot & Cold Rolled Stainless Steel Sheets and plates at a concessional duty of 65% for specified industries. This provision is liable to be misused to the disadvantage of SSP who are required to pay a duty of 90%. Similarly the Customs Notification No. 8/84 dt. 10-1-1984 again works to the disadvantage of SSP. The Committee desire that whenever such provisions which are inimical to the interest of a public undertaking like SSP come to notice, immediate action should invariably be initiated by the Government to rectify the deficiencies at the earliest. The Committee expect that necessary remedial steps will be taken by the Government to safeguard the interest of SSP.

3.60 The Committee were informed by SAIL that there had been imports of stainless steel to the tune of 5,000 to 10,000 tonnes every year when there was considerable under utilisation of capacity in SSP. The Committee in this connection note that SSP's price of stainless steel was Rs. 47,000 per tonne as against the international price of Rs. 20,960 which obviously is an attraction for imports. In order to restrict these imports, a scheme known as PN-58 (Public Notice-58) scheme was introduced in December 1982. The scheme enabled SSP to offer its products at international prices to the holders of import licence and to draw HR coils without payment of customs duty. Under the scheme all types of import licences were required to be surrendered to SAIL for availing supply from SSP. The scheme was, however, discontinued in April 1985 reportedly due to representations from the holders of import licences against the scheme. SAIL has sought the re-introduction of the scheme in order to stabilise the market and to improve SSP's capacity utilisation. Department of Steel have informed the Committee that they have already moved the Ministry of Commerce for reintroduction of the scheme. The Committee desire that the Ministry of Commerce should examine the matter expeditiously keeping in view the need to restrict avoidable imports and resultant outflow of scarce foreign exchange. The Committee have the least doubt that the reintroduction of the scheme will help in avoiding clandestine imports and otherwise also curbing the imports.

3.61 The Committee note that under the provisions of Para 152 of Import & Export Policy, SAIL has introduced a scheme similar to that of PN-58. It has been stated that under Para 152 of the scheme, there is no element of compulsion to surrender the import licence as was in the case of PN-58 scheme. Pending re-introduction of the PN-58 scheme, SAIL has sought that the benefit of duty drawback in the form of replacement of HRSS coils at Nil duty along with the conversion norms of 1:1.313 should be extended to it. Department of Steel has reportedly requested the Chief Controller of Imports and Exports to issue necessary instructions in this regard. The Committee would await the decision of CCI&E.

3.62 As recommended by the Committee elsewhere, for gainfully utilising the inbuilt capacity of various equipments at SSP and using the dormant investment of Rs. 75 crores with a view to reducing the production cost, the installation of second 'Z' mill with associated facilities is not only essential but inevitable. Because of the long gestation period of about 3 to 4 years required for setting up a 'Z' mill, a decision on the question needs to be expedited.

3.63 Pending a decision about the setting up of a second 'Z' mill, the Committee recommend that as proposed by SSP, the question of financial relief on account of interest charges on the dormant investment of Rs. 75 crores should be examined seriously. It has to be pointed out that the yearly interest on the dormant investment reportedly works out to Rs. 6 crores and constitutes a great strain on the resources of the SSP. It would be desirable that in view of the financial difficulties being faced by SSP, interest holiday on SDF loan should be given to SSP till integrated facilities are established. The Committee would like to be apprised of the decision taken in the matter at an early date.

3.64 The Committee were informed that the Tamil Nadu Government which had agreed to supply power to SSP at 5 paise per unit for a period of 10 years from the commencement of production has not honoured its commitment and is of late charging SSP at the commercial rate. This is purportedly being done keeping in view the directions of the Planning Commission and Department of Power. However, the reasons advanced by Tamil Nadu Government for change in agreement is that the rate of 5 paise agreed to was only for integrated steel plant and not for cold rolling mill alone. SSP has pleaded in this regard that it should be charged on supply-end—cost-basis, if not at the originally agreed rate of 5 paise with a view to make the plant viable. The Committee recommend that as assured by the Secretary, Department of Steel, this matter should again be taken up with the State Government soon after a decision is taken on the second 'Z' mill/second stage of SSP.

## IV. GENERAL

### (a) *Unutilised Land*

The Committee were informed in a note that 3817.17 acres of land for the plant, township, etc. had been acquired and possession taken over from the Government of Tamil Nadu in phases during the period from mid 72 to May 76. It was stated in a post evidence reply that out of this 2418.47 acres of land have so far been utilised. The amount of compensation paid for the acquired land as on 8-10-1986 reportedly was Rs. 4.136 crores.

4.2 It has been stated that the reason for a major portion of the land remaining unutilised is the truncated clearance of only a small part of the whole project as envisaged in the DPR. Utilisation of this land will be possible as and when the total project is cleared for implementation.

4.3 Asked about the revenue derived from the unutilised lands, SSP stated in a written reply as follows:

> "As per practice followed by the Railways and Highways Department, the usufructs of palmirah and coconut trees on the lands of SSP are disposed of through annual licences issued every year to outside parties on the basis of open tenders. The revenue accrued to SSP from this source so far is Rs. 2,24,556.96."

4.4 The blocked up investment in unutilised land (1398.70 acres) is valued at Rs. 128.74 lakhs. The interest burden borne by Salem Steel Plant on this account reportedly works out to Rs. 5.51 lakhs per annum.

4.5 Pointing out that the prospects of establishing integrated steel plant at Salem did not appear to be bright, the Committee wanted to know whether there is any rethinking about the utilisation of the surplus land. In reply, Chairman, SAIL said:

> "If we go in for the steel plant at Salem all this land would be required. This land was acquired during the period when the philosophy within the Government was that when such projects are taken up, the project authorities should estimate the total requirements for the ultimate

phase of operation and also acquire such land which will facilitate setting up of ancillary or feeder industries and also in a way to avoid mushroom development of the area. Keeping that in view the land was acquired....We do not know whether we have yet reached a stage where we can say that this land will not be used at all....The moment we are able to come to that situation—what will be the ultimate development of the project—at that stage we could estimate the utilisation of the surplus land."

4.6 On being enquired whether the vast stretch of agricultural land remaining unutilised for the last 10 to 15 years is not a loss to the economy and the poor farmers who were dispossessed of their land, the witness said:

"The arguments are inconvertible."

The witness then assured the Committee:

"We are hoping to build industrial complex. The project could not be got completed in the manner it was thought of. From now onwards we will try to work out what are the essential need and have foreseeable expansion of the plan in consultation with the State Government. We can make the best use of it."

(b) *Dues from Railways*

4.7 In terms of general principles, decided upon by the Cabinet Secretary in July 1972, it is the responsibility of Railways to construct and bear the cost of railway siding of all Steel Plants without making any reference whatsover to the traffic potentials of the various plants. However, it was decided jointly by the Chairman, Railway Board and Steel Secretary in January, 1974 that the railway siding work at Salem Steel Plant be taken up on deposit basis and that the assets could be taken over by the Railways when the first stage of the plant is commissioned. The construction work was commenced in 1974 and completed in March, 1978 by the Railways and necessary funds were deposited by SSP. Later in July, 1978 it was reportedly decided by the Minister of Raiways and Minister for Steel & Mines that as soon as the Plant goes into production, the money desposited will be paid back by Railways to SSP. SSP was commissioned in September, 1981 and the Southern Railway authorities were requested to take over the siding and refund the cost of construction of siding along with maintenance charges paid under protest aggregating to Rs. 1.40 crores. The

Railways have so far not taken over the siding on the ground of insufficient traffic.

4.8 A representative of SAIL stated in this connection during evidence:

> "Now they say that unless it (traffic) is of the magnitude of the integrated steel plant it will not be possible to provide the railway side at that cost."

4.9 Asked about the present position, SAIL stated in a written reply as follows:—

> "Railways have once again been requested to honour the commitments given earlier, as the commitments had been given without stipulating any minimum tonnage of traffic to be moved, to justify the construction of railway siding. Railways should consider the total earnings from all the units of SAIL and not consider each unit separately."

4.10 Asked what efforts were made to settle the matter early the Secretary, Department of Steel said:—

> "We initially took up this matter with the Railways when it was brought to our notice by the Salem Steel Plant in 1982. In terms of 1978 Agreement, it was to be taken over. We wrote to the Railways reminding them of the earlier decision and for refund too. The Railways refused to do so. We then took up in May, 1983. Again they declined. We took it up again in 1985. The matter is in correspondence with the Railways. In discussion they have told that their assessment was that the traffic in Salem would be 6 lakh tonnes per year. On that basis they were prepared to agree to the earlier decision. They said that the actual traffic was only 1300 tonnes per year. At this level, it is totally uneconomical to take over the siding or to refund the money spent. They say they are not bound also."

4.11 Asked whether the question will be considered when the traffic improves, the witness said:—

> "At present the Railways would not be willing to reimburse the cost."

4.12 Later in a written reply Deptt. of Steel stated as follows:—

> "Railways have stated that in case SSP is interested in retaining siding as a private siding, they may execute an agreement etc....SAIL wrote to us on 22-1-87 that they asked SSP for comments. The matter is being actively pursued."

(c) *Workers Participation*

4.13 The Committee were informed in a note that SSP has formed bipartite forums in which the management and the non-executive employees are represented. These are, a Joint Council, two Shop Councils (One for Works area and the other for areas other than Works), Safety Committee, Township Welfare and Amenities Committee, Canteen Managing Committee and Board of Trustees for provident fund in which the non-executive employees are represented by the recognised Salem Steel National Employees' Union (INTUC). The periodicity of meetings of these councils is stated to be monthly.

4.14 Joint Council reportedly is an open Committee dealing with matters relating to production, productivity, functions of Shop Council having common bearing with another Shop, unsolved problems emanating from shop councils, development of skills of worksmen and optimum utilisation of raw materials and quality of products, general health, welfare and safety measures for the plant.

4.15 The Committee observed from the information furnished to them that not even a single meeting of the joint council or shop council (for work areas) has been held during the three year period 1982-85 although it was to be held every month. In respect of other Committees like safety committee, township Welfare and Amenities Committee etc. the meetings have been held but not as frequently as required.

4.16 When asked about the reasons for non-functioning of the Joint Council and Shop Councils (for work areas), SSP/SAIL stated in a written reply as follows:—

> "The Joint Council and the Shop Councils (Works areas) could not function because of inter-union rivalry and internal difficulties within the recognised union. The bipartite committees were reconstituted and have started functioning from 1985."

4.17 The number of meetings of the bipartite committees held upto November 30, 1986 as informed by SSP are indicated below:

| Name of bipartite Committee | Number of meetings held |
|---|---|
| Joint Council | One |
| Shop Council (For works areas) | Eleven |
| Shop Council ( for area other than works) | Twenty two |
| Township Welfare and Amentities Committee | Twenty three |
| Safety Committee | Twelve |

(d) *Employees Education Society*

4.18 The Committee observed from the information furnished to them that the responsibility of running the school in SSP township has been entrusted to a voluntary and non-profit society viz. Sir Vidya Mandir Association. According to the BPE guidelines on the subject the Management of Enterprises' own school could also be arranged through establishment of employees' education societies which will help to bring about a greater sense of involvement on the part of the employees. The Committee wanted to know whether the management made any attempt to encourage establishment of employees' education society and to entrust the responsibility of running the school to the society. SSP stated in a written reply as follows:—

> "Quarters in the Mohan Nagar township were ready for occupation by the employees in April, 1982. It was necessary to provide educational facilities for the children of the employees shortly thereafter. The formation of an Employees' Education Society would have taken time. In any case, the society would not have had the expertise to run the school, and would have need to rely on professional assistance. Taking into account inter-alia the practices in other public sector undertakings in the south, like BHEL, Trichy and Neyveli Lignite Corporation, Neyveli, the responsibility of running a school in Mohan Nagar township was entrusted to the Sri Vidya Mandir Association, which is a reputed voluntary non-profit registered society which was already running schools in Salem and had the requisite expertise. The school in the Mohan Nagar Township run by the Sri Vidya Mandir Association started functioning from June, 1982."

4.19 It has been stated that the Township School is affiliated to the Central Board of Secondary Education and that the Tamil Nadu Government pay scales have been adopted for the teaching staff of the school. The Committee noted that according to BPE guidelines, the Central pay scales may be followed as far as possible for schools affiliated to Central Board of Secondary Education. When enquired why guidelines were not followed in this regard by SSP, it was stated in a post evidence reply as follows:—

> "The teachers in Sri Vidya Mandir School, Mohan Nagar are paid the scales of pay of the Tamil Nadu Government. This is the pattern followed by the Sri Vidya Mandir Association in respect of other schools being run by this Association and which are affiliated to the C.B.S.E. The C.B.S.E. itself provides that salaries may be paid to the teachers of the school affiliated to it as are paid to teachers in Government institutions of the State."

### (e) *Shortcomings*

4.20 It transpired during examination that there was a CBI investigation on an allegation that some of the employees of SSP assisted a private firm (M/s. Triveni Metals & Alloys (P) Ltd., Pondicherry) by availing leave and receiving illegal gratification during the critical period of trial runs and commissioning of their mill at Pondicherry. This firm was reportedly coming up as a market competitor to SSP.

4.21 CBI's findings and its recommendations are stated to be as follows:—

> "CBI, Madras in its report implicated some of the employees of SSP for having negotiated for taking an employment with the above firm and worked there with/without remuneration. CBI had recommended to initiate departmental action against all the above employees for major penalty for violation of rules. In addition, CBI recommended to take administrative action against one Officer for his failure to report to the Department regarding his father wooing SSP personnel to join M/s. Triveni Metals & Alloys (P) Ltd. Pondicherry."

In this regard SSP asserted in a written reply as follows:

> "All the employees found guilty have been reduced to the lower stages in their time scales with effect from 29-11-1985. In the case of the officer on whom administ-

rative action was recommended by CBI, a warning letter was issued for his act of not disclosing information about his father's activity to the Management."

4.22 Contradictory to te above assertion, it was noticed by the Committee from a post-evidence note that out of the seven employees indicated by CBI, one had left the service of SSP while the case was still under investigation by the CBI. It was stated that no disciplinary action therefore could be taken against him by SSP.

4.23 The Committee also came arcross another instance of shortcoming. This related to the procurement of filter material (Diatomaceous Earth) which did not conform to actual requirement. 37.68 t. of filter material at the cost of Rs. 3.62 lakhs was reportedly procured from M/s. Raco Chemicals, U.S.A. in 1982. SSP stated in this connection in a written reply as follows:—

"When the material was received and tested, it was observed that the material was finer than the specifications and hence not suitable for use. The matter was taken up with the Supplier who even after protracted correspondence has maintained that the material supplied matched the specifications. Simultaneously, we were able to locate parties who could use this material and accordingly the material was disposed of and an amount of Rs. 3.76 lakhs realised out of the disposal."

4.24 Asked who was responsible for procuring the material not conforming to the requirement, SSP stated in a post evidence reply that no single individual was responsible for purchase of diatomaceous earth, off-grade of which was observed only after the receipt of bulk supplies.

**4.25 The Committee find that out of 3817.17 acres of land acquired for setting up of an integrated steel plant at Salem, so far only 2418.47 acres of land have been utilised. The locked up investment in the unutilised land is valued at Rs. 128.74 lakhs on which the Plant has to bear an interest burden of the order of Rs. 5.51 lakhs per annum. The reason for a large part of the land remaining unutilised is the truncated clearance of only a small part of the full fledged integrated project as envisaged in the DPR The Committee take a serious view of the haphazard manner of acquiring land without corelating it to the immediate requirements and for further expansion. This has not only resulted in locking up of huge capital on which there is a recurring interest liability, but also poor farmers have been deprived**

of agricultural land which remains unutilised and must be causing loss to the economy of the State. The Committee strongly deprecate following of such patently unhealthy practices.

4.26 It is a matter of concern for the Committee to note that there is no scope for optimal utilisation of vast track of land unless a final decision about the setting up of an integrated steel plant is taken. The Committee desire that till such a decision is taken, steps should be taken to ensure that the available land is put to some useful purpose for SSP.

4.27 In terms of a special agreement arrived at between the Chairman, Railway Board and the Steel Secretary in January 1974, a railway siding has been provided at Salem by Railways after accepting a deposit from the SSP. The term of the agreement also stipulated that the assets so created would be taken over by the Railways when the first stage of the plant is commissioned. It was also agreed that the funds deposited by SSP would be returned by Railways as soon as the Plant goes into production. An amount aggregating to Rs. 1.40 crores needs to be refunded by the Railways to SSP but unfortunately it has not been possible for the SSP management and the Railway authorities to come to an amicable settlement of the issue. Such unseemly disputes between two Government agencies do not leave a good impression on the Committee. They desire that such disputes should be resolved without unnecessary fuss. It should also be seen that while entering into such arrangements the terms and conditions should be set out in unambiguous and clear terms so that there is no scope for any misinterpretation at any stage.

4.28 SSP has formed joint council, shop councils and other committees in which the management and the non-executive employees are represented. These bipartite forums are aimed to improve production and productivity and also the general welfare of the employees. Unfortunately, no meeting of joint council and shop council for work areas was held during the three year period 1982—85 although meeting was to be held every month. In respect of other committees, the meetings have been held but not as frequently as required. SSP has explained that the joint council and shop council could not function because of inter-union rivalry and internal difficulties within the recognised union and that bipartite committees have been reconstituted and have started functioning from 1985. Keeping in view that the effective functioning of bipartite forums have a beneficial effect on the general industrial relations atmosphere, the Committee hope that the bipartite forums will be made to function systematically and effectively in future.

4.29 The Committee find that the responsibility of running the SSP school in the township has been entrusted to a voluntary and non-profit making society viz. Sri Vidya Mandir Association. According to the BPE guidelines, the management of Enterprises' own school could be arranged through establishment of employees' education societies. The Committee are of the view that establishment of employees' education society will help to bring about a greater sense of involvement on the part of the employees. The Committee would therefore suggest that the management should encourage establishment of employees' education society and entrust the responsibility of running the school to the society. Incidentally, the Committee have been informed that the teachers of the SSP school are paid the scales of pay of the State Government although the school has been affiliated to the Central Board of Secondary Education (CBSE). The BPE guidelines provide that as far as possible Central Pay scales should be followed for the schools of the undertakings affiliated to CBSE. In this connection, SSP has stated that according to CBSE, the teachers of schools affiliated to it could be paid the State Government scales. The Committee feel that the undertakings should follow as far as possible the guidelines of the BPE unless there is clear justification for deviation. The Committee hope that SSP would implement the BPE guidelines in this regard.

4.30 The Committee note that an employee of SSP against whom there was an investigation by CBI left the service of SSP while the investigation was still on. The Committee wonder whether there is any lacuna in the service rules of employees of SAIL/Salem Steel Plant which allows an employee to resign from service when an investigation against him is conducted/contemplated for any misconduct. The Committee desire that SAIL/SSP should identify such lacunae in the service rules of employees in consultation with BPE and remove the lacunae immediately. The Committee would like to be informed of the action taken in this regard.

4.31 The Committee find that diatomaceous earth (filter material) at a cost of Rs. 3.6 lakhs was imported from USA in 1982 which did not conform to the actual requirement. SSP has stated

**that no single individual was responsible for purchase of diatomaceous earth off-grade. Though the material has been disposed off to another party, the Committee feel that considering the foreign exchange outgo on this account and to obviate such instances in future, the matter should be enquired into and responsibility fixed.**

NEW DELHI;
*April* 27, 1987
*Vaisakha* 7, 1909 (*S*).

K. RAMAMURTHY,
*Chairman,*
*Committee on Public Undertakings.*

*APPENDIX*

*Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report*

| S. No. | Reference to Para No. in the Report | Conclusions/Recommendations |
|---|---|---|
| 1 | 2 | 3 |
| 1 | 1.61 | The proposal for the establishment of an integrated iron and steel plant based on Kanjamalai ore and Neyveli Lignite was initiated by Government of Tamil Nadu far back in 1960. Later Government of India got a Detailed Project Report (DPR) prepared in August 1964. This report was reviewed by Japan Consulting Institute (JCI) which confirmed that the project was technically feasible and economically viable. It took six years thereafter for the Government of India to take a decision in favour of setting up of the plant in terms of the announcement made by the Prime Minister in Parliament on 17th April, 1970. The inordinate delay in taking a decision on the project was stated to be due to recession in demand for steel during the sixties. The Committee fail to understand how the DPR and JCI, which in all probability should have taken into account the demand position obtaining in the country at that time, declared the project economically viable. The Committee were surprised to hear from the Secretary of the Department of Steel that the DPR in 1964 was prepared at a cost of Rs. 9 lakhs just to ascertain the technology to be adopted for the project. The Committee feel that the expenditure of this magnitude and preparation of a DPR for this purpose was hardly justified. |

| 1 | 2 | 3 |
|---|---|---|
| 2 | 1.62 | On the basis of a fresh feasibility report, an investment decision was taken by Government of India in May 1972 to have an integrated special steel plant at Salem at an estimated cost of Rs. 340 crores. The investment decision was, however, not followed immediately by implementation of the project for want of Government sanction. Some time later Government decided that the project would be implemented in two stages, the first stage consisting of a part of the cold rolling mill complex for production of 32,000 tonnes of finished cold rolled stainless steel and the second stage consisting of all the facilities to manufacture 2,20,000 tonnes of finished stainless, electrical and other special and mild steel sheets and strips. More than a year after taking the investment decision Government commissioned a consultant agency for the preparation of another DPR. The DPR was submitted in December, 1974 which put the estimated cost of the total plant at Rs. 560 crores. The Government, however, approved the DPR only in March 1977 and announced the investment decision to go ahead only with the first stage of the project which was estimated to cost Rs. 126.81 crores. |
| 3 | 1.63 | The Committee find that though there was prolonged delay in clearance of the project by the Government, happily there was no delay in the execution of the 1st stage of the project by the SSP management. The first stage of the Salem Steel Plant (SSP) was completed in September, 1981 as per schedule and commercial production started in March 1982. In Committee's view this is something commendable considering the fact that the delay in execution of projects has been the common occurrence in most of the public undertakings. There was, however, escalation in the cost of the project which went up by Rs. 54 crores due to price |

| 1 | 2 | 3 |
|---|---|---|
| | | escalation and due to certain omissions in the original estimate. |
| 4 | 1.64 | The Committee were startled to know that the infrastructure facilities worth Rs. 75 crores have been lying idle for many years in SSP due to delay in sanction of the second 'Z' mill by Government. While the first 'Z' mill established in the first stage of the project was for a capacity of 32,000 tonnes, the supporting facilities were reportedly geared up for a capacity of 65,000 tonnes to cater to two 'Z' mills. The installation of the second 'Z' mill was envisaged to be taken up soon after the completion of the first stage in September, 1981. This has, however, not been sanctioned by Government so far reportedly due to resource constraint and market constraint. SAIL has informed the Committee that SSP had to bear Rs. 10.5 crores annually as interest and capital related charges on this account. The Committee wonder how these factors were not taken into account by Government before taking a decision on the investment. A developing country like ours cannot afford to keep huge capital investment idle for many years. The Committee hope that at least in future the Government will exercise greater care in handling major projects like this. |
| 5 | 1.65 | Having created capacity which has been lying idle for years together the least the Committee can expect is that necessary steps to activate the idle capacity would be taken at the earliest. The Committee's examination has revealed that though SSP initially faced market constraint on account of its high product cost, this problem has been overcome to some extent and SSP has now projected its demand estimates which fully justify the immediate sanction of the second 'Z' mill by Government. According to the SAIL's assessment of demand for stainless steel, there |

| 1 | 2 | 3 |
|---|---|---|
| | | would be an additional demand of over 86,000 tonnes by 1988-89. SSP has stated that the emerging demand in the field of coinage, Railways, etc. totalling 35,000 tonnes could be met only by SSP failing which it would necessitate imports of the order of Rs. 48 crores annually. SAIL has even proposed to meet the cost of the 2nd mill which is estimated at Rs. 62 crores from its own resources generated internally. Government are, however, reluctant to take a decision regarding sanction of the mill till the demand assessments for stainless steel in the country have been updated by a Working Group, which is currently making a reassessment. The Committee would like to be informed of the outcome of the assessment made by the Working Group and the decision taken by Government in regard to sanction of second 'Z' mill for SSP. |
| 6 | 1.66 | The Committee note that according to a recent decision the sanction of projects costing less than Rs. 100 crores is within the powers of the Ministry of Steel and Mines (Department of Steel). The Committee strongly feel that the Ministry of Steel & Mines (Deptt. of Steel) should sanction the second 'Z' Mill without any further delay keeping in view the need to utilise the scarce resources blocked up in the dormant investment. |
| 7 | 1.67 | The Committee regret to note that the Stage-II of SSP which was expected to earn an internal rate of return of 10.3 per cent and effect foreign exchange savings of over Rs. 100 crores annually has not been implemented so far. The Committee are also concerned to note that non-execution of Stage-II has vitiated the operational economics of Stage-I on various counts as dealt with in the subsequent Chapters. Regrettably no serious attempt seems to have been made by the Government to fully implement the Prime |

| 1 | 2 | 3 |
|---|---|---|
| | | Minister's announcement made in Parliament as early as in April 1970 regarding establishment of an integrated steel plant at Salem. The Department of Steel has stated that the Stage-II of SSP was deferred to take advantage of the advancing technologies and due to adverse funds position. The Committee are hardly convinced of these reasons. One cannot wait indefinitely for taking advantage of the advancing technology which is an unending and continuous process. On the contrary an internal mechanism could have been devised to keep abreast of the latest technology in the field. Regarding the funds position, the Committee do not think that the Prime Minister's announcement in Parliament would have been made without taking this vital aspect into account. All this leads the Committee to conclude that the inordinate delay in taking up the project was due to lack of will on the part of Government. |
| 8 | 1.68 | Having delayed the execution of the project for over a decade after the approval of the DPR, no wonder doubts have now been raised about the techno-economic viability of Stage-II. The Committee have been informed that the updated DPR has envisaged two variants—one for backward integration upto steel making stage at an estimated cost of Rs. 822 crores and another for limited backward integration upto hot rolling facilities at an estimated cost of Rs. 412 crores. The Committee in this regard note the strong plea of Chairman, SAIL for going in for backward integration of SSP. The Committee would urge that the updated DPR should be examined by SAIL expeditiously and necessary action taken to take up whichever proposal is considered attractive from techno-economic angles. The Committee note in this connection that according to the Memorandum of Understanding (MOU) which was expected to come into force on 1st April 1987 there is an obligation on the part of the Government to clear within 12 weeks, |

| 1 | 2 | 3 |
|---|---|---|
| | | the project proposals incorporated in the MOU. The Committee hope that this will ensure sanction of Stage-II of SSP by Government without undue delay as in the past. |
| 9 | 1.69 | Incidentally it transpired during examination of SSP that a proposal has been made for backward integration of the plant under joint sector. The Secretary, Department of Steel claimed before the Committee that it is not a practical proposition. The Committee are also of the same view and would like to be informed of the final outcome of the examination of the proposal by Government and its reaction. |
| 10 | 1.70 | One of the objectives of setting up of SSP was stated to be to provide direct employment to a good number of personnel at plant and indirect employment to many times the number at plant in feeder and ancillary industries. The Committee are distressed to find that precious little was done to accomplish this objective. According to Chairman, SAIL the integrated steel plant envisaged originally could have offered a lot of opportunities for development of feeder and ancillary industries. This again underlines the urgent need for backward integration of SSP in the context of accomplishing this objective. Notwithstanding this, the Committee received an impression that sufficient efforts have not been taken to achieve whatever possible with the limited scope that the present plant offers in regard to the above objective. SSP claimed that the ban by Government on setting up of new units and expansion of existing units for manufacture of stainless steel articles was the major constraint in this regard. The Department of Steel however, informed the Committee that this ban had been removed as early as in July 1983. The Committee hope that as assured by Chairman, SAIL vigorous efforts would be made in cooperation |

| 1 | 2 | 3 |
|---|---|---|
| | | with the State Government authorities to exploit the entrepreneurial talent in the local people and thereby move towards fulfilling this objective to the extent possible. |
| 11 | 1.71 | The Committee regret that out of 3000 families displaced on account of land acquisition for the SSP only 192 could find job in SSP though 560 people had registered with the Employment Exchange. It has been stated that due to the sophisticated nature of the plant and the requirement of specialised skills in operating the same, SSP could not hire all the people. The Committee hope that when expansion of SSP takes place, the other displaced persons would be given priority for employment. |
| 12 | 2.17 & 2.18 | The Committee find that SSP established its viability by breaking-even in 1984-85 after incurring a loss of about Rs. 32 crores during the first two years of operation. It made a profit of Rs. 2.92 crores in 1985-86 and Rs. 3.0 crores (approx.) in the current year. The capacity utilisation was 94% in 1985-86 and 107% in 1986-87 though it was less than 25% during 1982—84 and was only 63% in 1984-85 reportedly due to the process of plant stabilisation and other adverse factors. |
| | | The Committee are happy to note that in a short span of its operations, SSP has proved the quality of its products by making token exports to advanced countries like Japan, USA, Canada, West Germany, Australia and some other countries. It is a matter of satisfaction to note that SSP has won industrial safety award for the fifth year in succession and it has also won the prestigious 'Sword of Honour' award for 1986 from the British Safety Coun- |

| 1 | 2 | 3 |
|---|---|---|
| | | cil. The Committee feel that in the context of the constraints faced by SSP, its performance on the whole has been commendable. The Committee would like SSP to keep up its performance and put in more concerted efforts to further improve its performance in the coming years. |
| 13 | 3.55 | The Committee find that Hot Rolled Stainless Steel Coils (Hot Bands) are the basic input material for Salem Steel Plant and as at present the Plant is entirely dependent upon imports for the supply of Hot Bands. It has been stated that as per Import Policy 1985-86, the imports of Hot Bands have been canalised through MMTC. Prior to that even though such imports were canalised either through MMTC or SAIL, SSP had been allowed direct imports of its requirements under Open General Licence. After the introduction of the Import Policy 1985-88, the position has changed to the disadvantage of SSP. Even under the new dispensation of canalisation SSP has been given the facility of direct imports but a condition has now been imposed which requires SSP to ensure that counter trade arrangements are also incorporated in the contracts for imports of Hot Bands. In Committee's opinion the imposition of such obligations on a production enterprise is hardly justified as they cannot be expected to undertake counter trade arrangements, which should be the job of trading enterprises like MMTC and STC. As has been pointed out by SSP, insistence on counter-trade arrangements results in reduction in bargaining power and also delays the finalisation of the order. The Committee feel there is force in what the SSP says and accordingly recommend that SSP should be permitted to import Hot Bands directly without trying to insist on counter trade. The Committee desire that the |

| 1 | 2 | 3 |
|---|---|---|
| | | Department of Steel should take up this matter with the appropriate authorities for finding a workable solution to the problem of SSP. |
| 14 | 3.56 | The Committee find that presently efforts are on to produce the Hot Bands indigenously through ASP—Bokaro route. Under this scheme, the ingots made at Alloy Steel Plant will be Hot rolled at Bokaro and Rourkela and brought to Salem Steel Plant, for which additional facilities have to be provided at Salem Steel Plant at an estimated cost of Rs. 115 lakhs. The Committee feel that economics of the proposal for indigenously produced hot bands do not appear to have been worked out fully and it is expected that against the present price of Rs. 16200 per tonne for the imported material the price payable for indigenously produced hot bands would be around Rs. 29,000. Further the quantum of supply of material through this route will depend on stabilisation of production and the quality of the product.<br><br>Apprehensions on the quality of finished materials through this route and the higher rejection rates have already been expressed by the representatives of SAIL. The question of coordination at different level in also likely to pose a problem. The Committee are of the firm view that there can be no substitute for indigenisation but before finalising the arrangements all the pros and cons need to be properly assessed. In this context, the Committee would like the Government to consider urgently whether the installation of a hot rolling mill and iron/steel making facilities at Salem would not be a more desirable proposition and take expeditious action accordingly. |
| 15 | 3.57 | Salem Steel Plant has been depending upon imported raw materials and hence the economics of the undertaking always depend upon |

| 1 | 2 | 3 |
|---|---|---|
| | | the customs duty charged. The Committee find that the plant was conceived with a customs duty level of 70% of the raw materials. As against this, SSP had to pay customs duty at rates as high as 335% in the past. The present level of duty is stated to be 90% and this is one of the major factors responsible for high cost of production in SSP. It is interesting to note that whereas SSP imports are subject to a duty of 90%, the equivalent duty on hot bands made out of the imported scrap by its competitors works out to 13 per cent only. The Committee desire that the obvious anomalies in the duty structure which results in a price disadvantage to a public sector undertaking should not be allowed to persist and immediate action should be taken to remove such anomalies whereever they exist. |
| 16 | 3.58 | It has been further pleaded that the landed cost of Hot Bands had moved up at much steeper rate than the increase in the selling price. It has been stated that a reduction of customs duty to 70% from the current level of 90% can offset the price disadvantage to SSP to the extent of about Rs. 3600/- of finished steel. The question of reduction in customs duty is stated to be under-examination and the Committee desire that the matter should be vigorously pursued to its logical end. |
| 17 | 3.59 | The Committee find that customs Notification No. 150/81 allows import of Hot & Cold Rolled Stainless Steel Sheets and plates at a concessional duty of 65% for specified industries. This provision is liable to be misused to the disadvantage of SSP who are required to pay a duty of 90%. Similarly the Custom Notification No. 8/84 dt. 10-1-1984 again works to the |

| 1 | 2 | 3 |
|---|---|---|
| | | disadvantage of SSP. The Committee desire that whenever such provisions which are inimical to the interest of a public undertaking like SSP come to notice, immediate action should invariably be initiated by the Government, to rectify the deficiencies at the earliest. The Committee expect that necessary remedial steps will be taken by the Government to safeguard the interest of SSP. |
| 18 | 3.60 | The Committee were informed by SAIL that there had been imports of stainless steel to the tune of 5,000 to 10,000 tonnes every year when there was considerable under-utilisation of capacity in SSP. The Committee in this connection note that SSP's price of stainless steel was Rs. 47,000 per tonne as against the international price of Rs. 20,960 which obviously is an attraction for imports. In order to restrict these imports, a scheme known as PN-58 (Public Notice—58) scheme was introduced in December 1982. The scheme enabled SSP to offer its products at international prices to the holders of import licence and to draw HR coils without payment of customs duty. Under the scheme all types of import licences were required to be surrendered to SAIL for availing supply from SSP. The scheme was, however, discontinued in April 1985 reportedly due to representations from the holders of import licences against the scheme. SAIL has sought the re-introduction of the scheme in order to stabilise the market and to improve SSP's capacity utilisation. Department of Steel have informed the Committee that they have already moved the Ministry of Commerce for reintroduction of the scheme. The Committee desire that the Ministry of Commerce should examine the matter expeditiously keeping in view the need to restrict avoidable imports and resultant outflow of scarce |

| 1 | 2 | 3 |
|---|---|---|
| | | foreign exchange. The Committee have the least doubt that the reintroduction of the scheme will help in avoiding clandestine imports and otherwise also curbing the imports. |
| 19 | 3.61 | The Committee note that under the provisions of Para 152 of Import and Export Policy, SAIL has introduced a scheme similar to that of PN-58. It has been stated that under Para 152 of the scheme, there is no element of compulsion to surrender the import licence as was in the case of PN-58 scheme. Pending re-introduction of the PN-58 scheme, SAIL has sought that the benefit of duty drawback in the form of replacement of HRSS coils at Nil duty along with the conversion norms of 1:1.313 should be extended to it. Department of Steel has reportedly requested the Chief Controller of Imports and Exports to issue necessary instructions in this regard. The Committee would await the decision of CCI&E. |
| 20 | 3.62 | As recommended by the Committee elsewhere, for gainfully utilising the inbuilt capacity of various equipments at SSP and using the dormant investment of Rs. 75 crores with a view to reducing the production cost, the installation of second 'Z' mill with associated facilities is not only essential but inevitable. Because of the long gestation period of about 3 to 4 years required for setting up a 'Z' mill, a decision on the question needs to be expedited. |
| 21 | 3.63 | Pending a decision about the setting up of a second 'Z' mill, the Committee recommend that as proposed by SSP, the question of financial relief on account of interest charges on the dormant investment of Rs. 75 crores should be examined seriously. It has to be pointed out that the yearly interest on the dormant investment reportedly works out to Rs. 6 crores and constitutes a great strain on the resources of the SSP. |

| 1 | 2 | 3 |
|---|---|---|
| | | It would be desirable that in view of the financial difficulties being faced by SSP, interest holiday on SDF loan should be given to SSP till integrated facilities are established. The Committee would like to be apprised of the decision taken in the matter at an early date. |
| 22 | 3.64 | The Committee were informed that the Tamil Nadu Government which had agreed to supply power to SSP at 5 paise per unit for a period of 10 years from the commencement of production has not honoured its commitment and is of late charging SSP at the commercial rate. This is purportedly being done keeping in view the directions of the Planning Commission and Department of Power. However, the reasons advanced by Tamil Nadu Government for change in agreement is that the rate of 5 paise agreed to was only for integrated steel plant and not for cold rolling mill alone. SSP has pleaded in this regard that it should be charged on supply—end-cost-basis, if not at the originally agreed rate of 5 paise with a view to make the plant viable. The Committee recommend that as assured by the Secretary, Department of Steel, this matter should again be taken up with the State Government soon after a decision is taken on the second 'Z' mill/second stage of SSP. |
| 23 | 4.25 | The Committee find that out of 3817.17 acres of land acquired for setting up of an integrated steel plant at Salem, so far only 2418.47 acres of land have been utilised. The locked up investment in the unutilised land is valued at Rs. 128.74 lakhs on which the Plant has to bear an interest burden of the order of Rs. 5.51 lakhs per annum. The reason for a large part of the land remaining unutilised is the truncated clearance of only a small part of the full fledged integrated project as envisaged in the DPR. The Committee take |

| 1 | 2 | 3 |
|---|---|---|
| | | a serious view of the haphazard manner of acquiring land without correlating it to the immediate requirements and for further expansion. This has not only resulted in locking up of huge capital on which there is a recurring interest liability, but also poor farmers have been deprived of agricultural land which remains unutilised and must be causing loss to the economy of the State. The Committee strongly deprecate following of such patently unhealthy practices. |
| 24 | 4.26 | It is a matter of concern for the Committee to note that there is no scope for optimal utilisation of vast track of land unless a final decision about the setting up of an integrated steel plant is taken. The Committee desire that till such a decision is taken, steps should be taken to ensure that the available land is put to some useful purpose for SSP. |
| 25 | 4.27 | In terms of a special agreement arrived at between the Chairman, Railway Board and the Steel Secretary in January 1974, a railway siding has been provided at Salem by Railways after accepting a deposit from the SSP. The term of the agreement also stipulated that the assets so created would be taken over by the Railways when the first stage of the plant is commissioned. It was also agreed that the funds deposited by SSP would be returned by Railways as soon as the Plant goes into production. An amount aggregating to Rs. 1.40 crores needs to be refunded by the Railways to SSP but unfortunately it has not been possible for the SSP management and the Railway authorities to come to an amicable settlement of the issue. Such unseemly disputes between two Government agencies do not leave a good impression on the Committee. They desire that such disputes should be resolved without unnecessary fuss. It should also be seen that |

| 1 | 2 | 3 |
|---|---|---|
| | | while entering into such arrangements the terms and conditions should be set out in unambiguous and clear terms so that there is no scope for any misinterpretation at any stage. |
| 26 | 4.28 | SSP has formed joint council, shop councils and other committees in which the management and the non-executive employees are represented. These bipartite forums are aimed to improve production and productivity and also the general welfare of the employees. Unfortunately, no meeting of joint council and shop council for work areas was held during the three year period 1982—85 although meeting was to be held every month. In respect of other committees, the meetings have been held but not as frequently as required. SSP has explained that the joint council and shop council could not function because of inter union rivalry and internal difficulties within the recognised union and that bipartite committees have been reconstituted and have started functioning from 1985. Keeping in view that the effective functioning of bipartite forums have a beneficial effect on the general industrial relations atmosphere, the Committee hope that the bipartite forums will be made to function systematically and effectively in future. |
| 27 | 4.29 | The Committee find that the responsibility of running the SSP school in the township has been entrusted to a voluntary and non-profit making society viz. Sri Vidya Mandir Association. According to the BPE guidelines, the management of Enterprises' own school could be arranged through establishment of employees' education societies. The Committee are of the view that establishment of employees' education society will help to bring about a greater sense of involvement on the part of the employees. The |

| 1 | 2 | 3 |
|---|---|---|
| | | Committee would therefore suggest that the management should encourage establishment of employees' education society and entrust the responsibility of running the school to the society. Incidentally, the Committee have been informed that the teachers of the SSP school are paid the scales of pay of the State Government although the school has been affiliated to the Central Board of Secondary Education (CBSE). The BPE guidelines provide that as far as possible Central Pay scales should be followed for the schools of the undertakings affiliated to CBSE. In this connection, SSP has stated that according to CBSE the teachers of schools affiliated to it could be paid the State Government scales. The Committee feel that the undertakings schould follow as far as possible the guidelines of the BPE unless there is clear justification for deviation. The Committee hope that SSP would implement the BPE guidelines in this regard. |
| 28 | 4.30 | The Committee note that an employee of SSP against whom there was an investigation by CBI left the service of SSP while the investigation was still on. The Committee wonder whether there is any lacuna in the service rules of employees of SAIL/Salem Steel Plant which allows an employee to resign from service when an investigation against him is conducted/contemplated for any misconduct. The Committee desire that SAIL/SSP should identify such lacunae in the service rules of employees in consultation with BPE and remove the lacunae immediately. The Committee would like to be informed of the action taken in this regard. |
| 29 | 4.31 | The Committee find that diatomaceous earth (filter material) at a cost of Rs. 3.6 lakhs was imported from USA in 1982 which did not |

| 1 | 2 | 3 |
|---|---|---|
| | | conform to the actual requirement. SSP has stated that no single individual was responsible for purchase of diatomaceous earth off-grade. Though the material has been disposed off to another party, the Committee feel that considering the foreign exchange outgo on this account and to obviate such instances in future, the matter should be enquired into and responsibility fixed. |

MGIPMRND—(Letter Unit)—LS II—608 LS—27-7-87—1100.