

FIFTY-THIRD REPORT
PUBLIC ACCOUNTS COMMITTEE
(1986-87)

(EIGHTH LOK SABHA)

**AVOIDABLE EXTRA EXPENDITURE ON THE
PURCHASE OF CROSS-BAR TELEPHONE EXCHANGE
EQUIPMENT FOR VARIOUS EXCHANGES**

**MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF TELECOMMUNICATIONS)**



सत्यमेव जयते

Presented in Lok Sabha on 6.8.1986

Laid in Rajya Sabha on 6.8.1986

**LOK SABHA SECRETARIAT
NEW DELHI**

July, 1986/Sravana, 1908 (Saka)

Price : Rs. 2.50

CORRIGENDA TO 53RD REPORT OF PUBLIC ACCOUNTS
COMMITTEE PRESENTED TO THE HOUSE ON 6.8.1986

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
4	1.11	24	planned	planned
27	1.34	2	stated by above	stated above
32	1.51	7	'import of 1.34 lakh lines of cross-bar exchanges to cover the gap'	'and a decision taken to restrict provision of cross-bar exchanges'
35	1.59	5	bide	bids
35	1.60	5	casual slipshod	casual and slipshod
41	1.49 (Col.4)	2	avail ability	availability

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1986-87)	(iii)
INTRODUCTION	(v)
PART I	
REPORT	I
PART II*	
Minutes of the sittings of the Public Accounts Committee held on :	
28-1-1986 (AN)	
3-7-1986 (AN)	
APPENDIX	Statement of Recommendations and Observations.

*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

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(1986-87)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Fifty-third Report of the Committee on Paragraph 17 of the Report of Comptroller and Auditor General of India for the year 1983-84, Union Government (Posts and Telegraphs) relating to Avoidable extra expenditure on the purchase of cross-bar telephone exchange equipment for various exchanges.

2. The Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Posts and Telegraphs) was laid on the Table of the House on 12 April, 1985.

3. The Committee have noted that the requirement of local telephone exchange equipment and its availability from indigenous production for the 5-year period 1978-83, reviewed in May 1978, was estimated at 15.27 lakh lines against the likely supplies of 10.66 lakh lines from indigenous sources. The shortfall, thus, estimated at 4.61 lakh lines was provisionally proposed to be met from various sources including import of 2.94 lakh lines. Action for bridging the gap by imports for meeting requirements of 1979-80 and 1980-81 comprising of 1.34 lakh lines of cross-bar equipment and 10,000 lines of electronic SPC exchanges (total 1.44 lakh lines) was taken, whereas import requirement for 1981-82 and 1982-83 was left to be considered later on. A further reassessment of requirement for the next-5-year period 1979-84 made in November 1979 revealed requirement of 17.46 lakh lines against the supplies to the tune of 9.80 lakh lines expected from all sources leaving an estimated gap of 7.66 lakh lines. As the import was to be financed by World Bank loan, the NIT had to fulfill normal conditions applicable to such loans which, *inter-alia*, provided a minimum period of 4 months for keeping tender quotations open for acceptance at the rates quoted. According to the Department of Telecommunications, for very large orders and many bidders, and in cases where in addition, clearances have to be obtained from a number of agencies, the time taken often exceeds the limit of 4 months. In such cases, extension of validity is obtained from the tenderers and the World Bank. In the present case also, tenderers had extended the validity

up to 15-12-1979 without any pre-conditions. The NIT issued on 4-10-1978 for import of 1.34 lakh lines, provided enabling option clause for repeat order on the same terms and conditions for an addition of 1.7 lakh lines to cover the requirements up to 1982-83 provided such option was exercised not later than one year from the date of complete supply of equipment under the original order. Letters of intent issued to the suppliers on 2-12-1979 also incorporated the above mentioned provision. So much so that on 18/20-7-78 tentative programme of import of 2.94 lakh lines of cross-bar exchange was finalised and even list of exchanges for 4 years 1979-83 was identified and tentative targets for commencement of installation were also indicated.

4. The Committee have expressed surprise that in spite of making periodical provision for import of additional equipment on the basis of established need and import of at least this much equipment and the fact that the order for it was to be placed within one year to take advantage of the rates already agreed upon with the foreign suppliers of 1.34 lakh lines, the Department did not bother to process the matter with the seriousness it deserved. The question for which the Committee has sought a satisfactory answer from the Department of Telecommunications is: why action for processing of repeat order for 1.7 lakh lines was not initiated simultaneously with the floating of indent for import of 1.34 lakh lines pending further review of the overall requirement later on when the need for import of this much cross-bar equipment had already been established and even a decision has also been taken during further review in November 1979 that the cross-bar equipment should be obtained up to 1982-83. The Committee are undoubtedly of the view that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat order. The Committee have contended that failure to exercise the option *ibid* for purchase of 1.7 lakh lines has resulted in considerable avoidable expenditure to the tune of Rs. 1264.01 lakhs as rightly observed by Audit. The Committee have held the Department of Communications squarely responsible for this costly lapse and have recommended that a high level enquiry must be conducted expeditiously to pinpoint responsibility for this lapse and action must be taken against the officers responsible for this costly lapse.

5. The Committee have also desired the Department to examine the methodology of periodical reviews of requirements of various

types of equipments for the country's Telecom. network so as to make it more realistic.

6. It is obvious that inordinate delay in finalising the tender will have totally demoralising effect on the tenderers and would naturally result in the tenderers playing safe in giving their tender quotations. This would deprive the Department the opportunity of getting competitive bids and efficient execution of the works. The Committee have recommended that if the Department considers that 4 months time is not sufficient in dealing with the tenders, they should prescribe a suitable realistic time limit within which tenders must be finalised.

7. The Public Accounts Committee (1985-86) examined the Audit Paragraph at their sitting held on 28 January, 1986. The Committee considered and finalised this Report at their sitting held on 3 July, 1986 based on the evidence already taken and written information furnished by the Ministry of Communications (Department of Telecommunications). Minutes of the sittings form Part II of the Report

8. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1985-86) in taking evidence and obtaining information for the Report.

9. For reference, facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

10. The Committee place on record their appreciation of the assistance rendered to them in the examination of this paragraph by the Office of the Comptroller and Auditor General of India.

11. The Committee will also like to express their thanks to the Officers of the Ministry of Communications (Department of Telecommunications) for the cooperation extended by them in giving information to the Committee.

E. AYYAPU REDDY,

*Chairman,
Public Accounts Committee.*

**NEW DELHI;
July 24, 1986**

Shravana 2, 1988 (Saka).

PART I
REPORT

**AVOIDABLE EXTRA EXPENDITURE ON THE PURCHASE OF
CROSS-BAR TELEPHONE EXCHANGE EQUIPMENT FOR
VARIOUS EXCHANGES**

Audit Paragraph

1.1 On review in December 1979, the requirements for switching equipment during 1979—84 were worked out at 17.46 lakh lines including the carry over of 0.53 lakh lines for 1978-79. The department decided to restrict the requirement only to Telephone Districts which worked out to 3.41 lakh lines for the year 1981—84. Excluding requirements of 1983-84, which were deferred pending decision as to how many of these should be electronic and how many electro-mechanical the requirements for 1981-82 and 1982-83 came to 2.43 lakh lines. Accordingly, it was proposed in December 1979 to import this equipment from 3 firms 'A', 'B' & 'C' whose rates had already been approved with reference to tender enquiry issued in October 1978 for 1,34, 000 lines.

1.2 This tender enquiry had, *inter alia*, provided for procurement of additional lines to the extent of 1.7 lakh lines under repeat order clause at the tendered prices provided the repeat order was placed within one year from the date of complete supply of the equipment under this tender. This was agreed to by the 3 firms except that firm 'B' stated that the repeat order should be placed within one year after date of signing the contract.

1.3 The following data indicate the time taken by the department in finalising the tender for 1.34 lakh lines:—

(1) Tender announced	4-10-1978
(2) Tender opened	29-1-1979
(3) Tender Evaluation Committee (TEC) set up	29-1-1979
(4) Report submitted by TEC	30-4-1979
(5) Report submitted by the study team after visit to Japan	5-6-1979
(6) Report submitted by the High level Committee on placing of orders	24-7-1979
(7) Letters of intent released by the Department	7-12-1979
(8) Detailed orders issued	21-5-1980 (firm 'C') 17-7-1980 (firm 'A') 24-7-1980 (firm 'B')

1.4 It would be seen that at the time the letters of intent were issued in December 1979 for the purchase of 1.34 lakhs of lines, the total requirements of 2.43 lakhs of additional lines was clearly known.

1.5 As a result of delay in the issue of detailed orders for supply of 1.34 lakh lines all the 3 firms expressed their inability to supply additional equipment under repeat order clause.

1.6 Delay in finalising the main tender of 1.34 lakh lines resulted in extra avoidable expenditure to the tune of Rs. 1264.01 lakhs.

1.7 The matter was reported to the DGPT in July 1984, reply was awaited (September 1984).

[Paragraph 17 of the Report of Comptroller & Auditor General of India for the year 1983-84 Union Government (P&T)]

1.8 The Audit Para points out that against the overall requirement for switching equipment worked out in December 1979 at 17.46 lakh lines for 1979-84, the Department decided in December 1979 to import 2.43 lakh lines against the requirement for 1981-82 and 1982-83 from 3 Japanese firms 'A', 'B' and 'C' whose rates had already been approved with reference to tender enquiry issued in October 1978 for 1,34,000 lines against the requirement for 1979-80 and 1980-81.

1.9 The Audit Para further points out that this tender enquiry (for 1.34 lakh lines) had, *inter alia*, provided for procurement of additional equipment to the extent of 1.7 lakh lines under repeat order clause at the tendered prices provided the repeat order was placed within one year from the date of complete supply of the equipment under this tender. This was agreed to by the 3 firms except that firm 'B' stated that the repeat order should be placed within one year after the date of signing the contract. The schedule of import of equipment for 1.34 lakh lines was as under:—

1. Date of inviting tenders :	. . . . .	18-9-1978
2. Last date of submission of tenders	. . . . .	29-1-1979
3. Date of Opening of tender :	. . . . .	29-1-1979
4. Period for which offers were to remain open :	. . . . .	4 months after the last date prescribed for submission of the tenders (i.e. 29-5-79)
5. Letters of intent released by the Department :	. . . . .	7-12-1979
6. Detailed orders issued on	. . . . .	21-5-1980 (firm 'C') 17-7-1980 (firm 'A') 24-7-1980 (firm 'B')

1.10 However, as a result of delay of about 16 to 18 months from opening of tenders on 29-1-1979) (letters of intent issued on 7-12-1979 after a delay of about 11 months) to issuing of detailed purchase orders from 21-5-1980 to 24-7-1980 for supply of 1.34 lakh lines, all the 3 firms expressed their inability to supply additional equipment under repeat order clause on the same price. Thus according to Audit Para, delay in finalising the main tender of 1.34 lakh lines resulted in extra expenditure to the tune of Rs. 1264.01 lakhs.

1.11 The Department of Telecommunications have furnished the following details regarding import requirement of 1.34 lakh lines:—

“Import of 1.34 lakh lines:

Estimate of Requirements:

The requirement of local telephone exchange equipment and its likely availability from indigenous production in the context of Agreed Programme of Development for the period 1978-83 was reviewed in May 1978. The requirement was estimated at 15.27 lakh lines as indicated below:

	(in lakhs lines)					
	78-79	79-80	80-81	81-82	82-83	78-83
(i) Expansion of local exchanges	2.20	2.43	2.67	2.96	3.26	3.52
(ii) Replacement of manual exchanges	0.15	0.20	0.25	0.30	0.35	1.25
(iii) Replacement of life expired auto exchanges	0.08	0.09	0.13	0.11	0.12	00.50
Total	2.43	2.72	3.02	3.37	3.73	15.27

Estimate of possible indigenous supplies:

The likely supplies for the period 1978-83 from indigenous sources were estimated at 10.66 lakh lines in May 1978 as indicated below:

	(in lakh lines)					
	78-79	79-80	80-81	81-82	82-83	78-83
(i) MAX- I SXS	0.48	0.81	1.00	1.00	0.96	4.25
(ii) MAX- II SXS	0.40	0.48	0.45	0.45	0.45	2.23
(iii) MAX - III SXS	0.25	0.28	0.30	0.30	0.30	1.43
(iv) Crossbar	0.34	0.34	0.32	0.27	0.27	1.54
(v) Electronics	0.01	0.05	0.05	0.05	0.05	0.21
(vi) Manual Exchanges (Telcom Factories)	0.15	0.17	0.20	0.23	0.25	1.00
Total :	1.63	2.13	2.34	2.33	2.28	10.66

Proposal for bridging the gap:

The shortfall in supplies for the period 1978—83 was thus estimated at 4.61 lakh lines. This shortfall was provisionally proposed to be made up as below:

- (i) Import of 0.60 lakh lines already planned on repeat order basis under Yen Credit and estimated to be delivered during 1978-79 and 1979-80.
- (ii) Fresh import of 2.94 lakh lines under various credits under World Bank/OECF etc. during 1979-80 to 1982-83.
- (iii) Supply of 1.07 lakh lines from ITI's proposed Rai Barelie Crossbar Factory Phase II to be assembled by import of components and assemblies.

Identification of Exchanges:

The following criteria were adopted for the identification of exchanges:

- (i) Only requirement of large exchanges in Telephone Districts to be considered.
- (ii) As far as possible 10,000 lines units to be imported.
- (iii) Only such partially equipped units (less than 10,000 lines) to be imported as may have fast development so that equipment for expansion to full 10,000 lines could be imported from the original supplier within a short period.

Imports planned for 1979-80 to 1982-83:

Based on the above criteria, the import requirements for the four years 1979-80 to 1982-83 were estimated at 2.94 lakh lines. It was however proposed to undertake firm action for import to cover the gaps for 1979-80 and 1980-81 with imports and for 1981-82 and 1982-83 being left to be covered after a fresh review later. The imports for 1979-80 and 1980-81 were planned as follows:—

(a) Crossbar	1979-80 : 69,000	
	1980-81 : 65,000	
	sub-total.....	1,34,000
(b) Electronic SFC	1980-81 : 10,000	10,000
	Grand Total..	1,44,000

The Department have further stated:

"In the Notice for tender for import of crossbar exchanges to cover gap for 1979-80 and 1980-81 provision was made for import of 1.34 lakh lines of total crossbar exchanges to cover the gap upto 1980-81. However, as a matter of discretion provision was made in the NIT for an option for placing an additional order to cover the gap upto 1982-83. Though the anticipated gap was 1.5 lakh lines (2.94—1.44) the quantity was raised to 1.7 lakh lines to cover the slippages of supply from other sources.

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Alongwith the NIT the specifications for individual exchanges totalling 1.34 lakh lines (Total 15 exchanges—11 of 10 thousand lines each and remaining 4 totalling 24 thousand lines) were given to enable the bidders to carry out preliminary engineering and quote firm price for these exchanges. They were, however, also required to quote unit price for individual building blocks so that if need be additional quantities could be ordered and also to form basis for repeat orders, if the options were to be exercised.

The import was to be financed by World Bank Loan. Hence the NIT had to fulfil normal conditions applicable to such loans. Four months time is the normal period prescribed in all tenders issued for financing by World Bank Loans. Very large orders, involving a large number of exchanges, and many bidders, and in cases where in addition clearances have to be obtained from a number of agencies, the time taken often exceeds the time limit of 4 months. In such cases extension of validity is obtained from the tenderers and the World Bank. In this case also the tenderers had extended the validity without any pre-conditions."

1.2 The next review made in 1979 for the period 1979-84 indicated a gap of 7.66 lakh lines and the total import finally was restricted to 1.83 lakh lines as per details furnished by the Department of Telecommunications given below:—

Estimate of requirements:

As part of the 'Roll on Plan' reassessment of requirement for the period 1979-84 was made in November, 1979. The

total requirement was estimated at 16.93 lakh lines as indicated below:

(Figures in lakh lines)

	1979-83	1983-84	1979-84
(i) Local Exchange expansion	11.32	3.54	14.86
(ii) Replacement of Manual exchange	1.10	0.35	1.45
(iii) Replacement of life expired exchange	0.42	0.20	0.62
Total	12.84	4.09	16.93

Together with 0.53 lakh lines brought forward from 1978-79 the total requirement is 17.46 lakh lines.

2. Estimate of Possible indigenous supplies:

The supplies anticipated during the five year period 1979-84 from all sources were estimated at 9.8 lakh lines as indicated below:

(in lakh lines)

	1979-83	1983-84	1979-84
(i) MAX I SXS	2.30	0.54	2.84
(ii) MAX II SXS	1.96	0.35	2.51
(iii) MAX III SXS	1.10	0.27	1.37
(iv) Crossbar	1.65	0.45	2.10
(v) Electronic	0.08	0.20	0.28
(vi) Manual exchange (from Telecom factories)	0.57	0.13	0.70
Total :	7.66	2.14	9.80

3. Anticipated Gap:

The anticipated gap during the period 1979-84 was estimated at 7.66 lakh lines.

4. Identification of Exchange Units:

The gap between the supply and demand was so large that unlike the past it was not possible to restrict import to full unit of 10,000 lines. It became necessary to consider

imports for smaller stations also. The considerations made were:

- (i) New units required to be set up in Telephone District and other large stations and extensions to imported units earlier set up or planned.
- (ii) New units at medium sized cities largely for automation or replacement of MAX II exchanges.

Based on the above criteria the following categories of exchanges were identified for possible import.

(a) Units of 500 lines and more largely in Telephone Districts	3.41 lakh lines
(b) Units of 800 to 4000 lines in replacement of auto manual exchanges.	1.15 lakh lines
(c) Units of 2000 to 4000 lines in replacement of existing MAX. II exchanges	1.15 lakh lines
(d) New units of 2000 to 4000 lines in medium sized towns where second units are needed for meeting further demands	0.22 lakh lines

The total came to 5.93 lakh lines. This was in addition to the 1.34 lakh lines for which a LOI had been issued, 0.1 lakh lines of outstanding orders and 0.3 lakh lines of Electronic Exchanges under installation. The total import requirement thus came to 7.67 lakh lines.

It was further decided that crossbar equipment should be obtained upto 1982-83 and for 1983-84 the procurement should be either crossbar or electronic to be decided later. Based on the above decision it was proposed to import 2.47 lakh lines. As 0.6 lakh lines electronic exchanges was proposed, the total import for the crossbar equipment was restricted to 1.87 lakh lines. A further review of one of the exchanges indicated that the requirement will be less by 4000 lines. The total import finally was restricted to 1.83 lakh lines.

5. Strategy for Import:

It was observed that any new tender for import entails long period to finalise as was evident from the purchase made for 1.34 lakh lines and considering that repeat order clause had been incorporated in the original tender, it was proposed to place addi-

tional order of 1.83 lakh lines on the three firms, where bids were the lowest technically accepted ones.

However, when the detailed Purchase orders for 1.34 lakh lines were placed on the three firms, the firms regretted their inability to accept the repeat orders for further equipment on the same price due to increase in the cost of raw materials and labour.

The firms had earlier extended the validity of their tenders upto 15th December, 1979 without any pre-conditions. The 3 firms having expressed their inability to accept the repeat order on the same terms and conditions, the department considered the best strategy to be adopted and decided to invite limited tenders from the three firms giving the technical specifications of the exchanges. Based on the quotations received on this basis, orders were placed on the three firms for the quantities indicated below by choosing the offer for each one of the exchange:

NEC	85,000 lines 25,000 lines	Main Extension
Hitachi	26,000 lines	Extension
OKI	40,000 lines 7,000 lines	Main Extension
Total:		1,83,000 lines

Asked as to when and at what level was the decision taken to import switching equipment for the period 1979—84 the Ministry of Communications, in a note, stated as under:

“The review made in 1978 had indicated a gap (anticipated) of 4.61 lakh lines during the period 1978—83. It was tentatively proposed to bridge this gap by direct import of 3.54 lakh lines. Based on this assessment, import of 1.34 lakh lines of crossbar equipment and 0.10 lakh lines of Electronic (SPC) Equipment was planned to cover the gap for the period 1979-80 and 1980-81. The proposal to import 1.34 lakh lines was finally approved by two Ministers for Communication on 26-7-1979 and 4-9-1979 and Minister for Finance on 30-10-1979.

The next review made in 1979 for the period 1979—84 indicated a gap of 7.66 lakh lines. Keeping in view the likely decision on setting up of a Crossbar Factory and the necessity to import units of 5000 lines and more,

proposal was made to import 2.47 lakh lines. Out of this import 1.83 lakh lines of Crossbar Equipment and 4.60 lakh lines of Electronic (SPC) Equipment was finally approved by Minister for Communications on 26-6-1981 and Minister for Finance on 29-6-1981."

1.13 The Department of Telecommunications have furnished a copy of the invitation to tender and instructions to tenderers. The relevant extracts from the same are given below:

"Period for which the offer will remain open:

Firms tendering should note that their offers should remain open for acceptance for four months after the last date prescribed for submission of the Tender including any extension thereof. If the firms are unable to keep tender offers open for this period, they should specifically state the period for which their offers are open but they must realise that such a provision may prevent their offer from being considered."

1.14 Amendment to Commercial Conditions to Tender Enquiry contained the following clause:

"Cl. 5.3 the purchaser will have the option to place additional orders for similar telephone exchanges on a repeat order basis upto a total of 1.7 lakh lines. Such option may be exercised any time after the contract is executed but not later than one year from the date of complete supply of the equipment under this tender. The tenderer shall indicate clearly the quantity discount for these additional orders in blocks of 10,000 lines each."

1.15 The letters of intent issued to the 3 firms on 7 December, 1979 by the Ministry of Communications, *inter alia*, contained the following para:

"The price for exchanges will be the same as quoted in the summary of prices in your original offer of 29 January, 1979 and will include the additional quantities as indicated in the subsequent correspondence exchanged."

1.16 While confirming the acceptance of the detailed orders placed on them by the DGP&T on 7-12-1979 for the supply of a total

of 1.34 lakh lines, the three foreign firms in their letters dated 2-5-1980, 20-6-1980 and 7-8-1980 had, *inter alia*, stated as under:

- (i) Letter dated 2-5-1980 of NEC and subsequent correspondence

"As you are aware, the tender for 134,000 lines was opened on 30-1-1979 and during this long period of over 13 months, many unprecedented changes in prices have taken place in the World markets resulting in sharp upward increases. This is specially so among others, due to the all time record price hike of gold, silver, palladium etc., which are used in the Exchange Equipment, and also because of substantial all round inflation due to the large increases in the prices of petroleum products. In view of the unprecedented and uncontrollable circumstances, our Head Office against their wishes, has been compelled to revise their offer regarding clause 5.3 of your Tender relating to acceptance of additional orders for similar telephone exchanges on a repeat order basis upto a total of 1.7 lakh lines. The same is attached herewith as Annexure I which may please be incorporated under clause 9.3 of your A/T."

Annexure

9.3 The Purchaser may if so desired, increase the quantities of this order upto a total of 1.7 lakh lines as specified in the tender documents on the original offered unit price subject to escalation formula given hereunder. The order for the increased quantities should, however, be placed by 31-12-1980 and delivery of the same would be FOB 10 to 12 months after receipt of order and letter of credit.

9.4 The Contractor shall supply any additional equipment and/or service which the Purchaser may order within 5 years of the date of complete supply of equipment in this Order. The escalation formula is as under:

$$X = \frac{A}{100} \left(10 + 35 \frac{I^1}{I} + 55 \frac{W^1}{W} \right)$$

Whereas:

- X: Indicates the FOB Unit Price for future supply.
- A: Denotes the FOB Unit Price for the present order.
- I: Denotes the Input Price Index, by manufacturing Industry Sector for electrical machinery and appliances announced by the Bank of Japan from January, 1978 to December, 1978.

I': Denotes the Input Price Index above mentioned at the time of future order.

W: Denotes the Nominal Cash Earnings Index for manufacture Industry announced by the Ministry of Labour, Government of Japan from January, 1978 to December, 1978.

W': Denotes the Nominal Cash Earning Index above mentioned at the time of future order.

Letter from NEC dated 14-8-1980

"We acknowledge with thanks the receipt of your detailed orders for the supply of telephone exchange equipment for Karol Bagh, Chanakya Puri and Vile Parle Telephone Exchanges, totalling 25,000 lines.

As far as clause 9.4 of the orders, i.e. purchase of additional exchange equipment upto a total of 1.7 lakh lines on repeat order basis is concerned, in this connection kindly refer to our New Delhi liaison office letters No. 28-702 dated 2-5-1980 and 28-950 dated 10-6-1980.

The price situation at our end has been fully explained in our previous letters. This is a universal truth that there is a substantial all round world inflation due to large increases in the prices of all kinds of raw materials, such as gold, silver, palladium etc. and labour. There is also no denial of the fact that the cost of petroleum products has sky-rocketed.

The above situation can very well be defined as force majeure and does not permit us to accept the repeat order of 1.7 lakh lines on the same terms and conditions of the captioned orders. Moreover, it is not known to us as to what quantities and when enquiry for repeat orders will be floated by you.

Considering all above, we very reluctantly regret to accept the additional orders on the same price. However, we assure you that as and when you issue the enquiry for purchase of additional equipment alongwith technical details, we shall offer our very best prices keeping in view our long term and most cordial relations with your department."

Letter dated 20-6-1980 of Mitsubishi Corporation

"We acknowledge with thanks receipt of your detailed order Nos. 12-234|78-MD|Mitsubishi Corporation I, II and III all dated May 21, 1980, for supply of Telephone Exchanges for which we confirm our acceptance subject to the delivery schedule attached herein.

Regarding Clause 9.4 (Repeat Order) of above contracts, though we had agreed in the original for supplying additional exchanges at the same prices given in the original offer on repeat order basis, but due to world-wide increase in the raw material prices and labour wage, which you are well aware, resulting which the position has changed considerably. A very long time has elapsed between issuance of your tender and placement of order for the present contract and moreover we feel there will be still further gap by the time you issue the actual enquiry for additional exchanges. We, therefore, reserve the right to reconsider our prices depending upon the price situation at that time and we will submit the offer accordingly. We do assure you that we will take the best care while giving you the revised prices in repeat order upon receipt of your enquiry.

We appreciate very much acceptance to our delivery schedule and submission of revised prices for the additional exchanges on repeat order basis."

Letter dated 7-8-1980 of ITOH & Co. Ltd.

We accept with thanks your detailed order Nos. 12-234|78|MMD|C. ITOH-I, II and III dated 24 July, 1980 for the supply of following exchanges:

1. Chandigarh-	10,000 lines
2. Marol, Bombay	10,000 lines
3. Muland, Bombay	10,000 lines
4. Worli, Bombay	10,000 lines
5. Mazagoan, Bombay	10,000 lines
6. Mankhurd, Bombay	10,000 lines

However, pertaining to the clause 9.4 of the order, we have our reservation on supply of additional quantities stipulated in this clause, because of substantial changes on market conditions and prices. It is noticed to you that these substantial changes have been directly and/or indirectly resulted, due to disturbed political situations in the world especially with producing countries of essential raw materials and forces of economic manipulations such as the recent repeated and substantial increase by OPEC, which are beyond our control and future of which is unforeseeable as well.

We, therefore, reserve the right to quote revised prices at the time the enquiry of additional quantities is given to us."

1.17 On noticing that all the three firms had expressed certain reservations in regard to the pricing applicable for the repeat order, the Ministry of Communications (P&T Board) in their identical letters dated 29 September, 1980 addressed to all the three suppliers had, *inter alia*, stated:

"Kindly refer to DGP&T purchase order No. 12-234|78-MMD| Mitsubishi-I, II and III dated the 21st May, 1980 for the supply of a total of 53,000 lines of Telephone Exchange equipment for Wadala, Bangalore City, Sangneri Gate, Tirett Bazar, Calcutta Central, Idgah and Janpath Tandem respectively on the basis of offer against this office tender enquiry No. 12-234|78-MMD dated the 4th December, 1978 and subsequent discussions and correspondence between your company and the Indian P&T Department on the subject.

2. Your attention is invited to clause 5.3 of the above enquiry wherein it was stated that the P&T Department will have the option to place additional orders for equipment for similar telephone exchanges on you on a repeat order basis.
3. This clause had been accepted by you in your compliance to the tender enquiry and you had confirmed that the discounted prices will apply to the additional orders also. You have expressed certain reservations in regard to the pricing applicable for the repeat order vide your letter No. NDL-T-648 dated the 20th June, 80. You had

stated that you reserve the right to reconsider the prices depending upon the price situation at the time of enquiry.

4. It is now proposed to procure a total of 1,80,000 lines of local exchange crossbar equipment under clause 5.3 of the tender enquiry and 9.4 of the purchase orders. A list of exchanges covered by this proposal with their sizes and delivery scheduled is enclosed at Annexure I for your reference.
5. In view of the reservations expressed by you, while accepting the purchase order, you are requested to examine the list of exchanges enclosed and indicate your earliest convenience but not later than 31st October, 1980 the principles you propose to follow in pricing the equipment for these exchanges in relation to the basic unit prices quoted by you in your original tender offer. Similarly, the principles to be adopted for the installation materials and similar items which are supplied in lot may also please be indicated.
6. On receipt of your reply, detailed specifications for the various exchanges will be furnished to you to work out the detailed material lists and the net price based on the pricing principles finalised. The material list received from you and other companies on whom orders have been placed under 1,34,000 lines tender and letters have been addressed will be scrutinised and orders for individual exchanges placed on the basis of the lowest offer."

1.18 The Department of Telecommunications have furnished a chronological statement of events leading to finalisation of the order as under:

S.No.	Date	Events
1.	30-6-78	Department of electronics was addressed for clearance of import of 1,34,000 lines of cross bar exchange equipment.
2.	18/20-7-78	Tentative programme of import of 2.44 lakh lines of crossbar exchange was finalised under No. 201-87/78-TPS (EA). List of exchanges for 1979-80, 1980-81, 1981-82 and 1982-83 were identified and tentative targets for commencement of inatallation were also indicated.
3.	1-9-78	Ministry of Finance (DEA) in their letter No. F-5(8)/79-FB(1) indicated that they have no objection in principle for issue of one single tender for 1,34,000 lines subject to clearance from World Bank.

S.No.	Date	Events
4.	8-9-78	World Bank conveyed its concurrence for calling the bids.
5.	18-9-78	NIT was issued for 69,000 lines for 1979-80, 65,000 lines for 1980-81 and requirement of 1,70,000 lines against repeat order was also indicated.
6.	13-11-78	A Committee consisting of Additional Director (ICP) TRC Director (X) and Director (MMD) was constituted for furnishing technical clarifications to various bidders.
7.	21-11-78	Date of receipt of tenders. Opening of tenders was postponed to 29-1-79/30-1-79.
8.	29-1-79	TEC consisting of DDG(MM), DDG(MS), DDG(SS), Additional Director (ICP) TRC, DDG(FD) and Director (X) was constituted for evaluation of the tenders.
9.	29-9-79	Tenders were opened and six offers, i.e., Messrs NEC Messrs. L.M. Ericsson, Messrs. Nissho Iwai, Messrs. Foc, Standard (ITT), Messrs. OKI (Mitsubishi), Messrs. C.I.TOH (Hitachi) were received.
10.	30-4-79	TEC submitted its report.
11.	15-5-79	Orders for deputing a study team of two officers to Japan for study and detailed discussions of certain aspects in the manufacturing plant and with the tenders were issued under No. 641-2/79-TPS XF)
12.	5-6-79	The study team submitted its report.
13.	8-6-79	A High Level Committee consisting of Member (TO), Member (F) Member (TD) and DDG (MM) and Jt. Secretary (DEA) was constituted for examining the report of TEC and the report of the study team deputed to Japan and to finalise recommendations for placement of orders for import of 1,34,000 lines for 15 exchanges and one Tender exchange.
14.	24-7-79	High Level Committee submitted its report and recommended placement of orders for 56,000 lines on Hitachi, 25,000 lines on NEC and 53,000 lines on OKI.
15.	26-7-79	Minister for Communications approved the proposal for placement of orders as recommended by the High Level Committee.
16.	8-3-79	Secretary (Expenditure), Ministry of Finance returned the file for showing to new Minister for Communications.
17.	4-9-79	Approval of new Minister of Communications.
18.	14-9-79	Ministry of Finance, Department of Expenditure approved the proposal. Also asked for re-submission with a comprehensive note for Minister of Finance.
19.	26-9-79	Case was sent to Secretary (Expenditure).
20.	30-10-79	Minister for Finance approved procurement of 84,000 lines from World Bank and earlier Yen-Credit and 50,000 lines from OECF after the agreement was signed.
21.	5-11-79	Department of Economic Affairs confirmed to issue of letter of intent for 1,34,000 lines.

Sl. No.	Date	Events
22.	7-11-79	Letters addressed to World Bank for their concurrence.
23.	19-11-79	Letter issued to OEGF for their concurrence. DGTD addressed for clearance.
24.	29-11-79	DGTD clearance was received under their No. DGT/7/11/II/EQ/2949.
25.	5-12-79	Clearance from World Bank received for 50,000 lines.
26.	6-12-79	Local representative of OEGF verbally agreed to the proposal.
27.	7-12-79	Advanced purchase order/letters of intent were issued to Messrs. Mitsubishi for 53,000 lines, Messrs. NEC for 25,000 lines and Messrs. C. Itoh for 56,000 lines.
28.	12-12-79	Messrs. Mitsubishi conveyed acceptance of letter of Intent dated 7-12-79.
29.	13-12-79	Messrs. C. Itoh conveyed acceptance of letter of intent dated 7-12-79.
30.	15-12-79	Messrs. NEC acknowledged the letter of intent dated 7-12-79.
31.	17-12-79	All the firms were requested to finalise the material list on the basis of the discussions held earlier and the correspondence. They were also requested to send their representative for discussions on various points, so that the detailed orders could be finalised.
32.	22-12-79	Requirement of local Telephone Exchange equipment and its availability from indigenous sources for 1978-83 was reviewed in file No. 210/86/78-TPS (EA). It was noted that the gap between indigenous supply and requirement for 1979-84 came to 7,66,000 lines.
33.	28-12-79	Messrs. Mitsubishi furnished the material list.
34.	4-1-80	Messrs. Mitsubishi were asked to depute their representatives for discussing the material list for 15 days from 5-1-80 onwards. Messrs. C. Itoh were asked to depute their representative for discussing the material list for 12 days from 21-1-80 and Messrs. NEC were asked to depute their representatives for discussing the material list for 7 days from 14-2-80.
35.	30-1-85	Member (TD) approved processing of repeat orders on three firms for import of 2.47 lakh lines so that the letters of intent were released by December, 1980.
36.	5-1-80 to 20-1-80	Discussions held with representatives of Messrs. Mitsubishi.
37.	21-2-80 to 7-3-80	Discussions held with representatives of Messrs. NEC.
38.	1-2-80 to 26-4-80	Discussions held with representatives of Messrs. C. Itoh.
39.	27-3-80	Secretary (C) approved in principle for import of 2.47 lakh lines for deliveries in 1981-82 and 1982-83 and processing orders on repeat order basis on all the three firms as per their offers for 1.34 lakh lines.

Sl. No.	Date	Events
40.	16-4-80	Material list was furnished by Messrs. NEC.
41.	20-4-80	Secretary (E) suggested calling for fresh quotations from well known parties including the three firms.
42.	2-5-80	Messrs. NEC intimated their revised offer in respect of additional 1.7 lakh lines.
43.	21-5-80	Detailed purchase order on Messrs. Mitsubishi for 53,000 lines released.
44.	26-5-80	Messrs. NEC were informed that since they had already agreed in their original offer for supply of 1,70,000 lines additional equipment at the same unit price as in the original offer for 1,34,000 lines, it was not possible to accept their point of view regarding revised offer. They were requested to review and furnish the reply to enable us to issue the detailed order.
45.	10-6-80	Messrs. NEC in their letter intimated that they had reviewed the position and requested us to keep the above mentioned letter dated 26-5-80 in abeyance for the time being and they would revert to the subject on later date.
46.	10-6-80	Secretary (E) approved the placement of repeat order for 2,47,000 lines on three firms stipulating that the department should try to obtain maximum quantity of discount since the repeat order was bigger than the original order.
47.	20-6-80	Messrs. Mitsubishi while acknowledging the detailed order of 21-5-80 stated that they had agreed in their original order for supply of additional 1.7 lakh lines at the same price on repeat orders basis, but they submitted that due to world wide increase in raw material price and labour wages and due to delay in the placement of orders, they reserved their right to reconsider their prices.
48.	17-7-80	Detailed purchase order on Messrs. NEC for 25,000 lines released.
49.	24-7-80	Detailed order on Messrs. C. Itoh for 56,000 lines.
50.	7-8-80	Messrs. C Itoh in their letter while accepting the detailed purchase order of 24-7-80 stated their reservation for supply of additional quantity in view of the substantial changes in market conditions and intimated that they reserved the right to revise the prices.
51.	14-8-80	Messrs. NEC while acknowledging the detailed order dated 17-7-80 referred to their letters of 2-5-80 and 10-6-80 in respect of supply of additional 1,70,000 lines on repeat order basis and mentioned that there was substantial increase in prices of almost all raw material and petroleum products. Messrs NEC regretted acceptance of additional order on the same price.
52.	19-8-80	After discussions in a number of meetings in the Directorate it was decided in the first instance to write to the three firms for price quotation for additional equipment.

Sl. No.	Date	Events
53	25-9-80	Draft letter to firms was appraised by Secretary (C).
54.	29-9-80	Letters issued to three firms for indicating the revised quotations for 1,80,000 lines in sealed cover by 31-10-80.
55.	1-11-80	Sealed quotations from three firms were opened.
56.	17-11-80	A committee consisting of DDG(FD), DDG (MM) and DDG (S) was constituted for examination of the quotation from the three firms.
57.	8-12-80	The Committee submitted its report.
58.	29-12-80	Three firms were asked to reconsider their quotations and revise the prices for 1,80,000 lines to be at par with the originally quoted prices escalation as per their escalation formula and to submit a revised price by 28-2-81.
		Messrs. NEC were further sent a detailed specification for expansion of the existing exchanges total 25,000 lines and they were asked to send the detailed material list and price escalation by 28-2-81. Messrs. Mitsubishi were sent similar specification for 7,000 lines and Messrs. C. Itoh were sent specification for 35,000 lines for quoting the detailed material list and price by 28-2-81.
59.	17-2-81	Opening date of revised quotations for 1,80,000 lines was extended to 16-8-81 - 16 hr.
60.	25-2-81.	Messrs. NEC, Messrs. Mitsubishi and Messrs. C. Itoh were informed of extension of date for detailed material list and prices escalated quotations for expansion of exchanges from 28-2-81 to 16-8-81.
61.	17-3-81	Tenders were opened.
62.	25-3-81	TEC consisting of Director (X), Director (NMD) and D (F-IV) was constituted for examining these offers.
63.	18-5-81	Report was submitted by the TEC.
64.	20-6-81	Letters of intent were issued on (i) Messrs. NEC for 85,000 lines and 25,000 lines for expansion of exchanges. (ii) Messrs. Mitsubishi for 40,000 lines and 7,000 lines for expansion. (iii) Messrs. C.Itoh for 26,000 lines.
65.	23-9-81	Detailed purchase orders for 40,000 lines were issued on Messrs. Mitsubishi.
66}	30-9-81	Detailed purchase orders were issued on Messrs C Itoh for 26,000 lines
67}	28-10-81	Detailed orders on Messrs. NEC were issued for 60,000 lines.
68.	18-11-81	Detailed orders were issued on Messrs. NEC for 50,000 lines.
69.	30-11-81	Detailed orders were issued on Messrs. Mitsubishi for 7 000 lines.

1.10 According to Audit para three Committees *vis-a-vis* Tender Evaluation Committee, Study Team and the High Level Committee were appointed one after the other to process the tender offer from various angles which took in all about 6 months to submit their respective reports. The composition and the functions of these Committees are given below:

“Composition of the Tender Evaluation Committee:—

1. DDG (MM)
2. DDG (MS)
3. DDG (SS)
4. Addl. Dir. (ICP)
5. DDG (FD)
6. Dir. (X)

The Study Team comprised:—

1. DDG (MS)
2. Dir. (X)

The High Level Committee consisted of:—

1. Member (Finance)
2. Member (TO)
3. Member (TD)
4. Joint Secretary,
Deptt. of Economic Affairs.
5. DDG (MM)

The composition of the Committees was different to suit the functions of the respective Committee. The Tender Evaluation Committee consisted of officers from the TRC, Maintenance, Planning, Material Management and Finance, Wings to study the technical, commercial and financial terms contained in the various offers, make an evaluation of all the tenders and submit its recommendation.

The Study Team consisted of DDG (MS) and Director (X) and it was set up to study the suitability for use in India of the equipment offered by one of the companies, which had not tendered earlier but, whose offer was the cheapest for some exchanges in the present case. The Study Team

was to look into the service quality, fault rate, automatic testing, quality assurance procedures, supply record of the company etc. The Team basically consisted of two technical specialist members of the TEC.

The function of the High Level Committee which consisted of the Members of the Board and Joint Secretary from the Department of Economic Affairs and DDG (MM) was to consider the Tender Evaluation Committee's Report and the Report of the Study Team and submit its recommendations to the Government."

1.20 Enquired as to why these functions could not be compressed in one team, the Department of Telecommunications stated that as the teams were constituted to perform different functions, it was not appropriate to combine and entrust all these issues to one team.

1.21 At the time of floating tenders, the period for finalisation of purchase order was mentioned as four months i.e., by 30-5-1979 after the last date prescribed for submission of the Tender. However, the first detailed purchase order could be placed on one of the three firms on 21-5-80, i.e. about 16 months after opening the tenders. Asked if the Department did not visualise any difficulties at that time while mentioning a period of 4 months for finalisation of purchase order. In reply the Secretary, Telecommunications stated during evidence as under:—

"That is the usual time which we thought was sufficient for finalising the tender evaluation. The only thing we wanted was to take advantage of the price preference and try to keep it that way."

He further stated:

"When we got the tenders, we found that in the three firms from Japanese source, the prices quoted varied. The quotation from the lowest one provided for some equipment, which has not been generally used here. So we wanted a technical evaluation/exposition as to how that equipment would work."

1.22 The Committee pointed out that when the Department did not place the order within four months and asked the firms to extend the time, they extended it conditionally that they would only supply the first equipment and not the repeat order. Thereupon, the Secretary, Telecommunications stated:—

"Actually, the validity of the offer was four months, but when we found that we were not able to finalise or issue the letter of Intent within that period, we had been approaching them for extending the validity period which they did.

1.23 Asked whether it was a fact, that because of re-negotiation of the contract, the Department had to agree to the supplier's condition that they would not accept the repeat order on the same rates. The Secretary, Telecommunications, stated:

"The extension of the validity was not a re-negotiation. Usually, this is a practice that when we are not able to get it finalised, we ask them for holding the prices. In this case they did so but they said that they would supply only if the firm order was placed in May 1980."

1.24 Justifying the abnormal delay in placing detailed purchase order on the firms, the Member (Development), Telecommunications explained during his evidence as follows:—

"Actually, when we had placed the orders for pantakota earlier in 1964, we had burnt our hands very badly. When we finally installed that equipment in the country, it had problems of corrosion and other things. Therefore, we were not willing to take the risk with a new firm without first making sure that their product was up to the mark and then by going to some of their exchanges and looking at them."

1.25 The Committee pointed out that the Study Team went to Japan in June, 1979 and they submitted their report also in June, 1979. That precaution, the Department would have already taken. The witness thereupon stated:

"We took that precaution and the further action resulted in the letter of Intent being placed finally in December 1979. The delay from December 1979 to about May-June is to be shared mutually by both the parties in the sense that when we placed the letter of Intent, we invited them to come and discuss detailed material list so that the order could be finalised. They had some problems, we had some problems, and finally the list was finalised. In this five-month period, detailed orders were placed. In fact, the contract becomes valid once we have placed the Letter of Intent. The fact

is that they came back and said that they were not in a position to supply at the same price when the material list was finalised and a firm order was placed on them."

1.26 The Committee pointed out that while the Secretary, Department of Telecommunications admitted during evidence that there was marginal delay in placing the final order for 1.34 lakh lines equipment on the 3 firms, the Member (Development) stated that there was no delay on their part as a lengthy procedure had to be gone through for importing this type of items and this took about 22 months. The Department of Telecommunications have, in a note, stated:

"As may be seen from the chronological statement of events, the evaluation of the officers report of the Study Team, Report of the High Level Committee, submission to the Ministry of Finance and approach to the world Bank. were all done expeditiously.

After the issue of Letter of Intent in December, 1979, it took some time to finalise the detailed purchase order. The material list had to be finalised in consultation with the representatives of the firms on whom letters of intent had been placed. This period could have been marginally compressed if the representatives of all the three firms had been able to hold discussions simultaneously, but the discussions had to be held only from 5-1-1980 to 20-1-1980 with M/s. Mitsubishi, from 1-2-1980 to 26-4-1980 with C. Itoh and 21-2-1980 to 7-3-1980 with M/s. NEC. No discussions could be held between 20th January, 1980 and 1st February 1980 as the representatives from C. Itoh could come for discussion only from 1-2-1980.

The basic reasons for the apparent delay are:—

- (a) A large order covering 15 exchanges.
- (b) 3 different firms quoting highly competitive bids involving very careful evaluation of various factors.
- (c) Need for caution in accepting offer of a new firm.
- (d) Need for detailed engineering and drawal of detailed purchase order to facilitate import licence and clearance."

1.27 Referring to the inordinate delay issuing the final orders, the Committee enquired (i) whether the Department drew up a timetable for accomplishing different stages of a project whenever big

projects are taken up and (ii) whether such a time-table had been drawn up in advance in the present case. The Department of Telecommunications, in a note, have stated:—

“The Department does draw up a time-table for accomplishing different stages of a project. In regard to preliminary work prior to physical commencement of work also, rough estimates are made.

It has not been possible to determine the specific time table that might have been drawn up for finalising the order in this case. However, since the tender enquiry specified the validity period of 4 months from the last date of submission of tenders, it will appear that it was generally anticipated that the evaluation of tenders and other formalities could be completed and a letter of intent issued within four months of the opening of the tender. Normally it could be expected that the detailed engineering and finalisation of detailed material lists could also be completed in about 2 months and final detailed orders issued soon thereafter.

The tenders were received on 29-1-1979 and letters of intent were issued by 7-12-1979. This was largely due to certain complexities introduced by the need for a study of the production facilities of one of the prospective suppliers whose tenders were the lowest for certain exchanges and for development of a new design for a particular part of the equipment.

The detailed orders were further issued by 21-5-1980, 17-7-1980 and 24-7-1980. This was largely due to time needed for drawing up and finalising the detailed material lists. Somewhat longer time was taken because of a large order involving 3 different suppliers.”

1.28 Asked whether the Department considered this as an efficient and methodical way of executing and monitoring a project of this magnitude, the Department of Telecommunication have stated:

“The Department considers it essential to have a time-table for different stages of a project to help execute the same effectively and monitor the same. In fact, the Department draws up such a time table.

Since a project such as installation and commissioning takes 5 to 6 years for completion, the initial time table drawn up is a rough one based on the best information available at that

time. The project is monitored periodically and depending upon the circumstances the time table is altered. PERT charts are drawn up for monitoring of important projects and these are reviewed periodically. Due to uncertainties in the completion of various parts of the project, slippages do occur. What was stated was that no precise time table could be located in this case in regard to the preliminary work upto the placing of orders.

1.29 Asked about the steps taken by the Department to ensure that in future time gap between issue of tender enquiry and finalisation of the orders was reduced to the minimum, the Department have stated:

“Instructions have been issued to avoid delay in evaluation of tenders.

The Tender Evaluation Committee are now being constituted even before the last date of the receipt of the offers.

The Tender Evaluation Committee is generally able to submit its report within three months.

Parallel action is also taken to obtain clearance from various agencies such as Department of Electronics, DGTD, etc.

However, clearance from the Ministry of Finance, World Bank or OECF, as the case may be, can be applied for only after the tender evaluation is completed.”

1.30 The Committee pointed out that in all it took the Department about 22 months from announcing tender for 1.34 lakh lines to placing of the detailed order on the 3 foreign suppliers. They enquired whether this was the normal time the Department required for procuring equipment for the exchanges particularly when foreign element was involved. If so, what concrete steps the Department had taken or proposed to take to cut short the processing period to the minimum. The Department of Telecommunications have stated:

“The time in placing orders depends on various factors such as the number of tenderers, type of equipment, number of exchange systems etc. involved, value of the order, whether any clarifications are required on the offers received and the clearance to be obtained before placement of orders.

The department is continuously trying to reduce the time taken in evaluating the offers and placement of orders. Steps taken in this regard have been enumerated above.

The department also has a system of estimating the requirements sufficiently in advance so that the procurement case can be taken up well in time.

Where the purchase proposal involves import of equipment, involving new technology, a detailed evaluation may often be desirable to avoid any complications later."

1.31 Enumerating the remedial measures taken and system improvements made in the Department to avoid such procedural delays in future, the Ministry of Communications in a note, have stated:

"Steps have been taken from time to time to reduce to the minimum the time required for finalising such orders consistent with propriety and need to safeguard public interest.

Instructions have been issued:

- (a) to handle tender evaluation cases with expedition.
- (b) whenever needed, the visits to suppliers works etc. to be undertaken during the tender evaluation process itself.
- (c) to commence the departmental side of work of preparation of material lists, as far as possible, immediately after the TEC report has been received and indication is available of the lowest acceptable offer, without waiting for completion of other formalities."

1.32 The Committee enquired why the exercise for placing the repeat order for at least 1.7 lakh lines, requirements for which had already been assessed and finalised when tender for 1.34 lakh lines was floated in October 1978, was not started simultaneously, when it was known that the delay in not taking timely action would deprive the Department of the concession of low rates already approved as per the conditions of the contract with these firms. The Department of Telecommunications, in a note, have stated:

"The action for further import of equipment beyond 1.34 lakh lines had in fact been initiated even before the issue of letter of intent.

When floating the tenders for 1.34 lakh lines, additional requirements had been assessed at 1.70 lakh lines. An exercise was undertaken in December 1979 to reassess the requirements in the light of developments since the last assessment. The exercise was completed in February, 1980. As a result the need was reassessed at 2.43 lakh lines.

Since three different suppliers were found to be the lowest for different exchanges in 1.34 lakh order and since no clear item-wise unit prices could be established, it became necessary to adopt a suitable strategy for distributing the order for 2.43 lakhs on the 3 suppliers.

It was thus not possible to place a letter of intent for supply of 2.43 lakh lines immediately after the placement of 1.34 lakh lines order."

1.33 In a subsequent note, the Ministry of Communications stated as under:—

"It is true that macro planning in 1978 itself indicated the possible additional requirements of switching equipment to the tune of 1.7 lakh lines during 1981-82 and 1982-83. At this stage it was a macro figure. The details of exchanges were yet to be worked out with their specifications and building status. Thus tenders had been invited for only 15 exchanges totalling 1.34 lakh lines needed for 1979-80 and 1980-81.

The figure of 1.70 lakh lines was included as a possible repeat order to avoid the normal time taken in tender procedure, if the offers should be considered attractive. It was basically on option.

The figure of 1.7 lakh lines was not intended to be firm but only gave the extent of the repeat order that might be expected by the tenders and which would enable them to quote for the tender, keeping this aspect in mind.

Before placing the repeat order, it was felt necessary to re-assess the requirement as per the concept of the 'Role-ON' plan. Identification of stations, availability of building etc. had to be reviewed before the orders could be placed.

"The firms would not have insisted on price increase, but for the unprecedented price rise in the international market due to increase in oil prices. This was not foreseen."

1.34 The Committee asked whether it could be inferred from what has been stated by above that the Department had very clearly in view the requirement for further 1.7 lakh lines, the Member (Development) admitted that "it was true" and added:

"Yes, it is true. At this stage also in October, 1978 we had a fairly clear idea that we might need further imports in the years to come. And to take care of that, we did provide for a possible repeat order of 1.7 lakh lines. After a year had passed, we started planning for the next five years. At that time, we found that in next two years, we would need additional quantities to be imported and we looked at 2.34 lakh lines as a possible cross bar order. Another 1.34 lakh lines was of possible electronic order. So we started looking at this thing and the question arose at this stage whether we should take advantage of the repeat cross bar order or whether we should invite fresh tenders? This was a question because there was a feeling that possibly there might be some advantage in inviting fresh tenders."

1.35 Asked whether the suppliers were permitted to exceed the time limit, the witness stated:

"Still we were within the time limit. Actually we were overtaken by this second oil crisis when prices suddenly shot up and our suppliers while accepting the offer said that they were not in a position to continue to hold their commitment to supply us 1.7 lakh lines at the same price."

1.36 The Committee enquired whether the fact of placing repeat order for 2.43 lakh lines within a specified period of placing the order for 1.34 lakh lines to get advantage of the contracted prices was linked with the processing of the latter case and whether the Secretary (E) and the Minister of Communications were kept informed of the urgency of the issue. The Ministry of Communications have stated:

"Placing of repeat order of 2.43 lakh lines was not linked along with the processing of 1.34 lakh lines. It may be stated that specific purchase proposal is put up to Minister

of Finance for approval. In this case purchase proposal was for procurement of 1.34 lakh lines."

1.37 The Committee asked whether the Department agreed with the Audit observation that delay in placing the repeat order had resulted in a loss to the tune of Rs. 12.64 crores. The Secretary, Telecommunications, stated in evidence:

"If the repeat purchase order had been placed earlier, we would have got the equipment at the lower price."

1.38 Explaining the reasons for not placing the repeat order within the stipulated period agreed upon with the suppliers, the witness deposed :

"The telephone exchange equipment needed for the expansion of various exchanges in the country are obtained mostly from the indigenous manufacturers and if they cannot meet the requirements, it has to be imported. Some time during the period 1978-79, we had worked out the likely quantities of equipment which would be available from the indigenous source, the Indian Telephone Industries etc. and we found out that for the immediate requirement in 1981 and 1982, we would need a certain quantity of equipment. But if we included further years, we would need larger quantities. We try to get the best quotation from various suppliers of equipment and take full advantage of it. Usually, when an order extends over several years, it usually calls for an escalation clause. But in this particular case, we were fortunate to get an offer indicating that, they would supply us at the old rate if the order was placed within one year of the placing of the order for the first consignment. Basically, we have to see whether the funds are available. If the funds allotted are not adequate, we will not be able to commit the purchases to that extent. Basically, we had the approval from the Department of Electronics for the procurement of 1.34 lakh lines."

1.39 The Committee wanted to know at what level the decision was taken not to place repeat order but to take advantage by calling in for fresh tenders. The Members (Development) stated:

"The Department finally took the decision that we could issue a limited tender to these three people. We will supply

the specifications for all the new exchanges for which we wanted to place the order. They will engineer them. We will request them to quote keeping in view the price that they had quoted in the first order and they would try to give at the same price."

The witness further stated:

"The decision was not to call for fresh tenders. We have not called for fresh tenders. The decision was taken after a series of meetings took place..... I read the file and this question has been raised "should we look for the repeat order or should we go in for fresh tenders."

He further stated :

"On the one hand, we were finalising our order for the first 1.34 lakh lines; side by side, we started looking at 2.43 lakh lines. We identified exchanges; we drew specifications and put up the case to the Board for taking a decision as to how do we proceed further in placing order for 2.43 lakh lines. This was sometime in February 1980. The decision was taken at this stage in March 1980 by the Board and then the Minister."

1.40 Asked as to when the decision about repeat order was reversed, the witness clarified :

"It was not reversed at any stage. In fact, we had placed an order on these firms. But they had charged some escalation. They had refused to give us on the same prices as quoted by them. This was in a number of parts. In one part they had given discount which they withdrew. The period of limitation was fully enforced. They claimed that the situation in the world had changed so significantly."

1.41 Asked as to what prevented the Department from placing the repeat order of additional 1.7 lakh lines when the specifications were ready, the witness stated:

"Each exchange has a different specification. They are not common. That is why we could not place an order."

1.42 Asked as to when the Department asked these firms to supply equipment at the old rates, the witness stated :

"Even before we could go to them, they said, no, we will not be able to supply them."

1.43 To a question whether they had voluntarily said so, the witness stated:

"Quite rightly."

1.44 Asked further as to how the suppliers could anticipate it even before the Department actually placed the repeat order, the witness deposed:

"They anticipated it. They knew that we were working in parallel. When we placed the order, while accepting that order of 1.7 lakh lines, they said, we are not in a position to continue to hold the clause regarding repeat supply on the same lines. This was in writing."

The Secretary, Telecommunications, clarified :

"Actually they have said that they would further anticipate another repeat order."

1.45 The Committee wanted to know whether there was any breach of contract on the part of the supplier firms. The Member (Development) stated :

"Strictly, legally there is. A question which we have to ask ourselves is: could we enforce it? If we could enforce it, perhaps we could have marginally reduced the delay; may be a couple of months."

The witness added:

"They were bound to supply the order. We have to take into account the entire situation. We had two alternatives—either to take the legal stand and say we will enforce this which could mean that even 1.34 lakh line equipment would also be in jeopardy. We did realise that there had been a qualitative change in the world market. Taking all these into account, we came to the conclusion, that we dislink this 1.34 lakh line equipment with the repeat order."

1.46 The Committee enquired whether responsibility had been fixed for the procedural delays which resulted in an avoidable ex-

penditure of Rs. 12.64 crores. The Ministry of Communications have informed as follows:—

“A detailed study of sequence of events leading to the letters of intent and detailed purchase orders has been undertaken. While it is true that the time taken to finalise the orders has been somewhat high, there was no inordinate delay at any particular stage of handling the case. It appears that the handling of the case was at each stage marked by an anxiety to expedite the same but at the same time to maintain the highest level of propriety and to safeguard public interest.”

1.47 Enquired as to how the public interest had been served when procedural delay had resulted in an avoidable expenditure to the tune of crores of rupees. The Department of Telecommunications have stated :

“The letters of intent for 1.83 lakh lines were placed in June 1981 i.e. within about a year of placement of orders for the 1.34 lakh lines. These orders were placed at the best prices available at that time for supply during 1982—84.

The action at each stage were in fact guided by the anxiety to maintain the highest level of propriety. Thus:

- The entire offers were examined in detail by a TEC.
- The points made by the TEC were duly examined and a study team deputed.
- The lowest offer for each exchange was accepted.
- To ensure that the work of TEC and study team had been proper, a high level committee reviewed the whole matter.
- The engineering of each exchange was checked in detail and additional quantities insisted upon.

It is true that a repeat order could not be placed on original prices.

This was however largely due to sudden and unforeseen economic upheaval caused by the 2nd Oil Crisis of 1979.”

1.48 The Committee wanted to know whether all the equipment against 1.34 lakh lines contracted with all the 3 foreign firms had been received and since utilised, and how the requirement for 2.43 lakh lines was met from indigenous source and by import and at what

ost. In a note, the Ministry of Communications have stated as under:—

- (i) All the equipment received against 1.34 lakh lines have been commissioned except one exchange at Idgah III which is expected to be commissioned shortly.
- (ii) All the 2.34 lakh lines requirement was met from imports—1.83 lakh lines of C-400 crossbar equipment and 60,000 lines of SPC Electronic Exchanges. FOB cost for 1.83 lakh lines of C-400 crossbar equipment in Japanese Yen was approximately 9.176 billion. FOB cost of the SPC Electronic equipment in Japanese Yen was appx. 2.9 billion. The equipment were financed by OECF loans from Japan.”

1.49 The Committee note that the requirement of local telephone exchange equipment and its availability from indigenous production in the context of 'Agreed Programme of Development' for the five year period 1978—83 was reviewed in May 1978. The requirement was then estimated at 15.27 lakh lines against the likely supplies of 10.66 lakh lines from indigenous sources. The shortfall thus estimated at 4.61 lakh lines was provisionally proposed to be met from various sources including import of 2.94 lakhs lines under various credits under World Bank/OECF during 1979-80 to 1982-83. Action for bridging the gap by imports for meeting requirements of 1979-80 and 1980-81 comprising of 1.34 lakh lines of cross-bar exchange equipment and 10,000 lines of electronic SPC exchanges (total 1.44 lakh lines) was taken, whereas import requirements for 1981-82 and 1982-83 were left to be considered later.

1.50 A further reassessment of requirement for the next five year period 1979—84 made in November 1979 (when tender for 1.34 lakh lines was announced) revealed requirement (including a bit of carry over from 1978-79) of 17.46 lakh lines against the supplies to the tune of 9.80 lakh lines expected from all sources leaving an estimated gap of 7.66 lakh lines.

1.51 The gap between supply and demand was so large that unlike in the past it was not possible to restrict import in units of 10,000 lines. Thus, it became necessary to consider imports for smaller exchanges also. As a result of identification of smaller category of exchanges for possible import, the total requirement came to 5.92 lakh lines. However, keeping in view the orders already placed import of 1.34 lakh lines of cross-bar exchanges to cover the gap upto 1982-83, import finally decided in November 1979 was for 1.83 lakh lines of cross-bar switching equipments.

1.52 The Committee also note that in the notice for tender (NIT) issued on 4-10-1978 for import of equipment, provision was made for import of 1.34 lakh lines of cross-bar exchanges to cover the gap upto, 1980-81. As the import was to be financed by World Bank Loan, the NIT had to fulfil normal conditions applicable to such loans which, inter alia, provides a minimum period of 4 months for keeping tender quotations open for acceptance at the rates quoted. The Department of Telecommunications have stated that for very large orders and many bidders, and in cases where, in addition, clearances have to be obtained from a number of agencies, the time taken often exceeds the limit of 4 months. In such cases, extension of validity is obtained from the tenderers and the World Bank. In the present case also the tenderers had extended the validity upto 15-12-1979 without any pre-conditions.

1.53 As a matter of discretion, provision was also made in the NIT for an option for placing a repeat order on the same terms and conditions for addition of 1.7 lakh lines to cover the requirements upto 1982-83 provided such option was exercised not later than one year from the date of complete supply of equipment under the original order. Letters of intent issued to the suppliers on 7-12-1979 also incorporated the above-mentioned provision. Though the anticipated gap was 1.5 lakh lines (2.94—1.44 as brought out in paragraph No. 1.49), the quantity provided for repeat order was 1.7 lakh lines to cover the slippages of supply from other sources.

1.54 From the facts brought out above, the Committee have come to the inescapable conclusion that in addition to the import of 1.34 lakh lines for 1979-80 and 1980-81, the need to bridge the gap for 1981-82 and 1982-83 through imports was patent at all points of time while assessing requirement of local telephone exchange equipment and its likely availability from indigenous production at both the reviews made in May 1978 for 1978—83 and then in November 1979 for 1979—84. So much so that on 18/20-7-1978 tentative programme of import of 2.94 lakh lines of cross-bar exchange was finalised and even list of exchanges for four years 1979—83 was identified and tentative targets for commencement of installation were also indicated. The Committee are astonished to note that inspite of making periodical provisions for import of additional equipment on the basis of the established need and for import of atleast this much equipment and the fact that the order for it was to be placed within one year to take advantage of the rates already agreed upon with the foreign suppliers of 1.34 lakh lines, the Department did not bother to think about the matter with the seriousness it deserved. While making the proposal to undertake firm action for import of 1.34 lakh lines of cross-bar exchange equipment to cover the gap for 1979-80 and 1980-81

with imports, the gap for 1981-82 and 1982-83 was left to be covered after a fresh review later (which was made in November 1979). The Committee feel that the later part of this proposal had overtaken the entire Department and the question of import of additional 1.7 lakh lines under repeat order clause was relegated to the second position and then completely lost sight of.

1.55 The question for which a satisfactory answer is required by the Committee is: why action for processing of repeat order for 1.7 lakh lines was not initiated simultaneously with the floating of indent for import of 1.34 lakh lines pending further review of the overall requirement later on when the need for import of this much cross-bar equipment had already been established and even a decision had also been taken during further review in November 1979 that the cross-bar equipment should be obtained upto 1982-83. The Committee find that there is absolutely no acceptable explanation forthcoming from the Department. The supplies could have been staggered over a period to tailor out financial arrangements. The Secretary, Telecommunications, admitted during evidence that 'if the repeat purchase order had been placed earlier, we would have got the equipment at the lower price'. The Committee, therefore, have no choice but to concur with the Audit observation that the delay in finalising the main tender of 1.34 lakh lines resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Department of Telecommunications is squarely responsible for this costly lapse. The least that the Committee expect is that a high level enquiry must be conducted expeditiously to pinpoint the responsibility for this lapse and action must be taken against the officers responsible for this costly lapse and the steps taken in that direction intimated to the Committee.

1.56 This also shows lack of coordination and understanding between various units of the same Department connected with periodical assessment of the requirements of telephone exchange equipment for local exchanges and those responsible for procuring such equipment from abroad. Otherwise the provision already made for import of 1.7 lakhs lines under repeat order clause and likewise the import requirements for the four years 1979-83 having been identified as early as in May 1978 when the review for overall requirement was conducted by the Department, could not have been overlooked.

1.57 The Committee would also like the Department to examine the methodology of periodical reviews of requirements of various types of equipments for the country's telecom. net work so as to make it more realistic.

1.58 The Committee find that the proposal to import 1.34 lakh lines was finally approved by the Minister of Communications on 4-9-1979, by the Minister of Finance on 30-10-1979 and the detailed orders were placed on the three foreign suppliers on 21-5-1980, 17-7-1980 and 24-7-1980 respectively. Thus, instead of the stipulated period of 4 months, it took the Department about 16 to 18 months to finalise the orders. The most regrettable part of the case is that it took the Department 5 to 7 months to issue the final orders even after the release of the letters of intent on 7-12-1979.

1.59 Inordinate delay in finalising the tender will have totally demoralising effect on the tenderers and would naturally result in the tenderers playing safe in giving their tender quotations. This would deprive the Department the opportunity of getting competitive bids and efficient execution of the works. The Committee, therefore, recommend that if the Department considers that four months time is not sufficient in dealing with the tenders they should prescribe a suitable realistic time limit within which tenders must be finalised.

1.60 In justifying the extraordinary long time taken in processing the case, the Department of Tele-communications have furnished a long list of events leading to finalisation of the order. Review of the item-wise analysis of the events mentioned in the list, shows that the case was handled at all levels in a very casual slipshod manner.

1.61 The first in the series is the appointment of four committees one after the other to process the tender offers from various angles. Though the Ministry have pleaded that it was not appropriate to combine and entrust all these functions to one team as those were constituted to perform different functions, a perusal of the personnel of these committees reveals that some of the members were common in these committees. Not only that, the two officers constituting the study team deputed to Japan which took 21 days to visit that country and submit its report were also members of the Tender Evaluation Committee (TEC) which already had taken 3 months to evaluate six offers received against Tender Enquiry. The Committee have every reason to believe, though in retrospect, that the functions of the high level committee which took further 45 days to examine the report of TEC and that of the study team to Japan, could conveniently be clubbed into one committee and the same team could have been despatched to Japan, if at all necessary, simultaneously with the appointment of the TEC. The entire process of study, evaluation and acceptance of tenders could have been simplified in a very realistic and

business-like manner and the inordinate delay could have been easily avoided. This in itself is a sad commentary on the planning of projects of this magnitude by the Department of Telecommunications.

1.62 The Committee find that a lot of other formalities such as approval by the Minister of Communications/Finance, Department of Economic Affairs, clearance from World Bank, DGTD, etc. were gone through after the high level Committee had recommended placement of orders for import of 1,34,000 lines which took further four and a half months enabling the Department to issue only Advance Purchase Order/letter of intent to the three firms, followed by further dialogue with these firms for finalisation of the material list by deputing their representatives for direct discussion on various points. It was only after completion of all these requirements that detailed purchase orders could be released on these firms from 21-5-1980 to 24-7-1980. There may be scores of import orders from various Ministries/Departments of the Government of India including those for the vital sectors like Defence etc. involving much bigger amounts. The Committee wonder whether this much time is taken in all those cases. The crux of the matter is that in reply to the Committee's query whether the Department did not visualise all these difficulties at the time of floating the tenders, the Secretary, Telecommunications stated in evidence that 'that is usual time which we thought was sufficient for finalising the tender evaluation. The only thing we wanted was to take advantage of the price preference and try to keep it that way'. The other problem mentioned in this context by the Secretary was that in the tenders from three Japanese firms the prices quoted varied. The quotation from the lowest one provided for some equipment which had not generally been used here, so the Department wanted a technical evaluation/exposition as to how that equipment would work. The Committee agree that this may have delayed processing of the order to some extent but the overall time taken in finalising the order is so large that it cannot be justified on any count.

1.63 Yet another aspect which baffles the Committee is that the letters of intent were issued on 7-12-1979. While accepting the offers of the three Japanese firms, the letters, inter-alia, stated that the price for exchanges would be the same as quoted in the summary of prices in the firm's original offer of 29th January 1979 and will include the additional quantities as indicated in the subsequent correspondence exchanged. Earlier to that, one of the suppliers in their

letter dated 4-12-1979 had agreed to the extension of the validity of their offer on the same terms and conditions and so had agreed the other two firms. The Committee fail to understand how these firms finally refused to honour their commitment when they had kept silent about this aspect in response to the letters of intent. The Committee note from the correspondence furnished by the Department of Communications in this regard, that the earliest communication about refusing to accept the repeat order on the same terms and conditions was dated 2nd May 1980 (after a gap of 5 months) when one of the firms (referred to above) had, in their letter addressed to the DGP & T stated that 'As you are aware, the tender for 1,34,000 lines was opened on 30-1-1979 and during this long period of over 18 months, many unprecedented changes in prices have taken place in the world markets resulting in sharp upward increases. In view of the unprecedented and uncontrollable circumstances, our Head Office against their wishes, has been compelled to revise their offer regarding clause 5.3 of your tender relating to acceptance of additional orders for similar telephone exchanges on a repeat order basis upto a total of 1.7 lakh lines'. The same firm in their letter of acceptance of the detailed orders dated 14-8-1980 for supply of 1.34 lakh lines defining this situation as 'force majeure' had stated. 'Moreover, it is not known to us as to what quantities and when enquiry for repeat orders will be floated by you.' Yet another firm, while accepting the detailed order placed on them on 21-5-1980 had in their letter dated 20-6-1980, inter-alia, stated that 'A very long time has elapsed between issuance of your tender and placement of order for the present contract and moreover we feel there will be still further gap by the time you issue the actual enquiry for additional exchanges. We, therefore, reserve the right to reconsider our prices depending upon the price situation at that time and we will submit the offer accordingly'.

1.64 The Committee have no doubt that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat order. The Committee cannot accept the Department's pleading of the case on behalf of the supplier firms that 'they would not have insisted on price increase but for the unprecedented price rise in the international market due to increase in oil prices. This was not foreseen'.

1.65 The Committee feel that since the highest increase in oil price was between January and November 1979 and the extension of validity period of the offer upto 15-12-1979 had been accepted by these firms without any precondition, the plea of increase in oil price does not hold good. As stated earlier, the delay had caused the exchequer, according to Audit estimation, a loss of Rs. 1264.01 lakhs by not placing further order for 1.7 lakh lines under the repeat order clause, within the stipulated period agreed upon with the firms. This aspect of the affair is most regrettable.

NEW DELHI;
July 24, 1986

Sravana 2, 1908 (S).

E. AYYAPU REDDY,
Chairman,
Public Accounts Committee.

APPENDIX

APPENDIX

Statement of Recommendations|observations

Recommendations|Observations

Sl. No	Para No.	Ministry/Deptt. Concerned	Recommendations/Observations
1	2	3	4
1	1.49	Ministry of Communications (Deptt. of Telecommunications)	<p>The Committee note that the requirement of local telephone exchange equipment and its avail ability from indigenous production in the context of 'Agreed Programme of Development' for the 5-year period 1978—83 was reviewed in May 1978. The requirement was then estimated at 15.27 lakh lines against the likely supplies of 10.66 lakh lines from indigenous sources. The shortfall thus estimated at 4.61 lakh lines was provisionally proposed to be met from various sources including import of 2.94 lakh lines under various credits under World Bank/OECF during 1979-80 to 1982-83. Action for bridging the gap by imports for meeting requirements of 1979-80 and 1980-81 comprising of 1.34 lakh lines of cross-bar exchange equipment and 10,000 lines of electronic SPC exchanges (total 1.44 lakh lines) was taken, whereas import requirements for 1981-82 and 1982-83 were left to be considered later.</p> <p>A further reassessment of requirement for the next five year period 1979—84 made in November 1979, (when tender for 1.34 lakh lines was announced) revealed requirement (including a bit of carry over from</p>
2.	1.50	-do-	

1978-79) of 17.46 lakh lines against the supplies to the tune of 9.80 lakh lines expected from all sources leaving an estimated gap of 7.66 lakh lines.

3. 1.51 Ministry of Communications
(Deptt. of Telecommunications)

The gap between supply and demand was so large that unlike in the past it was not possible to restrict import in units of 10,000 lines. Thus, it became necessary to consider imports for smaller exchanges also. As a result of identification of smaller category of exchanges for possible import, the total requirement came to 5.93 lakh lines. However, keeping in view the orders already placed and a decision taken, to restrict provision of cross-bar exchanges upto 1982-83, import finally decided in November, 1979 was for 1.83 lakh lines of cross-bar switching equipments.

4. 1.52

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The Committee also note that in the notice for tender (NIT) issued on 4-10-1978 for import of equipment, provision was made for import of 1.34 lakh lines of cross-bar exchanges to cover the gap upto 1980-81. As the import was to be financed by World Bank Loan, the NIT had to fulfil normal conditions applicable to such loans which, *inter alia*, provides a minimum period of 4 months for keeping tender quotations open for acceptance at the rates quoted. The Department of Telecommunications have stated that for very large orders and many bidders, and in cases where, in addition, clearances have to be obtained from a number of agencies, the time taken often exceeds the limit of 4 months. In such cases, extension of validity is

obtained from the tenderers and the World Bank. In the present case also, the tenderers had extended the validity upto 15-12-1979 without any pre-conditions.

5. 1.53 -dó- As a matter of discretion, provision was also made in the NIT for an option for placing a repeat order on the same terms and conditions for addition of 1.7 lakh lines to cover the requirements upto 1982-83 provided such option was exercised not later than one year from the date of complete supply of equipment under the original order. Letters of intent issued to the suppliers on 7-12-1979 also incorporated the above-mentioned provision. Though the anticipated gap was 1.5 lakh lines (2.94—1.44 as brought out in paragraph No. 1.49), the quantity provided for repeat order was 1.7 lakh lines to cover the slippages of supply from other sources.

6. 1.54 -du- From the facts brought out above, the Committee have come to the inescapable conclusion that in addition to the import of 1.34 lakh lines for 1979-80 and 1980-81, the need to bridge the gap for 1981-82 and 1982-83 through imports was patent at all points of time while assessing requirement of local telephone exchange equipment and its likely availability from indigenous production at both the reviews made in May, 1978 for 1978-83 and then in November 1979 for 1979-84. So much so that on 18/20-7-1978 tentative programme of import of 2.94 lakh lines of cross-bar exchange was finalised and even list of exchanges for four years 1979-83 was identified and tentative targets for commencement of installation were also indicated. The Committee are astonished to note that inspite of making periodical

provisions for import of additional equipment on the basis of the established need and for import of atleast this much equipment and the fact that the order for it was to be placed within one year to take advantage of the rates already agreed upon with the foreign suppliers of 1.34 lakh lines, the Department did not bother to think about the matter with the seriousness it deserved. While making the proposal to undertake firm action for import of 1.34 lakh lines of cross-bar exchange equipment to cover the gap for 1979-80 and 1980-81 with imports, the gap for 1981-82 and 1982-83 was left to be covered after a fresh review later (which was made in November, 1979). The Committee feel that the later part of this proposal had overtaken the entire Department and the question of import of additional 1.7 lakh lines under repeat order clause was relegated to the second position and then completely lost sight of.

7. 1.55 Ministry of Communications
(Deptt. of Telecommunications)
- The question for which a satisfactory answer is required by the Committee is: why action for processing of repeat order for 1.7 lakh lines was not initiated simultaneously with the floating of indent for import of 1.34 lakh lines pending further review of the overall requirement later on when the need for import of this much cross-bar equipment had already been established and even a decision had also been taken during further review in November, 1979 that the cross-bar equipment should be obtained upto 1982-83. The Committee find that there is absolutely no acceptable explanation forthcoming from

the Department. The supplies could have been staggered over a period to tailor out financial arrangements. The Secretary, Telecommunications, admitted during evidence that 'if the repeat purchase order had been placed earlier, we would have got the equipment at the lower price'. The Committee, therefore, have no choice but to concur with the Audit observation that the delay in finalising the main tender of 1.34 lakh lines resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Department of Telecommunications is squarely responsible for this costly lapse. The least that the Committee expect is that a high level enquiry must be conducted expeditiously to pinpoint the responsibility for this lapse and action must be taken against the officers responsible for this costly lapse and the steps taken in that direction intimated to the Committee.

8. 1.56 -do-

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This also shows lack of coordination and understanding between various units of the same Department connected with periodical assessment of the requirements of telephone exchange equipment for local exchanges and those responsible for procuring such equipment from abroad. Otherwise the provision already made for import of 1.7 lakh lines under repeat order clause and likewise the import requirements for the four years 1978-83 having been identified as early as in May 1978 when the review for overall requirement was conducted by the Department, could not have been overlooked.

9. 1.57 -do-

The Committee would also like the Department to examine the methodology of periodical reviews of requirements of various types of equipments for the country's telecom, net work so as to make it more realistic.

10.

1.58 Ministry of Communications
(Deptt. of Telecommunications)

The Committee find that the proposal to import 1.34 lakh lines was finally approved by the Minister of Communications on 4-9-1979, by the Minister of Finance on 30-10-1979 and the detailed orders were placed on the three foreign suppliers on 21-5-1980, 17-7-1980 and 24-7-1980 respectively. Thus, instead of the stipulated period of 4 months, it took the Department about 16 to 18 months to finalise the orders. *The most regrettable part of the case is that it took the Department 5 to 7 months to issue the final orders even after the release of the letters of intent on 7-12-1979.

11.

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Inordinate delay in finalising the tender will have totally demoralising effect on the tenderes and would naturally result in the tenderers playing safe in giving their tender quotations. This would deprive the Department the opportunity of getting competitive bids and efficient execution of the works. The Committee, therefore, recommend that if the Department considers that four months time is not sufficient in dealing with the tenders they should prescribe a suitable realistic time limit within which tenders must be finalised.

12.

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In justifying the extraordinary long time taken in processing the case, the Department of Telecommunications have furnished a long list of events leading to finalisation of the order. Review of the item-wise analysis of the events mentioned in the list, shows that the case was handled at all levels in a very casual and slipshod manner.

13. 1.61

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The first in the series is the appointment of four committees one after the other to process the tender offers from various angles. Though the Ministry have pleaded that it was not appropriate to combine and entrust all these functions to one team as these were constituted to perform different functions, a perusal of the personnel of these committees reveals that some of the members were common in these committees. Not only that, the two officers constituting the study team deputed to Japan which took 21 days to visit that country and submit its report were also members of the Tender Evaluation Committee (TEC) which already had taken 3 months to evaluate six offers received against Tender Enquiry. The Committee have every reason to believe, though in retrospect, that the functions of the high level committee which took further 45 days to examine the report of TEC and that of the study team to Japan, could conveniently be clubbed into one committee and the same team could have been despatched to Japan, if at all necessary, simultaneously with the appointment of the TEC. The entire process of study, evaluation and acceptance of tenders could have been simplified in a very realistic and business-like manner and the inordinate delay could have been easily avoided. This in itself is a sad commentary on the planning of projects of this magnitude by the Department of Telecommunications.

14.

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The Committee find that a lot of other formalities such as approval by the Minister of Communications, Finance, Department of Economic Affairs, clearance from World Bank, DGTD, etc. were gone

through after the high level Committee had recommended placement of orders for import of 1,34,000 lines which took further four and a half months enabling the Department to issue only Advance Purchase Order/letter of intent to the three firms, followed by further dialogue with these firms for finalisation of the material list by deputing their representatives for direct discussion on various points. It was only after completion of all these requirements that detailed purchase orders could be released on these firms from 21-5-1980 to 24-7-1980. There may be scores of import orders from various Ministries/Departments of the Government of India including those for the vital sectors like Defence etc. involving much bigger amounts. The Committee wonder whether this much time is taken in all these cases. The crux of the matter is that in reply to the Committee's query whether the Department did not visualise all these difficulties at the time of floating the tenders, the Secretary, Telecommunications stated in evidence that 'that is usual time which we thought was sufficient for finalising the tender evaluation. The only thing we wanted was to take advantage of the price preference and try to keep it that way.' The other problem mentioned in this context by the Secretary was that in the tenders from three Japanese firms the prices quoted varied. The quotation from the lowest one provided for some equipment which had not generally been used here, so the Department wanted a technical evaluation/exposition as to how that equipment would work. The Committee agree that this may have

delayed processing of the order to some extent but the overall time taken in finalising the order is so large that it cannot be justified on any count.

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Yet another aspect which baffles the Committee is that the letters of intent were issued on 7-12-1979. While accepting the offers of the three Japanese firms, the letters, *inter-alia*, stated that the price for exchanges would be the same as quoted in the summary of prices in the firm's original offer of 29th January 1979 and will include the additional quantities as indicated in the subsequent correspondence exchanged. Earlier to that, one of the suppliers in their letter dated 4-12-1979 had agreed to the extension of the validity of their offer on the same terms and conditions and so had agreed the other two firms. The Committee fail to understand how these firms finally refused to honour their commitment when they had kept silent about this aspect in response to the letters of intent. The Committee note from the correspondence furnished by the Department of Communications in this regard, that the earliest communication about refusing to accept the repeat order on the same terms and conditions was dated 2nd May 1980 (after a gap of 5 months) when one of the firms (referred to above) had, in their letter addressed to the DGP&T stated that 'As you are aware, the tender for 1,34,000 lines was opened on 30-1-1979 and during this long period of over 18 months, many unprecedented changes in prices have taken place in the world markets resulting in sharp upward increases. In view of the unprecedented and uncontrollable circumstances, our Head Office against their

wishes, has been compelled to revise their offer regarding clause 5.3 of your tender relating to acceptance of additional orders for similar telephone exchanges on a repeat order basis upto a total of 1.7 lakh lines'. The same firm in their letter of acceptance of the detailed orders dated 14-8-1980 for supply of 1.34 lakh lines defining this situation as 'force majeure' had stated; 'Moreover, it is not known to us as to what quantities and when enquiry for repeat orders will be floated by you'. Yet another firm, while accepting the detailed order placed on them on 21-5-1980 had in their letter dated 20-6-1980, *inter-alia*, stated that 'A very long time has elapsed between issuance of your tender and placement of order for the present contract and moreover we feel there will be still further gap by the time you issue the actual enquiry for additional exchanges. We, therefore, reserve the right to reconsider our prices depending upon the price situation at that time and we will submit the offer accordingly'.

The Committee have no doubt that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat order. The Committee cannot accept the Department's pleading of the case on behalf of the supplier firms that 'they would not have insisted on price increase but for the unprecedented price rise in the international market due to increase in oil prices. This was not foreseen'.

The Committee feel that since the highest increase in oil price was between January and November 1979 and the extension of validity period of the offer upto 15-12-1979 had been accepted by these firms without any precondition, the plea of increase in oil price does not hold good. As stated earlier, the delay had caused the exchequer, according to Audit estimation, a loss of Rs. 1284.01 lakhs by not placing further order for 1.7 lakh lines under the repeat order clause, within the stipulated period agreed upon with the firms. This aspect of the affair is most regrettable.